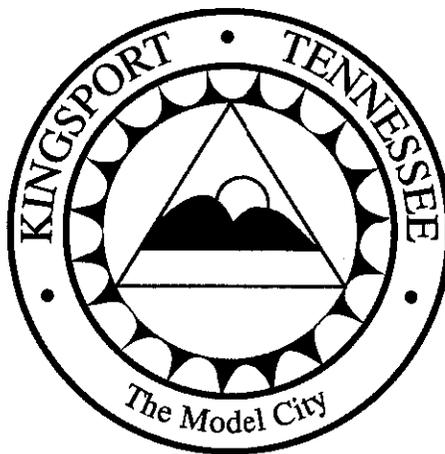


*City of Kingsport, Tennessee*  
*Comprehensive Annual Financial Report*  
*Fiscal Year Ended June 30, 2007*



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



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CITY OF KINGSPORT, TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2007

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## CITY OF KINGSPORT, TENNESSEE

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December 7, 2007

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, 2007.

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, 2007. 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 44,191. Its established urban growth boundary encompasses 105 square miles which provides potential areas for the City to expand its corporate limits in the future. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

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

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

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

The annual budget serves as the foundation for the City of Kingsport's financial planning and control. All departments of the City of Kingsport are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the BMA for review by May 15<sup>th</sup>. 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 29 through 31 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 2007 population of 44,191. It is located in northeast Tennessee and is part of a Metropolitan Statistical Area (MSA) Kingsport – Bristol, TN – Bristol, VA. This MSA has a population of approximately 302,000 with 173,694 persons residing within a 5 mile radius of the existing City limits. On a regional basis, there are approximately 401,000, 863,000 and 1,305,000 persons living within a radius of 25, 50 and 75 miles, respectively.

Kingsport has long served as a major commercial retail hub, and that trend continued in 2007 with significant new investments, including a new \$50 million power strip center covering 425,000 plus square feet and anchored by Target, Kohl's and Old Navy.

This development comes on the heels of the 2006 opening of the 275,000 square foot East Stone Commons development, which included stores such as Hobby Lobby, Ross Dress for Less, T.J. Maxx, Goody's and PetSmart, among new restaurants and smaller retailers.

Meanwhile, the recent purchase of Kingsport's largest commercial retail center, the 630,000 square foot Fort Henry Mall, will soon result in a name change, 85,000 square feet expansion and thorough renovation with a price tag expected in the tens of millions. This property is managed by the premier mall/retail management firm, General Growth Properties.

While the retail side of the equation has shown solid growth, the commercial /medical office aspects of Kingsport are also moving strongly forward.

Initiated and under construction this year is a new \$40 million medical office complex being developed by Holston Medical Group, which is a leading multi-specialty physician practice in the region. The facility will include 255,000 square feet of space.

Six Sheridan Square, the latest development in the Meadowview business district, will offer 71,500 square feet of commercial office space when complete early next year.

Meanwhile, Wellmont Medical System will soon embark on the next phases in a planned \$100 million renovation of its Holston Valley Medical Center hospital in Kingsport.

Throughout its history, the foundation of Kingsport's prosperity has always rested with the strength of its manufacturing center. While significant mixes of small and mid-size industrial employers continue today in Kingsport, the biggest employer by far is Eastman Chemical Company with some 7,500 direct employees. Ten years ago, Eastman accounted for approximately 33% of the total property taxes received by the City. Even though the amount of property taxes they pay to the City has increased significantly since that time, they currently contribute approximately 28% of the total property taxes. This reduction is attributed to an increased diversification of the City's tax base as other industries and developments continue to expand within the City.

After recently announcing that some 2,000 plus jobs will be opening over the next five years due to an aging workforce, this year Eastman has announced a \$1.3 billion project to expand production lines, reduce production bottlenecks, establish new business lines, improve air quality and modernize base

infrastructure. This announcement will add an estimated \$10.4 million in property tax revenues to the city over the next 13 years in addition to \$8.2 million currently paid annually by the company.

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 Industrial Development Board of Kingsport (IDBK) and the construction of appropriate water, sewer, roadway and drainage infrastructure to developable commercial and industrial properties within the City. The IDBK 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 IDBK and the development of these sites, the City is well positioned for future growth.

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.

**Long-term financial planning.** During the fiscal years 2007 and 2008 budget planning processes, the BMA adopted multi-year capital improvement plans (CIP) for its City operations. Funding for the water and sewer CIP consists of gradual annual rate increases and savings realized from declining annual debt service expenditures. This strategy is utilized to provide an annual funding source for non major capital expenditures and reserve issuance of new debt obligation for large major capital projects.

As a part of the budget process, the BMA re-evaluated the previous CIP for general government and school related activities to address needed improvements to existing City facilities, roads and infrastructure and several new economic development initiatives: a new elementary school, health service building, and initial property requisition for future public facilities. As a result approximately \$38,000,000 in new general debt was issued to fund these improvements. Even with this significant increase in debt, the total outstanding general obligation debt is within the adopted debt limits as specified in the BMA's debt management policy.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. One of the primary policies that have enabled the City to develop these CIPs is 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. In addition, based on the current debt amortization schedules, it is projected that the City's debt service expenditures will be reduced by approximately \$5,000,000 by the end of fiscal year 2010. The annual savings from the debt service reductions have been included in the funding strategies for the CIP.

### **Major Initiatives**

Recently, Eastman Chemical Company announced the need to replace approximately 2000 workers that will be retiring in the very near future. It is anticipated that most of the retiring workers will continue to reside in the local area. The wage scales of almost all of these new employees are expected to be greater than the medium income for the area. In addition, the local healthcare industry (two hospitals and Holston

Medical Group) expect an increase in employment of approximately 1,500 workers during the same time frame. Therefore, to address the expected impact of these new workers and family members on the local housing market and to address the related expansion needs of the City's school system, the City is pursuing several strategic actions.

The City has evaluated certain unincorporated areas within its urban growth boundary to determine properties best suited to meet future growth needs and provide available land for new housing and commercial construction. It began an aggressive annexation program during 2006 based on this evaluation. In addition, to address current overcrowding concerns in the school system and provide for expected new enrolments, the City's Board of Mayor and Aldermen and Board of Education have approved funding for the development and construction of a new elementary school. This school is currently under construction and is located on property in the newly annexed area and new development has begun to occur around this school site.

In October 2006, the Kingsport Housing and Redevelopment Authority (KHRA), with support from the City, was awarded an \$11,900,000 HOPE VI Revitalization Grant from the U.S. Department of Housing and Urban Development. This grant will enable the KHRA to replace approximately 90 public housing units with 30 individually owned homes and rejuvenate one of the City's oldest and poorest neighborhoods. In addition, 24 additional homes will be renovated in other areas of the City.

During the past few years, the City adopted tax increment financing mechanisms to assist in the redevelopment of two existing shopping centers known as the East Stone Commons District and the Crown Point Shopping Center. The value of the East Stone Commons Project improvement is estimated at \$22,000,000. This shopping center opened during 2006 and brought in several retail and restaurant establishments that were new to the Kingsport area. The Crown Point Project improvement is estimated at \$10,000,000 and this shopping center reopened during the fall of 2007.

Construction is underway on a new 40,000 square feet Allied Health Building, the first structure in Kingsport's Downtown Academic Village. When complete in August 2008, the \$4.8 million facility will house 400 plus students studying nursing and medical technology degrees in partnership with Northeast State Technical Community College and King College. Ground will be broken sometime early in 2008 for a 50,000 square feet Higher Education Center in the Academic Village, a facility expected to house a number of baccalaureate and higher degree programs offered by several regional colleges and universities.

This effort was undertaken as a major step forward in workforce development, and is an expansion of the six-year-old Regional Center for Applied Technology (RCAT) located adjacent to the Academic Village. RCAT currently hosts 850 plus students studying a variety of associate degree level programming.

Also in 2007, Kingsport embarked on a sustainable new effort to enhance tourism opportunities in the city funded by an increase in the hotel/motel tax, an increase supported widely by the hospitality community. The center piece project is a \$1.3 million renovation of the Bays Mountain Park Planetarium that will provide fully immersive, three-dimensional programming around a 40 foot dome that offers IMAX type viewing experiences. Other tourism enhancements include wedding venue enhancements, improved way finding signage and street-scaping, a Bays Mountain master plan and seed money for new event development.

Finally, a project director has been retained to oversee the 15-year, \$26 million enhancement of Kingsport's riverfront along Netherland Inn Road. This heritage tourism and mixed use commercial/residential plan will bring 100 plus acres of new parks and trails to the City. It is anticipated that a significant portion of this project will come from private developers. At the same time, the project

will embrace Kingsport's legacy as a significant sacred site of the Cherokee and the first jumping off point of major westward expansion in the country at the Netherland Inn Boatyard complex that is preserved to this day.

### **Awards and Acknowledgements**

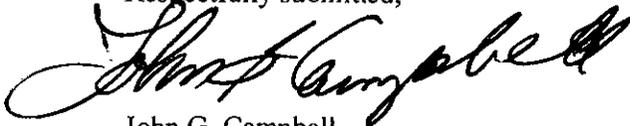
**Awards.** The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the seventh consecutive year that the City of Kingsport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2006. The annual budget document dated July 1, 2007 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

**Acknowledgment.** The preparation of 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,



John G. Campbell  
City Manager



James H. Demming  
City Recorder/CFO

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kingsport  
Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

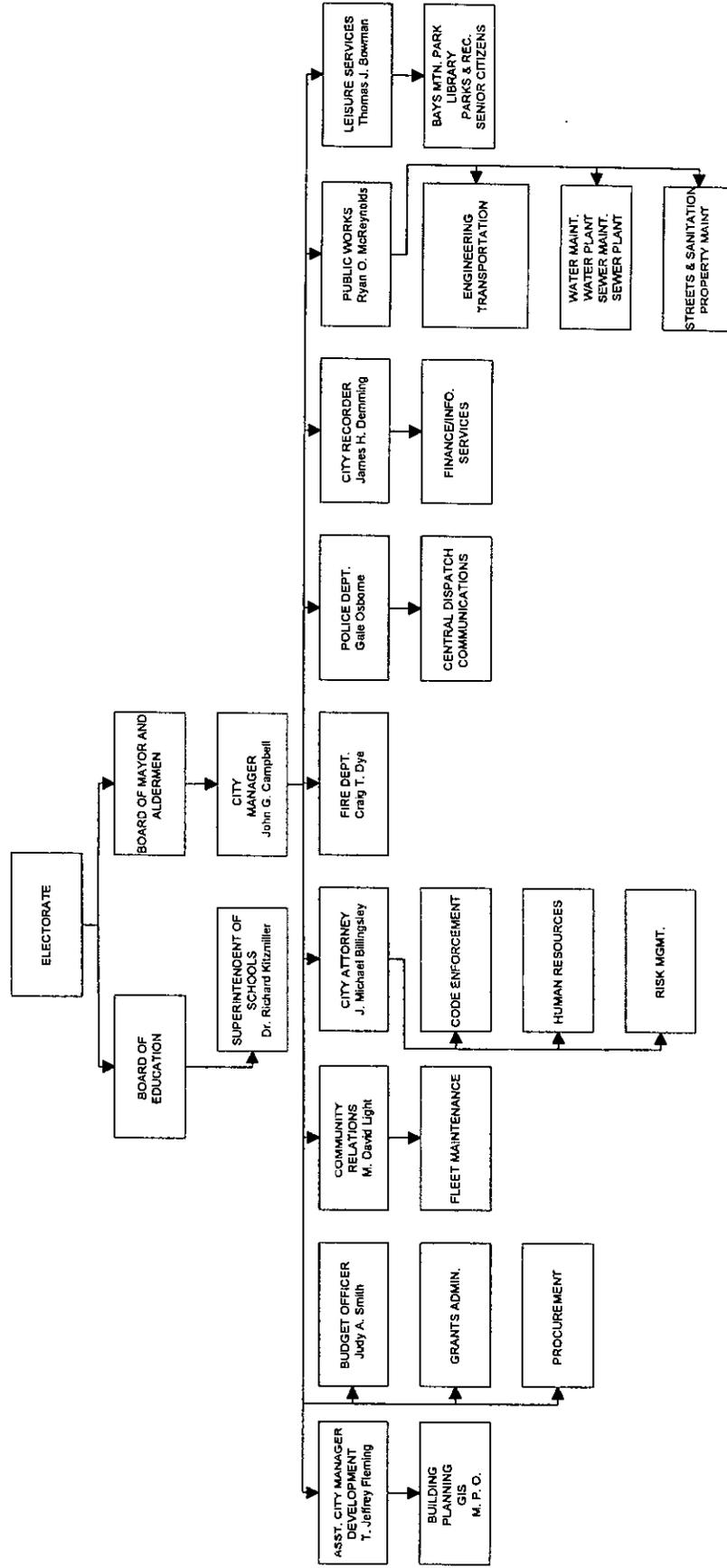
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# CITY OF KINGSPORT



CITY OF KINGSPORT, TENNESSEE  
HISTORY AND ORGANIZATION

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

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

CITY OF KINGSPORT, TENNESSEE

PRINCIPAL OFFICIALS

AS OF

June 30, 2007

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	Mayor
Larry A. Munsey	Vice Mayor
Valerie Joh	Alderman
Benjamin K. Mallicote	Alderman
Kenneth H. Maness	Alderman
C. Ken Marsh, Jr.	Alderman
Patrick W. Shull	Alderman

CHARTER OFFICERS

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

DEPARTMENT HEADS

Thomas J. Bowman	Leisure Services Director
Craig T. Dye	Fire Chief
Ryan O. McReynolds	Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Barbara A. Duncan	Human Resources Manager
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, 2007



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, 2007, 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 16 percent, 20 percent, and 62 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund, general purpose school fund, and the debt service fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, 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 13 through 22 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 non-major 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 non-major 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 7, 2007

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007  
(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, 2007. 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 7 of this report.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$432,815 (net assets). Of this amount, \$19,355 (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 \$11,016.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$68,626, an increase of \$36,351 in comparison with the prior year. Approximately 87% of this total amount, \$59,421, 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 \$17,409 or 29% of total general fund expenditures including transfers out.
- The City's total gross debt increased by \$19,858 (18%) during the current fiscal year primarily due to issuance of bonds for construction of a new elementary school.

**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, 2007  
(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 23 and 24 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-two (22) individual governmental funds. Eighteen (18) 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 25 through 34 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, 2007  
(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 35 through 39 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 40 through 101 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 102 through 126 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 \$432,815 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (88%) 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, 2007  
(amounts expressed in thousands)

**City of Kingsport's Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 137,989	100,722	21,524	22,191	159,513	122,913
Capital Assets	279,322	286,174	186,160	181,933	465,482	468,107
Total Assets	<u>417,311</u>	<u>386,896</u>	<u>207,684</u>	<u>204,124</u>	<u>624,995</u>	<u>591,020</u>
Long-term Liabilities Outstanding	71,843	42,390	59,860	66,867	131,703	109,257
Other Liabilities	57,699	56,499	2,778	3,465	60,477	59,964
Total Liabilities	<u>129,542</u>	<u>98,889</u>	<u>62,638</u>	<u>70,332</u>	<u>192,180</u>	<u>169,221</u>
Net Assets:						
Invested in Capital Assets, net of Related Debt	244,856	245,201	133,884	126,885	378,740	372,086
Restricted	33,768	4,099	952	838	34,720	4,937
Unrestricted	9,145	38,707	10,210	6,069	19,355	44,776
Total Net Assets	<u>\$ 287,769</u>	<u>288,007</u>	<u>145,046</u>	<u>133,792</u>	<u>432,815</u>	<u>421,799</u>

A portion of the City's net assets, \$34,720 or (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$19,355 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 \$11,016. Net assets for governmental activities decreased by \$238 while net assets for business-type activities increased by \$11,254. 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 4.5% and sewer rates increased 4.5% 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, 2007**  
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2007:

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 5,155	4,636	28,694	27,112	33,849	31,748
Operating Grants and Contributions	29,035	26,957	-	-	29,035	26,957
Capital Grants and Contributions	706	1,627	-	-	706	1,627
General Revenues:						
Property Taxes	42,857	41,609	-	-	42,857	41,609
Sales Taxes	27,570	26,154	-	-	27,570	26,154
Other Taxes and Intergovernmental	5,069	4,460	-	-	5,069	4,460
Unrestricted Investment Earnings	2,801	1,662	1,334	877	4,135	2,539
Grants and Contributions Not Restricted to Specific Programs	713	589	-	-	713	589
Other	1,344	974	2	22	1,346	996
<b>Total Revenues</b>	<b>115,250</b>	<b>108,668</b>	<b>30,030</b>	<b>28,011</b>	<b>145,280</b>	<b>136,679</b>
<b>Expenses:</b>						
General Government	10,185	5,605	-	-	10,185	5,605
Public Safety	16,994	16,076	-	-	16,994	16,076
Public Works	11,388	11,638	-	-	11,388	11,638
Highway Transportation Planning	2,820	2,894	-	-	2,820	2,894
Economic and Physical Development	3,418	3,280	-	-	3,418	3,280
Culture and Recreation	5,097	5,253	-	-	5,097	5,253
Education	60,306	57,985	-	-	60,306	57,985
Interest on Long-term Debt	1,470	1,737	-	-	1,470	1,737
Water	-	-	7,910	8,051	7,910	8,051
Sewer	-	-	7,582	7,700	7,582	7,700
Solid Waste Management	-	-	4,432	3,168	4,432	3,168
MeadowView Conference Resort and Convention Center	-	-	1,230	1,392	1,230	1,392
Cattails at MeadowView Golf Course	-	-	1,432	1,355	1,432	1,355
<b>Total Expenses</b>	<b>111,678</b>	<b>104,468</b>	<b>22,586</b>	<b>21,666</b>	<b>134,264</b>	<b>126,134</b>
Increase (Decrease) in Net Assets before Transfers	3,572	4,200	7,444	6,345	11,016	10,545
Transfers	(3,810)	(3,899)	3,810	3,899	-	-
Change in Net Assets	(238)	301	11,254	10,244	11,016	10,545
Net Assets, beginning of period	288,007	287,706	133,792	123,548	421,799	411,254
Net Assets, end of period	\$ 287,769	288,007	145,046	133,792	432,815	421,799

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

**Governmental activities**

Governmental activities reduced the City's net assets by \$238. The City experienced increases in various revenues such as earnings on investments of \$1,139, sales tax revenues of \$1,416, and property taxes of \$1,248. However, these increases were not enough to offset governmental expenditures specifically depreciation expense.

**Business-type activities**

Business-type activities increased the City's net assets by \$11,254.

- Charges for services for business-type activities increased by \$1,582 (6%) over the previous fiscal year.
- The City budgeted and achieved an overall increase in net income of the water and sewer funds to provide funds for capital expansion and debt repayments as indicated in the Statement of Cash Flows located on pages 38 and 39 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 \$68,626, an increase of \$36,351 in comparison with the prior year. Approximately 87% of this total amount, \$59,421, constitutes unreserved fund balance, which is available for spending at the City's discretion. However, of this unreserved amount \$33,434 represents funds designated to be used in various capital projects. 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 (\$3,070), 2) liquidate contracts and purchase orders of the prior period (\$5,050) and for 3) a variety of other restricted purposes (\$1,085).

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007  
(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 \$17,409 while total fund balance reached \$20,919. As a matter of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out.

Unreserved fund balance represents 29% of total general fund expenditures and transfers out, while total fund balance represents 35% of that same amount. During fiscal year 2007, the fund balance of the City's General Fund increased by \$2,267. Of this \$189 is a result of a reclassification in the presentation of compensated absences which will not be paid from currently available resources.

The general-purpose school fund has a total fund balance of \$4,540, of which most is unreserved. The net increase in fund balance during the current year in the general-purpose school fund was \$585. Of this, \$352 is a result of a reclassification in the presentation of compensated absences which will not be paid from currently available resources.

The debt service fund has a total fund balance of \$1,045. This represents an increase of \$953 as compared to the previous fiscal year. This increase is primarily a result of investment earnings on bond proceeds. Debt service expenditures (principal and interest) totaled \$9,958 for fiscal year 2007. This was approximately \$302 less than the debt service expenditures paid in fiscal year 2006.

The capital project fund has a total fund balance of \$37,412 of which \$3,978 is encumbered at year-end and \$33,434 is unreserved but designated for approved capital projects. The net increase in this fund balance of \$31,800 was primarily due to new bonds issued during the year.

Nonmajor (other) governmental funds have a fund balance of \$4,710. The net increase in fund balance during the current year in nonmajor governmental funds was \$746.

**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 \$6,725 and \$7,341 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, 2007  
(amounts expressed in thousands)

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget represent a \$2,165 increase in appropriations and include the following:

\$	135	Funding for FY2006 outstanding purchase orders/encumbrances
	344	Funding for transfer to Eastman Annexation Revenue Fund
	75	Funding for summer concert program
	150	Funding for study of King's Port on the Holston
	70	Funding for repair of Justice Center elevator
	161	Funding for fire equipment
	140	Funding for Gibson Mill Road project
	169	Funding to purchase 320 W. Market property
	242	Funding to replace City's mainframe computers
	310	Funding for road design projects
	96	Funding for cable franchise audit
	200	Funding for KHA redevelopment site
	<u>73</u>	Other miscellaneous
\$	<u>2,165</u>	

Of this increase, approximately \$1,018 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$1,147 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, 2007, amounts to \$465,482 (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, improvements to the sewer collection system to address inflow/infiltration problems and sewer system plant and lift station renovation projects. Business-type construction in progress at the close of the fiscal year was \$30,417.
- Construction continued and/or began on a variety of general governmental facilities including the John Adams Elementary School, Riverview Splashpad, energy efficiency project, renovation of the Dobyns-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 \$38,487.

**CITY OF KINGSPORT, TENNESSEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2007**  
(amounts expressed in thousands)

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 13,304	12,231	4,961	4,961	18,265	17,192
Buildings and Systems	47,362	50,933	145,326	141,747	192,688	192,680
Improvements other than Buildings	4,514	4,867	5,251	5,382	9,765	10,249
Machinery and Equipment	10,937	10,469	205	294	11,142	10,763
Software	45	31	-	-	45	31
Infrastructure	164,673	169,033	-	-	164,673	169,033
Construction in Progress	38,487	38,610	30,417	29,549	68,904	68,159
Total Capital Assets	<u>\$ 279,322</u>	<u>286,174</u>	<u>186,160</u>	<u>181,933</u>	<u>465,482</u>	<u>468,107</u>

Additional information on the City's capital assets can be found in Note 4.C on pages 58 through 62 of this report.

**Long-term debt**

At the end of the current fiscal year, the City had total gross debt outstanding of \$129,064. 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	
	2007	2006	2007	2006	2007	2006
Notes Payable	6,302	3,932	-	-	6,302	3,932
General Obligation Bonds	63,481	38,931	53,858	60,513	117,339	99,444
Loans from Other Governments	-	-	5,423	5,830	5,423	5,830
Total Long-term Debt	<u>69,783</u>	<u>42,863</u>	<u>59,281</u>	<u>66,343</u>	<u>129,064</u>	<u>109,206</u>

During the current fiscal year, the City's total debt increased by \$19,858 (18%). This increase is primarily due to bonds issued to fund construction of a new elementary school in the recently annexed Rock Springs area. 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, 2007  
(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 65 through 93 of this report.

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

- The unemployment rate for the municipal service area is currently 4.4%, which is a decrease of 1.0% from a year ago. This compares to the state's average unemployment rate of 4.6%.
- Inflationary trends in the region are comparable to national indices.
- 886 building permits with an estimated value of \$123,352 were issued during this fiscal year, compared to 851 building permits with an estimated value of \$79,250 for the previous year.
- Growth in local sales tax collections is expected to be approximately 3.6% in fiscal year 2008.

Short term interest rates on investments for the City's operating funds increased to approximately 5.3% in fiscal year 2007 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 2008 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$17,409. The City has appropriated \$220 of this amount for spending in the fiscal year 2008 budget.

Water and sewer rates were increased for the 2008 budget year. The water rates were increased 3% for customers outside City limits while customers inside the City remained at the same rates. Sewer rates increased 8% for outside customers and 4% for inside customers respectively. 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, 2007

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District
<b>ASSETS:</b>					
Cash in Bank	\$ 1,580	-	1,580	452	1,469
Cash with Fiscal Agent	-	37	37	-	-
Equity in Pooled Cash and Investments	34,850	12,585	47,435	-	-
Long-Term Certificates of Deposit	861	-	861	149	-
Investments	1,251	478	1,729	-	-
Receivables, net	31,192	3,764	34,956	11	28
Due from Other Governments	22,141	292	22,433	-	34
Due from Primary Government	-	-	-	2,500	-
Due from Component Unit	10	26	36	-	-
Internal Balances	4,253	(4,253)	-	-	-
Inventories	485	469	954	-	-
Prepays	135	10	145	-	15
Land Held for Sale or Development	-	-	-	6,336	-
Restricted Assets:					
Cash	15,208	7,467	22,675	-	-
Investments	25,435	117	25,552	160	-
Receivables	-	-	-	521	-
Capital Assets:					
Land	13,304	4,961	18,265	-	-
Buildings and System	90,885	220,858	311,743	-	-
Improvements other than Buildings	10,578	8,481	19,059	76	-
Machinery and Equipment	32,335	3,321	35,656	-	649
Software	283	-	283	-	-
Infrastructure	257,690	-	257,690	-	-
Construction in Progress	38,487	30,417	68,904	-	-
Less: Accumulated Depreciation	(164,240)	(81,878)	(246,118)	(59)	(297)
Other Assets, net	588	532	1,120	-	-
<b>Total Assets</b>	<b>417,311</b>	<b>207,684</b>	<b>624,995</b>	<b>10,146</b>	<b>1,898</b>
<b>LIABILITIES:</b>					
Accounts Payable and Other Current Liabilities	11,571	1,105	12,676	25	6
Compensated Absences Payable	2,764	474	3,238	-	-
Matured Bonds and Interest Payable	-	42	42	-	-
Accrued Interest Payable	-	633	633	-	-
Due to Primary Government	-	-	-	36	-
Due to Other Governments	110	-	110	-	-
Unearned Revenues	43,188	-	43,188	-	-
Liabilities Payable from Restricted Assets	66	166	232	-	-
Arbitrage Rebate Payable	-	358	358	-	-
Noncurrent Liabilities:					
Due Within One Year	8,691	7,802	16,493	432	-
Due in More Than One Year	63,152	52,058	115,210	2,068	-
<b>Total Liabilities</b>	<b>129,542</b>	<b>62,638</b>	<b>192,180</b>	<b>2,561</b>	<b>6</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets, Net of Related Debt	244,856	133,884	378,740	17	352
Restricted for:					
Debt Service	-	343	343	-	-
Capital Improvements	33,606	609	34,215	-	-
Perpetual Care (nonexpendable)	162	-	162	-	-
Unrestricted	9,145	10,210	19,355	7,568	1,540
<b>Total Net Assets</b>	<b>\$ 287,769</b>	<b>145,046</b>	<b>432,815</b>	<b>7,585</b>	<b>1,892</b>

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2007**  
(amounts expressed in thousands)

Functions/Programs	Program Revenues						Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units					
					Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District			
<b>Primary Government:</b>												
<b>Governmental Activities:</b>												
General Government	\$ 10,185	821	253	311	(8,800)	-	(8,800)	-	-	-	-	-
Public Safety	16,994	314	369	-	(16,311)	-	(16,311)	-	-	-	-	-
Public Works	11,388	-	-	-	(11,388)	-	(11,388)	-	-	-	-	-
Highway Transportation Planning	2,820	97	1,983	395	(345)	-	(345)	-	-	-	-	-
Economic and Physical Development	3,418	519	510	-	(2,389)	-	(2,389)	-	-	-	-	-
Culture and Recreation	5,097	678	109	-	(4,310)	-	(4,310)	-	-	-	-	-
Education	60,306	2,726	25,811	-	(31,769)	-	(31,769)	-	-	-	-	-
Interest on Long-Term Debt	1,470	-	-	-	(1,470)	-	(1,470)	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>111,678</b>	<b>5,155</b>	<b>29,035</b>	<b>706</b>	<b>(76,782)</b>	<b>-</b>	<b>(76,782)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Business-Type Activities:</b>												
Water	7,910	13,445	-	-	-	5,535	5,535	-	-	-	-	-
Sewer	7,582	13,357	-	-	-	5,775	5,775	-	-	-	-	-
Solid Waste Management	4,432	580	-	-	-	(3,852)	(3,852)	-	-	-	-	-
MeadowView Conference Resort and Convention Center	1,230	287	-	-	-	(943)	(943)	-	-	-	-	-
Cattails at MeadowView Golf Course	1,432	1,025	-	-	-	(407)	(407)	-	-	-	-	-
<b>Total Business-Type Activities</b>	<b>22,586</b>	<b>28,694</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,108</b>	<b>6,108</b>	<b>-</b>	<b>-</b>	<b>6,108</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>134,264</b>	<b>33,849</b>	<b>29,035</b>	<b>706</b>	<b>(76,782)</b>	<b>6,108</b>	<b>(70,674)</b>	<b>-</b>	<b>-</b>	<b>(2,680)</b>	<b>235</b>	<b>235</b>
<b>Component Units:</b>												
Industrial Development Board	3,139	459	-	-	-	-	-	(2,680)	-	-	-	-
Emergency Communications District	448	683	-	-	-	-	-	-	-	-	-	-
<b>Total Component Units</b>	<b>3,587</b>	<b>1,142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,680)</b>	<b>-</b>	<b>-</b>	<b>235</b>	<b>235</b>
<b>General Revenues:</b>												
Property Taxes					42,857		42,857					
Sales Taxes					27,570		27,570					
Alcoholic Beverage Taxes					1,398		1,398					
Occupational Licenses and Business Taxes					1,707		1,707					
Hotel/Motel Taxes					938		938					
Income Taxes					1,026		1,026					
Grants and Contributions Not Restricted to Specific Programs					713		713				10	10
Unrestricted Investment Earnings					2,801		2,801				12	12
Gain (Loss) on Disposal of Capital Assets					4		4				6	6
Miscellaneous					1,340		1,340				(15)	(15)
Transfers					(3,810)		(3,810)				2,500	2,500
<b>Total General Revenues and Transfers</b>					<b>76,544</b>		<b>76,544</b>				<b>2,497</b>	<b>2,497</b>
Change in Net Assets					(238)		(238)				(183)	(183)
<b>Net Assets - Beginning</b>					<b>288,007</b>		<b>288,007</b>				<b>7,768</b>	<b>7,768</b>
<b>Net Assets - Ending</b>					<b>\$ 287,769</b>		<b>\$ 287,769</b>				<b>7,585</b>	<b>7,585</b>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007  
(amounts expressed in thousands)

ASSETS:	General Fund		School Fund		Debt Service Fund		Capital Projects Fund		Other Governmental Funds		Total Governmental Funds	
Cash in Bank	\$ 11	-	-	-	-	-	-	-	1,569	-	-	1,580
Equity in Pooled Cash and Investments	14,271	7,179	422	3,037	2,148	-	-	361	2,148	-	-	27,057
Long-Term Certificates of Deposit	-	-	-	-	-	-	-	-	361	-	-	361
Investments	-	-	326	-	-	-	-	-	925	-	-	1,251
Taxes Receivable, net	30,591	-	-	-	-	-	-	-	-	-	-	30,591
Accounts Receivable, net	508	86	-	-	-	-	-	-	-	-	-	594
Due from Other Governments	4,959	15,140	-	69	-	-	-	-	1,973	-	-	22,141
Due from Other Funds	4,451	891	-	-	-	-	-	-	-	-	-	5,342
Due from Component Unit	10	-	-	-	-	-	-	-	-	-	-	10
Inventories	-	15	-	-	-	-	-	-	104	-	-	119
Prepays	16	1	-	-	-	-	-	-	-	-	-	17
Cash - Restricted	-	-	418	14,359	-	-	-	-	-	-	-	14,777
Investments - Restricted	-	-	93	21,363	-	-	-	-	-	-	-	21,456
Total Assets	\$ 54,817	23,312	1,259	38,828	7,080	-	-	-	-	-	-	125,296

LIABILITIES AND FUND BALANCES:

Liabilities:	General Fund		School Fund		Debt Service Fund		Capital Projects Fund		Other Governmental Funds		Total Governmental Funds	
Accounts Payable	447	324	-	1,350	-	-	-	-	211	-	-	2,332
Compensated Absences Payable	19	20	-	-	-	-	-	-	14	-	-	53
Other Liabilities	2,532	5,000	214	-	-	-	-	-	-	-	-	7,746
Due to Other Governments	110	-	-	-	-	-	-	-	-	-	-	110
Due to Other Funds	-	-	-	-	-	-	-	-	2,116	-	-	2,116
Deferred Revenue	30,790	13,428	-	-	-	-	-	-	29	-	-	44,247
Contracts Payable	-	-	-	66	-	-	-	-	-	-	-	66
Total Liabilities	33,898	18,772	214	1,416	2,370	-	-	-	-	-	-	56,670

Fund Balances:

Reserved for:	General Fund		School Fund		Debt Service Fund		Capital Projects Fund		Other Governmental Funds		Total Governmental Funds	
Encumbrances	403	238	23	3,978	408	-	-	-	-	-	-	5,050
Cattails at Meadow View Golf Course Fund	3,070	-	-	-	-	-	-	-	-	-	-	3,070
Industrial Park	21	-	-	-	-	-	-	-	-	-	-	21
Career Ladder	-	116	-	-	-	-	-	-	-	-	-	116
Inventories	-	15	-	-	-	-	-	-	104	-	-	119
Prepays	16	1	-	-	-	-	-	-	-	-	-	17
Perpetual Care	-	-	-	-	-	-	-	-	162	-	-	162
Projects	-	14	-	-	-	-	-	-	158	-	-	172
Debt Service	-	430	-	-	-	-	-	-	-	-	-	430
Banquet Fund	-	-	-	-	-	-	-	-	48	-	-	48
Unreserved, Reported in:												
General Fund	17,409	-	-	-	-	-	-	-	-	-	-	17,409
Debt Service Fund	-	-	1,022	-	-	-	-	-	-	-	-	1,022
Special Revenue Funds	-	3,726	-	-	3,830	-	-	-	-	-	-	7,556
Capital Projects Fund	-	-	-	33,434	-	-	-	-	-	-	-	33,434
Total Fund Balances	20,919	4,540	1,045	37,412	4,710	-	-	-	-	-	-	68,626
Total Liabilities and Fund Balances	\$ 54,817	23,312	1,259	38,828	7,080	-	-	-	-	-	-	125,296

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, 2007  
 (amounts expressed in thousands)

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

Total Fund Balances of Governmental Funds	\$	68,626
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		272,848
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.		1,057
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		558
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.		19,159
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(74,479)</u>
Net Assets of Governmental Activities	\$	<u><u>287,769</u></u>

See accompanying notes to the basic financial statements.

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

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes	\$ 33,415	19,926	-	-	-	53,341
Licenses and Permits	526	-	-	-	-	526
Intergovernmental	20,511	19,808	-	111	12,256	52,686
Charges for Services	1,312	1,231	-	-	1,619	4,162
Fines and Forfeitures	679	-	-	-	108	787
Investment Earnings	1,278	-	736	26	83	2,123
Contributions and Donations	15	-	-	200	101	316
Miscellaneous	209	346	-	-	-	555
<b>Total Revenues</b>	<b>57,945</b>	<b>41,311</b>	<b>736</b>	<b>337</b>	<b>14,167</b>	<b>114,496</b>

**EXPENDITURES:**

Current:						
General Government	6,672	-	-	-	1,025	7,697
Public Safety	15,414	-	-	-	155	15,569
Public Works	5,178	-	-	-	-	5,178
Highway Transportation Planning	-	-	-	-	2,820	2,820
Economic and Physical Development	2,749	-	-	-	470	3,219
Culture and Recreation	3,889	-	-	-	44	3,933
Education	-	48,276	-	-	7,524	55,800
Miscellaneous	878	-	-	-	-	878
Debt Service:						
Principal	-	-	8,488	-	-	8,488
Interest	-	-	1,470	-	-	1,470
Bond Issuance Costs	-	-	-	300	-	300
Miscellaneous	-	-	10	1	-	11
Capital Outlay	199	83	-	4,008	664	4,954
<b>Total Expenditures</b>	<b>34,979</b>	<b>48,359</b>	<b>9,968</b>	<b>4,309</b>	<b>12,702</b>	<b>110,317</b>

Excess (Deficiency) of Revenues  
Over (Under) Expenditures

	22,966	(7,048)	(9,232)	(3,972)	1,465	4,179
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**OTHER FINANCING SOURCES (USES):**

Transfers In	3,449	15,552	10,153	2,297	5,053	36,504
Transfers Out	(24,337)	(8,271)	-	(1,934)	(5,772)	(40,314)
Issuance of Debt	-	-	32	35,409	-	35,441
<b>Total Other Financing Sources (Uses)</b>	<b>(20,888)</b>	<b>7,281</b>	<b>10,185</b>	<b>35,772</b>	<b>(719)</b>	<b>31,631</b>

Net Change in Fund Balances

	2,078	233	953	31,800	746	35,810
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Fund Balances, July 1, 2006

	18,652	3,955	92	5,612	3,964	32,275
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Prior Period Adjustment -  
Compensated Absences

	189	352	-	-	-	541
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Fund Balances, June 30, 2007

	\$ 20,919	4,540	1,045	37,412	4,710	68,626
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See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007  
 (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	\$	35,810
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of general fixed assets in the current period exceeded capital outlays.		(5,624)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(72)
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.		701
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.		(31,053)
Change in Net Assets of Governmental Activities	\$	<u>(238)</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE

GENERAL FUND

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

For the Year Ended June 30, 2007

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes:				
General Property Taxes	\$ 29,465	29,770	29,599	(171)
Gross Receipts Taxes	3,181	3,512	3,816	304
Licenses and Permits	332	332	526	194
Intergovernmental:				
State	4,496	4,510	5,221	711
County	14,577	14,591	15,028	437
Local	213	213	262	49
Charges for Services	1,491	1,501	1,312	(189)
Fines and Forfeitures	351	402	679	277
Investment Earnings	1,061	1,061	1,278	217
Contributions and Donations	50	53	15	(38)
Miscellaneous	58	58	209	151
<b>Total Revenues</b>	<b>55,275</b>	<b>56,003</b>	<b>57,945</b>	<b>1,942</b>
<b><u>EXPENDITURES:</u></b>				
General Government:				
General Government	48	48	48	-
Board of Mayor and Aldermen	109	107	102	5
Judicial	25	21	21	-
City Attorney	412	465	460	5
City Manager	361	351	328	23
Special Programs	1,352	1,777	1,737	40
Public Information Office	128	96	102	(6)
Personnel	904	873	798	75
Purchasing	192	202	194	8
Finance Administration	1,569	1,652	1,610	42
Information Services	986	1,057	1,042	15
Geographic Information	345	315	230	85
<b>Total General Government</b>	<b>6,431</b>	<b>6,964</b>	<b>6,672</b>	<b>292</b>
Public Safety:				
Police Administration	1,311	1,269	1,250	19
Jail Operations	306	272	268	4
Training	289	294	288	6
Investigations	1,286	1,399	1,385	14
Patrol Division	4,914	4,803	4,713	90
Animal Control	117	100	100	-
Central Dispatch	866	898	881	17
Communications	247	221	216	5
Fire Control and Prevention	6,228	6,367	6,313	54
<b>Total Public Safety</b>	<b>15,564</b>	<b>15,623</b>	<b>15,414</b>	<b>209</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE

GENERAL FUND

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

For the Year Ended June 30, 2007

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
Public Works:				
Administration	373	355	342	13
Street Cleaning	342	416	407	9
Street Maintenance	1,645	1,487	1,458	29
Building Maintenance	1,386	1,453	1,413	40
Grounds Maintenance	860	877	858	19
Parks Maintenance	776	756	700	56
Total Public Works	<u>5,382</u>	<u>5,344</u>	<u>5,178</u>	<u>166</u>
Economic and Physical Development:				
Administration	194	215	209	6
Planning	387	370	363	7
Transportation	875	905	859	46
Engineering	907	864	820	44
Code Enforcement	479	510	498	12
Total Economic and Physical Development	<u>2,842</u>	<u>2,864</u>	<u>2,749</u>	<u>115</u>
Culture and Recreation:				
Administration	330	330	312	18
Parks and Recreation Centers	299	291	280	11
Swimming Pools	108	110	81	29
Athletics	555	549	512	37
Cultural Arts	233	235	219	16
Allandale	200	222	216	6
K - Play	199	199	166	33
Senior Citizens Center	377	362	314	48
Bays Mountain Park	952	936	865	71
Library	982	963	924	39
Total Culture and Recreation	<u>4,235</u>	<u>4,197</u>	<u>3,889</u>	<u>308</u>
Miscellaneous	<u>775</u>	<u>938</u>	<u>878</u>	<u>60</u>
Capital Outlay	<u>151</u>	<u>325</u>	<u>199</u>	<u>126</u>
Total Expenditures	<u>35,380</u>	<u>36,255</u>	<u>34,979</u>	<u>1,276</u>
Excess of Revenues Over Expenditures	<u>19,895</u>	<u>19,748</u>	<u>22,966</u>	<u>3,218</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, 2007

(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	3,694	5,131	3,449	(1,682)
Transfers Out	<u>(23,589)</u>	<u>(24,879)</u>	<u>(24,337)</u>	<u>542</u>
Total Other Financing Sources (Uses)	<u>(19,895)</u>	<u>(19,748)</u>	<u>(20,888)</u>	<u>(1,140)</u>
Net Change in Fund Balances	-	-	2,078	2,078
Fund Balances, July 1, 2006	18,652	18,652	18,652	-
Prior Period Adjustment - Compensated Absences	<u>-</u>	<u>-</u>	<u>189</u>	<u>189</u>
Fund Balances, June 30, 2007	<u>\$ 18,652</u>	<u>18,652</u>	<u>20,919</u>	<u>2,267</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, 2007

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes:				
General Property Taxes	\$ 12,971	13,131	13,186	55
Pick Up Taxes	140	80	72	(8)
Clerk and Masters Tax	140	100	114	14
Business Taxes	-	-	-	-
Local Option Sales Tax	6,050	6,250	6,491	241
Other Statutory Local Taxes	37	37	63	26
Intergovernmental:				
Federal	114	164	161	(3)
State	811	19,685	19,647	(38)
County	-	-	-	-
Charges for Services	1,194	1,194	1,231	37
Miscellaneous	140	335	346	11
	<u>21,597</u>	<u>40,976</u>	<u>41,311</u>	<u>335</u>
<b><u>EXPENDITURES:</u></b>				
Instruction:				
Regular	26,485	26,800	26,347	453
Special Education	3,667	3,668	3,663	5
Vocational	1,242	1,282	1,237	45
Adult Education	159	174	149	25
	<u>31,553</u>	<u>31,924</u>	<u>31,396</u>	<u>528</u>
Student Support Services:				
Attendance	74	90	90	-
Health Services	341	344	330	14
Other	1,714	1,687	1,608	79
	<u>2,129</u>	<u>2,121</u>	<u>2,028</u>	<u>93</u>
Instructional Staff Support Services:				
Regular	2,334	2,319	2,304	15
Special Education	309	362	361	1
Vocational	143	141	140	1
Adult Education	148	148	144	4
	<u>2,934</u>	<u>2,970</u>	<u>2,949</u>	<u>21</u>
General Administrative Support Services:				
Board of Education	892	912	912	-
Office of the Superintendent	875	888	887	1
	<u>1,767</u>	<u>1,800</u>	<u>1,799</u>	<u>1</u>

(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, 2007

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
School Administrative Support Services	2,306	2,276	2,267	9
Business Administrative Support Services	286	288	288	-
Operations and Maintenance Support Services:				
Operations	3,453	3,473	3,434	39
Plant Maintenance	1,678	2,286	2,250	36
Total Operations and Maintenance Support Services	5,131	5,759	5,684	75
Student Transportation Support Services	1,334	1,334	1,217	117
Noninstructional Services:				
After School Programs	56	58	48	10
Community Service	628	632	600	32
Total Noninstructional Services	684	690	648	42
Capital Outlay	609	125	83	42
Total Expenditures	48,733	49,287	48,359	928
Deficiency of Revenues Under Expenditures	(27,136)	(8,311)	(7,048)	1,263
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	17,271	16,909	15,552	(1,357)
Transfers Out	(7,669)	(8,598)	(8,271)	327
Total Other Financing Sources (Uses)	9,602	8,311	7,281	(1,030)
Net Change in Fund Balances	(17,534)	-	233	233
Fund Balances, July 1, 2006	3,955	3,955	3,955	-
Prior Period Adjustment - Compensated Absences	-	-	352	352
Fund Balances, June 30, 2007	<u>\$ (13,579)</u>	<u>3,955</u>	<u>4,540</u>	<u>585</u>

See accompanying notes to the basic financial statements.

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, 2007

(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	\$ -	-	736	736
Total Revenues	-	-	736	736
<u>EXPENDITURES:</u>				
Principal	8,519	8,519	8,488	31
Interest	1,615	2,215	1,470	745
Bond Issuance Costs	-	302	-	302
Miscellaneous	17	42	10	32
Total Expenditures	10,151	11,078	9,968	1,110
Deficiency of Revenues Under Expenditures	(10,151)	(11,078)	(9,232)	1,846
<u>OTHER FINANCING SOURCES:</u>				
Transfers In	10,151	10,394	10,153	(241)
Issuance of Debt	-	683	32	(651)
Total Other Financing Sources	10,151	11,077	10,185	(892)
Net Change in Fund Balance	-	(1)	953	954
Fund Balance, July 1, 2006	92	92	92	-
Fund Balance, June 30, 2007	\$ 92	91	1,045	954

See Independent Auditors' Report.

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CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2007

(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 Meadow View Golf Course Fund	Total Enterprise Funds		
<b>ASSETS:</b>								
Current Assets:								
Cash with Fiscal Agent	\$ 37	-	-	-	-	37	-	-
Equity in Pooled Cash and Investments	5,501	6,416	668	-	-	12,585	7,793	500
Long-Term Certificates of Deposit	-	-	-	-	-	-	-	-
Investments	-	-	-	441	37	478	-	-
Receivables, net	1,878	1,675	16	117	78	3,764	7	1,027
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governments	-	292	-	-	-	292	-	-
Due from Component Unit	11	15	-	-	-	26	-	-
Inventories	371	-	-	-	98	469	366	-
Prepays	10	-	-	-	-	10	118	-
Total Current Assets	7,808	8,398	684	558	213	17,661	9,811	-
Noncurrent Assets:								
Restricted Assets:								
Cash	1,063	6,299	20	85	-	7,467	431	-
Investments	104	13	-	-	-	117	3,979	-
Total Restricted Assets	1,167	6,312	20	85	-	7,584	4,410	-
Capital Assets:								
Land	640	516	1,308	1,515	982	4,961	15	-
Buildings and System	73,354	124,646	155	21,545	1,158	220,858	-	-
Improvements other than Buildings	-	-	2,186	324	5,971	8,481	-	-
Machinery and Equipment	1,120	916	31	880	374	3,321	19,853	-
Construction in Progress	8,261	21,635	521	-	-	30,417	-	-
Less: Accumulated Depreciation	(29,089)	(42,914)	(1,167)	(6,063)	(2,645)	(81,878)	(13,394)	-
Total Capital Assets	54,286	104,799	3,034	18,201	5,840	186,160	6,474	-
Other Assets:								
Deposits	-	-	-	-	-	-	-	30
Unamortized Bond Costs	128	374	5	3	22	532	-	-
Total Other Assets	128	374	5	3	22	532	-	30
Total Noncurrent Assets	55,581	111,485	3,059	18,289	5,862	194,276	10,914	-
Total Assets	63,389	119,883	3,743	18,847	6,075	211,937	20,725	-

(Continued)

CITY OF KINGSFORT, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007  
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts Payable	188	240	215	93	23	759	319	
Due to Other Funds	-	-	1,027	88	3,138	4,253	-	
Compensated Absences Payable	239	134	101	-	-	474	75	
Retainages Payable	55	111	-	-	-	166	-	
Arbitrage Rebate Payable	73	272	13	-	-	358	-	
Matured Bonds Payable	35	-	-	-	-	35	-	
Matured Interest Payable	7	-	-	-	-	7	-	
Accrued Interest Payable	164	435	-	34	-	633	-	
General Obligation Bonds - Current	1,296	3,554	21	2,045	485	7,401	-	
State Revolving Loan - Current	118	283	-	-	-	401	-	
Other Payables	346	-	-	-	-	346	1,172	
Total Current Liabilities	2,521	5,029	1,377	2,260	3,646	14,833	1,566	
Noncurrent Liabilities:								
General Obligation Bonds Payable								
(Net of Deferred Refunding Cost, Discounts and Premiums)	12,277	32,063	363	(7)	2,340	47,036	-	
State Revolving Loan Payable	1,333	3,689	-	-	-	5,022	-	
Total Noncurrent Liabilities	13,610	35,752	363	(7)	2,340	52,058	-	
Total Liabilities	16,131	40,781	1,740	2,253	5,986	66,891	1,566	
<b>NET ASSETS:</b>								
Invested in Capital Assets, Net of Related Debt	40,429	71,522	2,670	16,248	3,015	133,884	6,474	
Restricted for Debt Service	104	239	-	-	-	343	-	
Restricted for Capital Improvements	-	-	-	565	44	609	-	
Reserve for Encumbrances	-	-	-	-	-	-	1,166	
Unrestricted	6,725	7,341	(667)	(219)	(2,970)	10,210	11,519	
Total Net Assets	\$ 47,258	79,102	2,003	16,594	89	145,046	19,159	

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, 2007  
 (amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	MeadowView			Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund			
<u>OPERATING REVENUES:</u>							
Charges and Fees	\$ 12,426	12,184	580	287	1,025	26,502	12,046
Penalties and Fines	344	186	-	-	-	530	-
Miscellaneous	675	987	-	-	-	1,662	-
Total Operating Revenues	13,445	13,357	580	287	1,025	28,694	12,046
<u>OPERATING EXPENSES:</u>							
Operating Costs	5,735	3,606	4,276	491	1,028	15,136	10,806
Depreciation	1,714	2,751	129	564	267	5,425	1,259
Total Operating Expenses	7,449	6,357	4,405	1,055	1,295	20,561	12,065
Operating Income (Loss)	5,996	7,000	(3,825)	(768)	(270)	8,133	(19)
<u>NONOPERATING REVENUES (EXPENSES):</u>							
Investment Earnings	448	797	62	25	2	1,334	678
Interest Expense	(440)	(1,168)	(22)	(158)	(132)	(1,920)	-
Gain on Disposal of Capital Assets	-	2	-	-	-	2	6
Amortization Expense	(22)	(53)	-	(17)	(5)	(97)	-
Arbitrage Expense	-	-	(5)	-	-	(5)	-
Other	1	(4)	-	-	-	(3)	36
Total Nonoperating Revenues (Expenses)	(13)	(426)	35	(150)	(135)	(689)	720
Income (Loss) Before Transfers	5,983	6,574	(3,790)	(918)	(405)	7,444	701
Transfers In	86	14	2,871	2,353	592	5,916	-
Transfers Out	(1,154)	(952)	-	-	-	(2,106)	-
Change in Net Assets	4,915	5,636	(919)	1,435	187	11,254	701
Net Assets, July 1, 2006	42,343	73,466	2,922	15,159	(98)	133,792	18,458
Net Assets, June 30, 2007	\$ 47,258	79,102	2,003	16,594	89	145,046	19,159

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CITY OF KINGSPORT, TENNESSEE  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2007  
 (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 Meadow View Golf Course Fund	Total Enterprise Funds		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Receipts from Customers and Users	\$ 13,293	13,676	576	256	999	28,800	11,070	
Payments to Suppliers	(2,646)	(2,094)	(1,500)	(352)	(505)	(7,097)	(9,421)	
Payments to Employees	(3,453)	(1,834)	(1,594)	-	(500)	(7,381)	(1,161)	
Net Cash Provided (Used) by Operating Activities	7,194	9,748	(2,518)	(96)	(6)	14,322	488	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>								
Transfers to Other Funds	(1,154)	(952)	-	-	-	(2,106)	-	
Advances from Other Funds	86	14	2,871	2,353	592	5,916	-	
Net Cash Provided (Used) by Noncapital Financing Activities	(1,068)	(938)	2,871	2,353	592	3,810	-	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Proceeds from Capital Debt	316	1,364	-	-	-	1,680	-	
Acquisition and Construction of Capital Assets	(2,739)	(5,394)	(484)	(173)	-	(8,790)	(2,055)	
Principal Paid on Capital Debt	(1,713)	(4,614)	(20)	(1,955)	(459)	(8,761)	-	
Interest Paid on Capital Debt	(322)	(1,114)	(16)	(167)	(133)	(1,752)	-	
Proceeds from Sales of Capital Assets	-	2	-	-	-	2	39	
Net Cash Used by Capital and Related Financing Activities	(4,458)	(9,756)	(520)	(2,295)	(592)	(17,621)	(2,016)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Proceeds from Sales and Maturities of Investments	36	187	62	154	6	445	5,974	
Purchase of Investments	(448)	(796)	-	(141)	(2)	(1,387)	(3,994)	
Interest Received	448	796	-	25	2	1,271	677	
Net Cash Provided by Investing Activities	36	187	62	38	6	329	2,657	
Net Increase (Decrease) in Cash and Cash Equivalents	1,704	(759)	(105)	-	-	840	1,129	
Cash and Cash Equivalents, July 1, 2006	4,897	13,474	793	85	-	19,249	7,095	
Cash and Cash Equivalents, June 30, 2007	\$ 6,601	12,715	688	85	-	20,089	8,224	

(Continued)

CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2007  
(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		
\$	5,987	7,000	(3,826)	(699)	(245)	8,217	(1,010)	
	1,714	2,751	129	581	267	5,442	1,259	
	(142)	(126)	(2)	(56)	(27)	(353)	16	
	-	445	-	-	-	445	-	
	-	-	-	-	5	5	(35)	
	8	-	-	-	-	8	(1)	
	(186)	(68)	157	78	(6)	(25)	194	
	-	-	1,027	-	-	1,027	-	
	15	6	(3)	-	-	18	1	
	(214)	(260)	-	-	-	(474)	-	
	12	-	-	-	-	12	64	
\$	7,194	9,748	(2,518)	(96)	(6)	14,322	488	

\$	37	-	-	-	-	37	-
	5,501	6,416	668	-	-	12,585	7,793
	1,063	6,299	20	85	-	7,467	431
\$	6,601	12,715	688	85	-	20,089	8,224

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

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

Net Cash Provided (Used) by Operating Activities

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

Cash with Fiscal Agent	
Equity in Pooled Cash and Investments	
Restricted Assets - Cash	
Cash and Cash Equivalents, June 30, 2007	

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(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**

**Primary Government**

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(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, 2007  
(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, 2007  
(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 *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.

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

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

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

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 *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.

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 *justice assistance grant fund* accounts for direct federal grant funds received from the Edward Byrne Memorial Justice Assistance Grant Program. These funds are restricted for certain law enforcement programs.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

*Internal service funds* account for risk management, self-insured health insurance and fleet maintenance 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 rental income is 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.

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

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

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

*1. Deposits and investments*

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

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

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

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

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

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

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

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

*2. Receivables and payables*

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

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

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

*3. Inventories and prepaid items*

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

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

*4. Restricted assets*

Certain cash and investment balances of the City are classified as restricted assets 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, subdivision developer deposits that are refunded upon acceptable completion of project, 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.

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

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

*5. Capital assets*

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water and sewer funds during the current fiscal year was \$665 and \$1,676, respectively. Of these amounts, \$227 and \$508, respectively, were included as part of the cost of capital assets under construction in each of these funds in connection with water and sewer line replacement and extension construction projects.

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

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

*6. Compensated absences*

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

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

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

6. *Compensated absences (continued)*

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

7. *Long-term obligations*

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

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund equity*

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

9. *Use of estimates*

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

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

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

The governmental fund balance sheet includes 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 \$272,848 difference are as follows:

Governmental funds capital assets	\$ 423,694
Less: accumulated depreciation	<u>(150,846)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 272,848</u>

Another element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$558 difference are as follows:

Deferred bond issuance costs	\$ 744
Less: accumulated amortization	<u>(186)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 558</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 \$74,479 difference are as follows:

Bonds payable	\$ 63,041
Notes payable	4,702
Interlocal cooperative agreement	2,500
Capital outlay notes payable	1,600
Compensated absences	<u>2,636</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 74,479</u>

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays of the general fixed assets in the current period.” The details of this \$(5,624) difference are as follows:

Capital outlays	\$ 4,953
Depreciation expense	<u>(10,577)</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>(5,624)</u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$(72) difference are as follows:

Deferred property taxes as of June 30, 2007	\$ (1,057)
Prior years’ property taxes collected during current year	<u>985</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(72)</u>

Another element of that reconciliation states that “the net income of certain activities of internal service funds is reported with governmental activities.” The details of this \$701 difference are as follows:

Investment earnings	\$ 678
Reimbursed insured loss	36
Gain on disposal of capital assets	6
Operating loss	<u>(19)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>701</u>

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

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

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$31,053 difference are as follows:

Principal repayments	\$ 8,489
Issuance of capital outlay note	(1,600)
Issuance of interlocal cooperative agreement	(2,500)
Issuance of general obligation bonds	<u>(35,442)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(31,053)</u>

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

**A. Budgetary Information**

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

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

The City Manager has the authority to transfer the unused portion of any item or appropriation within the same department, 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.

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

**A. Budgetary Information (continued)**

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

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as 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, drug, fleet maintenance, federal transit administration, metropolitan planning office, special school projects, public law 93-380, state street aid and senior citizens advisory board funds.

**B. Excess of expenditures over appropriations**

For the year ended June 30, 2007, there were no instances of expenditures exceeding appropriations in any funds.

**C. Deficit fund equity**

For the year ended June 30 2007, there were instances of deficit fund equity in the special school projects and public law 93-380 funds.

**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.

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

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

*Custodial Credit Rate Risk (continued)*

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 \$70,784 and the bank balance was \$79,689. Of the bank balance, \$600 was covered by federal depository insurance with the remaining balance of \$79,089 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

The carrying amount of deposits for the IDBK, a discretely presented component unit, was \$601 and the bank balance was \$602. 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, \$502 was covered by the Securities Investor Protection Corporation, and \$100 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 \$1,469 and the bank balance was \$1,456. Of the bank balance, \$600 was covered by federal depository insurance or by collateral held by the entity's agent in the ECD's name. Of the remaining balance, \$856 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 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Certificate of Deposit	\$ 4,193	0.98
Money Market	431	(a)
Tennessee Local Government Investment Pool	<u>24,461</u>	0.21
Total	<u>\$ 29,085</u>	

(a) -- The investment types are not subject to interest rate risk. Therefore, average weighted average maturity is not applicable.

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, 2007.

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

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

*Custodial Credit Rate Risk (continued)*

At year end, the IDBK carrying amount for investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Investment in Joint Venture	\$170	(a)

(a) – The investment types are not subject to interest rate risk. Therefore, average weighted average maturity is not applicable.

*Concentration of Credit Risk*

The City's investment policy does not allow for an investment in any issuer that is in excess of five percent of the City's total investments.

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

**B. Receivables**

Receivables as of June 30, 2007 for the City's individual major funds and nonmajor, and internal service funds in the aggregate and for the component units in total, including the applicable allowances for uncollectible accounts, are as follows:

	General	General Purpose School	Capital Projects	Water	Sewer	Solid Waste Management	MeadowView Resort and Convention Center	Cattails at MeadowView Golf Course	Internal Service	Nonmajor and Other Funds	Total Primary Government	Component Units
Receivables:												
Taxes	\$ 31,189	-	-	-	-	-	-	-	-	-	31,189	-
Accounts Intergovernmental	516	109	-	2,005	1,949	23	117	78	7	-	4,804	39
	4,959	15,140	69	-	292	-	-	-	-	1,973	22,433	34
Gross receivables	36,664	15,249	69	2,005	2,241	23	117	78	7	1,973	58,426	73
Less: allowances for uncollectibles	(606)	(23)	-	(127)	(274)	(7)	-	-	-	-	(1,037)	-
Net total receivables	\$ 36,058	15,226	69	1,878	1,967	16	117	78	7	1,973	57,389	73

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	\$ 49
Uncollectibles related to water sales	9
Uncollectibles related to sewer charges	2
Uncollectibles related to solid waste charges	(36)
Total uncollectibles of the current fiscal year	<u>\$ 24</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007  
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**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)	\$ 29,373	29,373
Delinquent property taxes receivable (general fund)	987	-
Other taxes receivable (general fund)	358	358
Property taxes receivable (general purpose school fund)	13,420	13,420
Grant drawdowns receivable (general purpose school fund)	8	8
Grant drawdowns receivable (special school project fund)	2	2
Receipts for meals not yet served (school nutrition services)	-	27
	<u>\$ 44,148</u>	<u>43,188</u>
Total deferred / unearned revenue for governmental funds		

Property taxes which are delinquent at year end are earned but not available. The tax year 2007 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1.

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

**C. Capital assets**

Capital asset activity for the year ended June 30, 2007, was as follows:

**Primary government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 12,231	1,073	-	-	13,304
Construction in Progress	<u>38,610</u>	<u>4,078</u>	<u>(4,201)</u>	-	<u>38,487</u>
Total capital assets, not being depreciated	<u>50,841</u>	<u>5,151</u>	<u>(4,201)</u>	-	<u>51,791</u>
Capital assets, being depreciated:					
Buildings	90,335	550	-	-	90,885
Improvements other than buildings	10,251	328	-	(1)	10,578
Equipment	30,929	2,655	(1,250)	1	32,335
Software	223	60	-	-	283
Infrastructure	<u>257,197</u>	<u>493</u>	-	-	<u>257,690</u>
Total capital assets, being depreciated	<u>388,935</u>	<u>4,086</u>	<u>(1,250)</u>	-	<u>391,771</u>
Less accumulated depreciation for:					
Buildings	(39,402)	(4,121)	-	-	(43,523)
Improvements other than buildings	(5,384)	(681)	-	-	(6,065)
Equipment	(20,460)	(2,137)	1,199	(1)	(21,399)
Software	(192)	(46)	-	-	(238)
Infrastructure	<u>(88,164)</u>	<u>(4,851)</u>	-	-	<u>(93,015)</u>
Total accumulated depreciation	<u>(153,602)</u>	<u>(11,836)</u>	<u>1,199</u>	<u>(1)</u>	<u>(164,240)</u>
Total capital assets, being depreciated, net	<u>235,333</u>	<u>(7,750)</u>	<u>(51)</u>	<u>(1)</u>	<u>227,531</u>
Governmental activities capital assets, net	<u>\$ 286,174</u>	<u>(2,599)</u>	<u>(4,252)</u>	<u>(1)</u>	<u>279,322</u>

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

**C. Capital assets (continued)**

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
<i><u>Water</u></i>					
Land	\$ 640	-	-	-	640
Construction in Progress	11,395	1,582	(4,716)	-	8,261
<i><u>Sewer</u></i>					
Land	516	-	-	-	516
Construction in Progress	18,023	4,497	(885)	-	21,635
<i><u>Solid waste management</u></i>					
Land	1,308	-	-	-	1,308
Construction in Progress	122	399	-	-	521
<i><u>MeadowView Conference Resort</u></i> <i><u>and Convention Center</u></i>					
Land	1,515	-	-	-	1,515
Construction in Progress	9	-	(9)	-	-
<i><u>Cattails at MeadowView Golf Course</u></i>					
Land	<u>982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982</u>
Total capital assets, not being depreciated	<u>34,510</u>	<u>6,478</u>	<u>(5,610)</u>	<u>-</u>	<u>35,378</u>
Capital assets, being depreciated:					
<i><u>Water</u></i>					
Buildings and system	67,270	6,084	-	-	73,354
Equipment and machinery	1,170	11	(61)	-	1,120
<i><u>Sewer</u></i>					
Buildings and system	122,219	2,427	-	-	124,646
Equipment and machinery	1,054	-	(138)	-	916
<i><u>Solid waste management</u></i>					
Buildings and system	155	-	-	-	155
Improvements other than buildings	2,102	84	-	-	2,186
Equipment and machinery	31	-	-	-	31
<i><u>MeadowView Conference Resort</u></i> <i><u>and Convention Center</u></i>					
Buildings	21,536	9	-	-	21,545
Improvements other than buildings	165	159	-	-	324
Equipment	867	13	-	-	880
<i><u>Cattails at MeadowView Golf Course</u></i>					
Buildings	1,158	-	-	-	1,158
Improvements other than buildings	5,971	-	-	-	5,971
Equipment	<u>374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>374</u>
Total capital assets, being depreciated	<u>224,072</u>	<u>8,787</u>	<u>(199)</u>	<u>-</u>	<u>232,660</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	(26,426)	(1,641)	-	-	(28,067)
Equipment and machinery	(1,009)	(72)	59	-	(1,022)
<i>Sewer</i>					
Buildings and system	(39,328)	(2,728)	-	-	(42,056)
Equipment and machinery	(970)	(23)	135	-	(858)
<i>Solid waste management</i>					
Buildings and system	(62)	(5)	-	-	(67)
Improvements other than Buildings	(955)	(121)	-	-	(1,076)
Equipment and machinery	(21)	(3)	-	-	(24)
<i>MeadowView Conference Resort and Convention Center</i>					
Buildings	(4,542)	(538)	-	-	(5,080)
Improvements other than Buildings	(102)	(23)	-	-	(125)
Equipment	(855)	(3)	-	-	(858)
<i>Cattails at MeadowView Golf Course</i>					
Buildings	(233)	(29)	-	-	(262)
Improvements other than Buildings	(1,798)	(232)	-	1	(2,029)
Equipment	(347)	(7)	-	-	(354)
Total accumulated depreciation	<u>(76,648)</u>	<u>(5,425)</u>	<u>194</u>	<u>1</u>	<u>(81,878)</u>
Total capital assets, being depreciated, net	<u>147,424</u>	<u>3,362</u>	<u>(5)</u>	<u>1</u>	<u>150,782</u>
Business-type activities capital assets, net	<u>\$ 181,934</u>	<u>9,840</u>	<u>(5,615)</u>	<u>1</u>	<u>186,160</u>

Adjustments were primarily for rounding.

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

Governmental activities:	
General government	\$ 318
Economic and physical development	180
Public safety	1,042
Public works	5,441
Culture and recreation	999
Education	<u>3,856</u>
Total depreciation expense – governmental activities	<u>\$ 11,836</u>

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

**C. Capital assets (continued)**

Business-type activities:

Water	\$ 1,714
Sewer	2,751
Solid waste management	129
MeadowView Conference Resort and Convention Center	564
Cattails at MeadowView Golf Course	<u>267</u>

Total depreciation expense – business-type activities \$ 5,425

**Construction commitments**

The City has active construction projects as of June 30, 2007. The governmental projects of the City are reflected in the capital projects and special revenue general project funds and the City has provided funding for the future commitments in the amounts of \$24,029 and \$483, respectively, 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 \$7,086. 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, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Amount</u>
Capital assets, being depreciated:					
Signs	\$ 56	-	-	-	56
Improvements other than buildings	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total capital assets, being depreciated	<u>76</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76</u>
Less accumulated depreciation for:					
Signs	(34)	(4)			(38)
Improvements other than buildings	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21)</u>
Total accumulated depreciation	<u>(55)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>(59)</u>
Total capital assets, being depreciated, net	<u>21</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>17</u>
IDBK capital assets, net	<u>\$ 21</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>17</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)**

Activity for the ECD for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Amount</u>
Capital assets, being depreciated:					
Equipment	\$ 509	140	-	-	649
Total capital assets, being depreciated	<u>509</u>	<u>140</u>	<u>-</u>	<u>-</u>	<u>649</u>
Less accumulated depreciation for:					
Equipment	(222)	(75)	-	-	(297)
Total accumulated depreciation	<u>(222)</u>	<u>(75)</u>	<u>-</u>	<u>-</u>	<u>(297)</u>
Total capital assets, being depreciated, net	<u>287</u>	<u>65</u>	<u>-</u>	<u>-</u>	<u>352</u>
ECD capital assets, net	<u>\$ 287</u>	<u>65</u>	<u>-</u>	<u>-</u>	<u>352</u>

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

***Interfund receivables and payables***

The composition of interfund balances as of June 30, 2007, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
general (major)	MeadowView Conference Resort and Convention Center (major)	\$ 88
	Cattails at MeadowView Golf Course (major)	3,138
	community development (nonmajor)	13
	federal transit administration (nonmajor)	57
	metropolitan planning office (nonmajor)	82
	state street aid (nonmajor)	4
	regional sales tax revenue (nonmajor)	1,069
	general purpose school (major)	public law 93-380 (nonmajor)
	special school projects (nonmajor)	281
	school nutrition services (nonmajor)	33
fleet maintenance	solid waste management (major)	<u>1,027</u>
<b>Total</b>		<b><u>\$ 6,369</u></b>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**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	\$ 10
Primary government – Sewer Fund	Component unit - IDBK	15
Primary government – Water Fund	Component unit - IDBK	<u>11</u>
Total		<u>\$ 36</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):**

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

*Interfund transfers (continued)*

Transfers out:	Transfers in:													
	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Water	Sewer	Solid Waste Management	MeadowView Conference Resort and Convention Center	Cattails at MeadowView	Total Proprietary	Total Internal Service	Total
General	\$ -	15,012	1,918	1,430	3,106	21,466	-	-	2,871	-	-	2,871	-	24,337
General Purpose School	99	-	7,227	828	117	8,271	-	-	-	-	-	-	-	8,271
Capital Projects	69	-	530	-	1,335	1,934	-	-	-	-	-	-	-	1,934
Nonmajor Governmental	1,257	540	478	39	495	2,809	4	14	-	2,353	592	2,963	-	5,772
Total Governmental	1,425	15,552	10,153	2,297	5,053	34,480	4	14	2,871	2,353	592	5,834	-	40,314
Water	1,154	-	-	-	-	1,154	-	-	-	-	-	-	-	1,154
Sewer	870	-	-	-	-	870	82	-	-	-	-	82	-	952
Total Proprietary	2,024	-	-	-	-	2,024	82	-	-	-	-	82	-	2,106
Total	\$ 3,449	15,552	10,153	2,297	5,053	36,504	86	14	2,871	2,353	592	5,916	-	42,420

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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, 2007, 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, 2007, \$172 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, 2006, \$3,235 of the 2004 issue had been drawn and annual payments of \$220 have been made leaving a balance of \$3,084 at June 30, 2007. The City also issued a loan for the Qualified Zone Academy Bonds in December 2005 for \$1,549 with a maturity date of December 2020. Annual principal payments are \$103 and the interest rate is variable. As of June 30, 2006, \$710 of the 2005 issue had been drawn, and the remaining \$839 was drawn in the current fiscal year. The balance at June 30, 2007 was \$1,446.

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

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

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

**Notes Payable (continued)**

Payments to maturity on the notes payable are as follows:

	1999	2004	2005	Capital Outlay
	<u>QZAB</u>	<u>QZAB</u>	<u>QZAB</u>	<u>Note</u>
2008	\$ 34	220	103	-
2009	35	220	103	121
2010	34	220	103	123
2011	35	221	104	128
2012	34	220	103	133
2013	-	220	103	139
2014	-	221	103	144
2015	-	220	104	150
2016	-	220	103	156
2017	-	220	103	162
2018	-	220	103	169
2019	-	221	104	175
2020	-	220	103	-
2021	-	221	104	-
	<u>\$ 172</u>	<u>3,084</u>	<u>1,446</u>	<u>1,600</u>

**Interlocal Cooperative Agreement**

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

**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.

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

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

**Bonds Payable (continued)**

General obligation 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, 2007</u>
1998 General Obligation Refunding	03/01, 09/01	11/01/98	14,700	4.000%-5.000%	\$ 1,665
1999 General Obligation Refunding and Improvement Bonds	03/01, 09/01	04/01/99	5,975	4.000%-4.500%	875
1999 General Obligation Bonds	03/01, 09/01	10/01/99	2,035	4.600%-5.500%	130
2000 General Obligation Bonds	03/01, 09/01	11/21/00	1,630	4.450%-5.100%	110
2001 General Obligation Bonds	04/01, 10/01	11/06/01	2,620	2.300%-4.650%	540
2002A General Obligation Refunding Bonds	01/01, 07/01	08/28/02	12,500	4.000%-4.500%	10,000
2003 General Obligation Bonds	04/01, 10/01	12/01/03	7,900	2.000%-4.200%	6,460
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%	2,510
2005 General Obligation Bonds	06/01, 12/01	12/06/05	2,826	3.750%-5.000%	2,686
2006 General Obligation Bonds	02/01, 08/01	12/20/06	13,320	3.750%-4.100%	13,320
2007 General Obligation Bonds	08/01, 02/01	06/08/07	19,360	4.000%-5.000%	<u>19,360</u>
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of \$440)					<u>\$ 63,481</u>

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**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>
2008	\$ <u>1,665</u>	<u>42</u>	<u>1,707</u>
	\$ <u>1,665</u>	<u>42</u>	<u>1,707</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>
2008	\$ 430	37	467
2009	<u>445</u>	<u>19</u>	<u>464</u>
	\$ <u>875</u>	<u>56</u>	<u>931</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>
2008	\$ <u>130</u>	<u>6</u>	<u>136</u>
	\$ <u>130</u>	<u>6</u>	<u>136</u>

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

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

**Bonds Payable (continued)**

General Obligation 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>
2008	\$ <u>110</u>	<u>5</u>	<u>115</u>
	\$ <u>110</u>	<u>5</u>	<u>115</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>
2008	\$ 175	22	197
2009	180	14	194
2010	<u>185</u>	<u>7</u>	<u>192</u>
	\$ <u>540</u>	<u>43</u>	<u>583</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>
2008	\$ 4,500	428	4,928
2009	<u>5,500</u>	<u>247</u>	<u>5,747</u>
	\$ <u>10,000</u>	<u>675</u>	<u>10,675</u>

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**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:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 6,460</u>	<u>1,564</u>	<u>8,024</u>

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>
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>1,436</u>	<u>7,261</u>

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**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:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 2,510</u>	<u>651</u>	<u>3,161</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 149	103	252
2009	153	98	251
2010	158	92	250
2011	166	86	252
2012	175	80	255
2013	175	74	249
2014	184	67	251
2015	192	58	250
2016	201	48	249
2017	219	38	257
2018	219	32	251
2019	227	25	252
2020	232	18	250
2021	<u>236</u>	<u>9</u>	<u>245</u>
	<u>\$ 2,686</u>	<u>828</u>	<u>3,514</u>

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

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

**Bonds Payable (continued)**

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	585	585
2009	-	525	525
2010	525	525	1,050
2011	545	504	1,049
2012	565	483	1,048
2013	585	459	1,044
2014	610	438	1,048
2015	630	415	1,045
2016	655	391	1,046
2017	680	367	1,047
2018	710	343	1,053
2019	735	315	1,050
2020	765	285	1,050
2021	795	255	1,050
2022	830	223	1,053
2023	865	190	1,055
2024	900	155	1,055
2025	935	119	1,054
2026	975	82	1,057
2027	<u>1,015</u>	<u>42</u>	<u>1,057</u>
	<u>\$ 13,320</u>	<u>6,701</u>	<u>20,021</u>

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

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

**Bonds Payable (continued)**

General Obligation Bonds, Series 2007, issued June 8, 2007, 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>
2008	\$ -	529	529
2009	-	818	818
2010	745	818	1,563
2011	775	785	1,560
2012	810	752	1,562
2013	840	720	1,560
2014	875	686	1,561
2015	910	650	1,560
2016	945	614	1,559
2017	1,000	567	1,567
2018	1,040	517	1,557
2019	1,075	475	1,550
2020	1,115	432	1,547
2021	1,160	388	1,548
2022	1,210	340	1,550
2023	1,260	290	1,550
2024	1,315	238	1,553
2025	1,370	182	1,552
2026	1,425	123	1,548
2027	<u>1,490</u>	<u>64</u>	<u>1,554</u>
	<b>\$ <u>19,360</u></b>	<b><u>9,988</u></b>	<b><u>29,348</u></b>

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

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

**Bonds Payable (continued)**

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 7,834	2,333	10,167
2009	7,203	2,279	9,482
2010	3,053	1,974	5,027
2011	3,186	1,855	5,041
2012	3,295	1,733	5,028
Next Five Years	15,811	6,620	22,431
Next Five Years	11,549	3,716	15,265
Next Five Years	<u>11,550</u>	<u>1,485</u>	<u>13,035</u>
	<u>\$ 63,481</u>	<u>21,995</u>	<u>85,476</u>

**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 30<sup>th</sup>.

**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, 2007</u>
<b><u>Water Fund:</u></b>				
State Revolving Loan – DWF#98-009	03/25/98	2,000	3.675%	\$ <u>1,451</u>
<b><u>Sewer Fund:</u></b>				
State Revolving Loan – SRF#98-119	02/28/99	2,419	3.550%	\$ 1,810
State Revolving Loan – SRF#99-123	06/28/99	2,781	3.550%	<u>2,162</u>
Total				\$ <u>3,972</u>

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

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

**Notes Payable (continued)**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>411</u>	<u>4</u>	<u>415</u>
	<u>\$ 2,162</u>	<u>413</u>	<u>2,575</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 401	174	575
2009	414	160	574
2010	430	146	576
2011	444	130	574
2012	461	114	575
Next Five Years	2,567	306	2,873
Next Five Years	<u>706</u>	<u>7</u>	<u>713</u>
	<u>\$ 5,423</u>	<u>1,037</u>	<u>6,460</u>

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

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

**Bonds Payable**

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

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2007</u>
<u>Solid Waste Management Fund</u>					
2005 Series General Obligation Bonds	06/01, 12/01	12/06/05	404	3.500%-5.000%	\$ <u>384</u>
Total Solid Waste Management Fund (before bond premiums of (\$ 2))					\$ <u>384</u>
<u>MeadowView Conference Resort and Convention Center Fund</u>					
2002 General Obligation Refunding Bond	04/01, 10/01	04/25/02	9,585	3.500%-5.000%	\$ <u>2,045</u>
Total MeadowView Conference Resort and Convention Center Fund (before deferred debt refunding costs \$13 and premiums of (\$ 6))					\$ <u>2,045</u>
<u>Cattails at MeadowView Golf Course Fund</u>					
1995 Golf Course-TMBF	Monthly	05/22/95	4,750	Variable	\$ 1,736
1998 Golf Course-TMBF	Monthly	1998	1,450	Variable	<u>1,089</u>
Total Cattails at MeadowView Golf Course Fund					\$ <u>2,825</u>

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

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

**Bonds Payable (continued)**

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2007</u>
<u>Water Fund</u>					
1978 Waterworks	01/01, 07/01	04/06/78	450	5.000%	\$ 195
1999 General Obligation Refunding and Improvement for Water	03/01, 09/01	04/01/99	2,820	4.000%-4.650%	410
1999 Water System Improvement	03/01, 09/01	10/01/99	6,120	4.600%-5.500%	394
2001 Water System Improvement	04/01, 10/01	11/06/01	2,140	2.300%-4.650%	435
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	2,725	3.000%-4.350%	2,075
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	1,315	2.000%-4.200%	1,075
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	4,127	2.000%-5.000%	4,127
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%	1,430
2005 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/06/05	870	3.750%-5.000%	825
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	316	3.750%-5.000%	<u>316</u>
Total Water Fund (before deferred debt refunding costs of \$452 and net premiums and discounts of (\$542))					<u>\$ 13,482</u>

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

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

**Bonds Payable (continued)**

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2007</u>
<u>Sewer Fund</u>					
1998 Sewer Refunding	03/01, 09/01	11/01/98	4,880	4.000%-5.000%	\$ 465
1999 Sewer Refunding	03/01, 09/01	04/01/99	3,155	4.000%-4.650%	460
1999 General Obligation System Improvement for Water	03/01, 09/01	10/01/99	10,245	4.600%-5.500%	665
2000 Sewer System Improvement	03/01, 09/01	11/21/00	635	4.450%-5.100%	45
2001 Sewer System Improvement	04/01, 10/01	11/06/01	2,790	2.300%-4.650%	575
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	5,275	3.000%-4.350%	4,010
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	4,585	2.000%-4.200%	3,760
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	12,473	2.000%-5.000%	11,353
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%	5,520
2005 Water and Sewer Revenue and Tax Bonds	06/01, 12/01, 12/06/05		4,100	2.750%-4.125%	3,895
2006 Water and Sewer Revenue and Tax Bonds	02/01, 08/01, 12/20/06		1,364	3.750%-5.000%	<u>1,364</u>
Total Sewer Fund (before deferred debt refunding costs of \$754 and net premiums and discounts of (\$1,250))					<u>\$ 35,122</u>

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

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

**Bonds Payable (continued)**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 21	15	36
2009	22	14	36
2010	23	13	36
2011	24	12	36
2012	25	11	36
2013	25	11	36
2014	26	10	36
2015	27	9	36
2016	29	7	36
2017	31	5	36
2018	31	5	36
2019	33	4	37
2020	33	3	36
2021	<u>34</u>	<u>1</u>	<u>35</u>
	<u>\$ 384</u>	<u>120</u>	<u>504</u>

MeadowView Conference Resort and Convention Center Bonds issued April 25, 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>
2008	\$ <u>2,045</u>	<u>51</u>	<u>2,096</u>
	<u>\$ 2,045</u>	<u>51</u>	<u>2,096</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.

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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>	
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>\$ 1,089</u>	<u>1,736</u>	<u>2,825</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>
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>\$ 195</u>	<u>48</u>	<u>243</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 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>
2008	\$ 200	17	217
2009	<u>210</u>	<u>9</u>	<u>219</u>
	<u>\$ 410</u>	<u>26</u>	<u>436</u>

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>
2008	\$ <u>394</u>	<u>20</u>	<u>414</u>
	<u>\$ 394</u>	<u>20</u>	<u>414</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>
2008	\$ 140	17	157
2009	145	12	157
2010	<u>150</u>	<u>6</u>	<u>156</u>
	<u>\$ 435</u>	<u>35</u>	<u>470</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)**

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>
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>\$ 2,075</u>	<u>487</u>	<u>2,562</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>
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>\$ 1,075</u>	<u>260</u>	<u>1,335</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>
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>991</u>	<u>5,118</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>
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>571</u>	<u>2,771</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 Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows for the Water portion:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,430</u>	<u>374</u>	<u>1,804</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 45	32	77
2009	45	30	75
2010	50	28	78
2011	50	26	76
2012	50	25	75
2013	55	23	78
2014	55	21	76
2015	55	18	73
2016	60	15	75
2017	70	12	82
2018	75	10	85
2019	70	8	78
2020	70	5	75
2021	<u>75</u>	<u>3</u>	<u>78</u>
	<u>\$ 825</u>	<u>256</u>	<u>1,081</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 Bonds, Series 2006, issued December 20, 2006, debt service requirements to maturity are as follows for the Water portion:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 10	15	25
2009	11	13	24
2010	12	12	24
2011	12	12	24
2012	12	11	23
2013	13	11	24
2014	13	10	23
2015	14	10	24
2016	15	9	24
2017	15	8	23
2018	19	8	27
2019	19	7	26
2020	19	6	25
2021	19	5	24
2022	19	5	24
2023	19	4	23
2024	19	2	21
2025	19	2	21
2026	19	1	20
2027	<u>18</u>	<u>1</u>	<u>19</u>
	<u>\$ 316</u>	<u>152</u>	<u>468</u>

Sewer 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>
2008	\$ 465	10	475
	<u>\$ 465</u>	<u>10</u>	<u>475</u>

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**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 Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 225	19	244
2009	<u>235</u>	<u>10</u>	<u>245</u>
	<u>\$ 460</u>	<u>29</u>	<u>489</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 Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ <u>665</u>	<u>33</u>	<u>698</u>
	<u>\$ 665</u>	<u>33</u>	<u>698</u>

The Sewer System Improvement Bonds, Series 2000, issued November 21, 2000, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ <u>45</u>	<u>2</u>	<u>47</u>
	<u>\$ 45</u>	<u>2</u>	<u>47</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 185	23	208
2009	190	16	206
2010	<u>200</u>	<u>8</u>	<u>208</u>
	<u>\$ 575</u>	<u>47</u>	<u>622</u>

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

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

**Bonds Payable (continued)**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 4,010</u>	<u>948</u>	<u>4,958</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>
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>\$ 3,760</u>	<u>913</u>	<u>4,673</u>

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

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

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax 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>
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>\$ 11,353</u>	<u>2,722</u>	<u>14,075</u>

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>
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>782</u>	<u>3,792</u>

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

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

**Bonds Payable (continued)**

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 Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 5,520</u>	<u>1,440</u>	<u>6,960</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 215	150	365
2009	225	142	367
2010	230	134	364
2011	240	125	365
2012	250	117	367
2013	255	107	362
2014	270	98	368
2015	285	84	369
2016	295	70	365
2017	305	55	360
2018	310	46	356
2019	325	36	361
2020	340	27	367
2021	<u>350</u>	<u>14</u>	<u>364</u>
	<u>\$ 3,895</u>	<u>1,205</u>	<u>5,100</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

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

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

**Bonds Payable (continued)**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 41	64	105
2009	49	55	104
2010	53	54	107
2011	53	50	103
2012	53	49	102
2013	57	45	102
2014	57	43	100
2015	61	40	101
2016	65	38	103
2017	65	34	99
2018	81	32	113
2019	81	29	110
2020	81	26	107
2021	81	23	104
2022	81	20	101
2023	81	16	97
2024	81	13	94
2025	81	10	91
2026	81	7	88
2027	81	2	83
	<u>\$ 1,364</u>	<u>650</u>	<u>2,014</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Bonds Payable (continued)**

Total annual debt service requirements for enterprise fund bonds, excluding the estimated principal requirements on the TMBF bonds totaling \$2,825 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 6,916	2,112	9,028
2009	4,552	1,888	6,440
2010	4,748	1,699	6,447
2011	4,954	1,496	6,450
2012	5,155	1,286	6,441
Next Five Years	20,068	3,204	23,272
Next Five Years	4,141	429	4,570
Next Five Years	499	58	557
	<u>\$ 51,033</u>	<u>12,172</u>	<u>63,205</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,219 and the net premiums and discounts of (\$1,794).

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental activities:</b>					
General Obligation Debt	\$ 38,931	32,680	8,130	63,481	7,834
Less: deferred amounts for refunding	(941)	-	(67)	(874)	-
Plus: premiums and discounts	<u>468</u>	<u>-</u>	<u>34</u>	<u>434</u>	<u>-</u>
Total Bonds Payable	38,458	32,680	8,097	63,041	7,834
Compensated Absences	2,755	9,542	9,533	2,764	128
Interlocal Cooperative Agreement	-	2,500	-	2,500	500
Capital Outlay Note	-	1,600	-	1,600	-
Notes Payable-State	<u>3,932</u>	<u>1,129</u>	<u>359</u>	<u>4,702</u>	<u>357</u>
Totals	<u>\$ 45,145</u>	<u>47,451</u>	<u>17,989</u>	<u>74,607</u>	<u>8,819</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

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

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>One Year</u>
<b>Business-type activities:</b>					
General Obligation Debt	\$ 20,473	-	6,404	14,069	4,401
Water and Sewer Revenue and Tax Bonds	40,040	1,680	1,931	39,789	2,515
Less: deferred amounts for refunding	(1,510)	-	(296)	(1,214)	-
Plus: Premiums and discounts	<u>2,034</u>	<u>-</u>	<u>240</u>	<u>1,794</u>	<u>-</u>
Total Bonds Payable	61,037	1,680	8,283	54,438	6,916
Compensated Absences	456	465	447	474	474
State Revolving Notes	<u>5,830</u>	<u>-</u>	<u>407</u>	<u>5,423</u>	<u>401</u>
Totals	\$ <u>67,323</u>	<u>2,145</u>	<u>9,137</u>	<u>60,335</u>	<u>7,791</u>

**F. Closure and postclosure costs**

The City operates a demolition landfill with a remaining life of approximately 30 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 for the period ended November 2005 for workers' compensation. At June 30, 2006, 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, 2006, this figure was estimated to be \$2,070. An additional actuarial study for workers' compensation was conducted for the period ended September 2007, and at June 30, 2007, the City concluded that this figure is not materially different from figures calculated on the November 2005 study; therefore, the existing reservation was not adjusted. The City carries additional coverage for public officials and other employees through U.S. Fidelity and Guarantee, Travelers and Western Surety insurance companies and property insurance through Hartford, Travelers and Continental Casualty insurance companies. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last four years, which were not covered by insurance.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(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 United Healthcare of the River Valley. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. An actuarial study was conducted through October 2005. An actuarial study will be performed for fiscal year 2008 and biennially thereafter. 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, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Claims Accrued, Beginning	\$ 208	160
Claims Incurred	921	909
Claims Paid	<u>(857)</u>	<u>(861)</u>
Claims Accrued, Ending	\$ <u>272</u>	<u>208</u>

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2007.

**B. Subsequent Events**

In May 2007, the City was approved for a no interest "Energy Loan" from the State of Tennessee in the amount of \$475. The City's BMA declared the proceeds of the loan are to be used for efficiency improvements to the City's Justice Center, City Hall and Renaissance Center buildings. The loan proceeds were received in September 2007. Annual repayments are scheduled from July 2008 to July 2014.

The Tennessee Department of Environment and Conservation approved the City for a "State Revolving Fund" loan in the amount of \$20,000 in March 2007. The proceeds from this loan are designated for upgrades to the Waste Water Treatment facility. This loan is payable over 20 years. The City had not received any proceeds of the loan as of June 30, 2007.

The Tennessee Department of Environment and Conservation approved the City for a "State Revolving Fund" loan in the amount of \$2,850 in July 2007. The proceeds from this loan are designated for West Kingsport Sewer System Replacement projects. This loan is payable over 15 years. The City had not received any proceeds of the loan as of June 30, 2007.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
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**5. OTHER INFORMATION (CONTINUED):**

**B. Subsequent Events (continued)**

In October 2007, the City entered into an agreement with the Kingsport Industrial Development Board (IDBK) to purchase the Allied Health Building at a cost which is not to exceed \$4,800. The building, which is being constructed on land donated by the City to IDBK for use with the Allied Health project, is being constructed by IDBK to house select local public, and private, college medical and health education programs. This agreement is contingent on the building being available for occupancy on, or before, August 2008. In August 2007, the City obtained \$4,000 of the purchase price from issuing 3-year maturity, "General Obligation Capital Outlay Notes, Second Series 2007", bearing interest at 4.10%. Due to the involvement of a private college, the additional purchase price of the Allied Health Building is required to come from "non-bond" related funds.

**C. Contingencies**

**Primary government**

The City has recorded an estimated arbitrage rebate liability in the water, sewer, and solid waste management funds. The bond issues, through 2003, have been independently reviewed and it has been determined that no arbitrage rebate liability exists for those years. At June 30, 2007, the water fund, sewer, and solid waste funds had arbitrage rebate liabilities recorded of \$73, \$272, and \$13, respectively. These arbitrage rebate liabilities are not directly related to any bond issue; however, are recorded in anticipation of future liabilities.

The City attorney advises that there are no known cases pending against the City, which would not be covered by insurance. The City has entered into several construction contracts in the various funds, which were not completed at year-end. To account for these liabilities, the City 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.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

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

**C. Contingencies (continued)**

**Primary government (continued)**

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 \$20,000. 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 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.

Beginning in 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$2,500 Revenue Bond, Series 2005, of which, the City is contingently liable for 31%, or \$775. During May 2007, SCEDP issued an additional \$6,500 Revenue Bond, of which the City is contingently liable for \$2,015. Both bond issue 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, 2007, \$8,910 was outstanding on these bonds.

**Discretely presented component unit**

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, 2007, \$5,995 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 United Healthcare of the River Valley as part of the City's change to self-insurance at January 1, 2004. As of June 30, 2007, there were approximately 72 City retirees receiving post-employment health care benefits. For the year ended June 30, 2007, approximately \$794 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, 2007  
(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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding policy**

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

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2007 was 16.36% 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, 2007  
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**5. OTHER INFORMATION (CONTINUED):**

**E. Pension plan (continued)**

**Annual pension cost**

For the year ending June 30, 2007, the City's annual pension cost of \$5,215 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2005 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, 2005 was 18 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$5,215	100.00%	-
June 30, 2006	4,146	100.00%	-
June 30, 2005	4,072	100.00%	-

**Required supplementary information**

**Schedule of Funding Progress for Kingsport**

<u>Actuarial Valuation Date</u>	(a) <u>Actuarial Value of Assets</u>	(b) <u>Actuarial Accrued Liability (AAL)</u>	(b) - (a) <u>Unfunded AAL (UAAL)</u>	(a/b) <u>Funded Ratio</u>	(c) <u>Covered Payroll</u>	((b-a)/c) <u>UAAL as a % of Covered Payroll</u>
July 01, 2005	\$ 104,770	129,058	24,288	81.18%	30,278	80.22%
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%

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

**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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding policy**

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2007 was 6.13% 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, 2007, 2006, and 2005 were \$1,701, \$1,458 and \$1,412, respectively, equal to the required contributions for each year.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(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, 2007 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,941
Operating Expenses	(5,415)
Depreciation	(2,730)
Amortization	(14)
Other Income	558
Capital Contributions	<u>3,067</u>
Change in Net Assets	1,407
Net Assets, July 1	<u>45,751</u>
Net Assets, June 30	<u>\$ 47,158</u>
Total Assets	\$ 56,782
Total Liabilities	(9,624)
Total Net Assets	<u>\$ 47,158</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2007  
(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	\$ 521
20% interest in capital of Phipps Bend Joint Venture	<u>161</u>
Total Investment	\$ <u>682</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, 2006 and 2005, the taxes assessed on the above mentioned taxpayer accounted for approximately 29% and 28%, respectively, of total property taxes assessed.

**H. Prior Period Adjustments**

Compensated absences:

General fund	\$ 189
General purpose school fund	<u>352</u>
Total prior period adjustment	\$ <u>541</u>

The compensated absences in the General fund was decreased in the current year in the amount of \$189 and decreased by \$352 in the general purpose school fund in order to reflect the liability for the unpaid balance of reimbursable leave, which is reflected in the government-wide financial statements.

CITY OF KINGSPORT, TENNESSEE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2007  
 (amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Allandale Trust Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Permanent Fund			
<b>ASSETS:</b>										
Cash in Bank	-	483	6	-	-	1,080	1,569	-	1,569	
Equity in Pooled Cash and Investments	-	1,007	178	1	949	-	2,135	13	2,148	
Long-Term Certificates of Deposit	-	-	-	-	-	211	211	150	361	
Investments	-	-	16	-	842	62	920	5	925	
Due from Other Governments	36	22	-	506	510	899	1,973	-	1,973	
Inventories	-	-	-	-	-	104	104	-	104	
<b>Total Assets</b>	<b>36</b>	<b>1,512</b>	<b>200</b>	<b>507</b>	<b>2,301</b>	<b>2,356</b>	<b>6,912</b>	<b>168</b>	<b>7,080</b>	

**LIABILITIES AND FUND BALANCES:**

<b>Liabilities:</b>									
Accounts Payable	19	12	-	142	6	32	211	-	211
Compensated Absences Payable	-	-	-	-	-	14	14	-	14
Due to Other Funds	13	-	-	143	1,069	891	2,116	-	2,116
Deferred Revenue	-	-	-	-	-	29	29	-	29
<b>Total Liabilities</b>	<b>32</b>	<b>12</b>	<b>-</b>	<b>285</b>	<b>1,075</b>	<b>966</b>	<b>2,370</b>	<b>-</b>	<b>2,370</b>
<b>Fund Balances:</b>									
Reserved for Encumbrances	64	187	13	98	4	42	408	-	408
Reserved for Inventories	-	-	-	-	-	104	104	-	104
Reserved for Perpetual Care	-	-	-	-	-	-	-	162	162
Reserved for Banquet Fund	-	-	-	-	-	48	48	-	48
Reserved for Projects	-	-	15	-	143	-	158	-	158
Unreserved, Undesignated	(60)	1,313	172	124	1,079	1,196	3,824	6	3,830
<b>Total Fund Balances</b>	<b>4</b>	<b>1,500</b>	<b>200</b>	<b>222</b>	<b>1,226</b>	<b>1,390</b>	<b>4,542</b>	<b>168</b>	<b>4,710</b>
<b>Total Liabilities and Fund Balances</b>	<b>36</b>	<b>1,512</b>	<b>200</b>	<b>507</b>	<b>2,301</b>	<b>2,356</b>	<b>6,912</b>	<b>168</b>	<b>7,080</b>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Allendale Trust Fund			
<b>REVENUES:</b>										
Federal Government	\$ 480	206	89	395	-	5,185	6,355	-	6,355	
State Government	-	6	-	1,863	3,215	817	5,901	-	5,901	
Charges for Services	-	-	-	97	21	1,495	1,613	6	1,619	
Fines and Forfeitures	-	-	108	-	-	-	108	-	108	
Investment Earnings	-	-	2	-	67	14	83	-	83	
Contributions and Donations	-	27	-	-	21	53	101	-	101	
<b>Total Revenues</b>	<b>480</b>	<b>239</b>	<b>199</b>	<b>2,355</b>	<b>3,324</b>	<b>7,564</b>	<b>14,161</b>	<b>6</b>	<b>14,167</b>	
<b>EXPENDITURES:</b>										
General and Administrative	-	1,024	1	-	-	-	1,025	-	1,025	
School Food Service	-	-	-	-	-	2,679	2,679	-	2,679	
School Federal Projects	-	-	-	-	-	3,435	3,435	-	3,435	
Economic and Physical Development	470	-	-	-	-	-	470	-	470	
Public Safety	-	-	155	-	-	-	155	-	155	
Highway Transportation Planning	-	-	-	2,820	-	-	2,820	-	2,820	
Culture and Recreation	-	-	-	-	44	-	44	-	44	
Education	-	-	-	-	-	1,410	1,410	-	1,410	
Capital Outlay	-	172	40	229	-	223	664	-	664	
<b>Total Expenditures</b>	<b>470</b>	<b>1,196</b>	<b>196</b>	<b>3,049</b>	<b>44</b>	<b>7,747</b>	<b>12,702</b>	<b>-</b>	<b>12,702</b>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	10	(957)	3	(694)	3,280	(183)	1,459	6	1,465	
<b>OTHER FINANCING SOURCES (USES):</b>										
Transfers	-	2,222	-	706	(4,045)	398	(719)	-	(719)	
Net Change in Fund Balances	10	1,265	3	12	(765)	215	740	6	746	
Fund Balances, July 1, 2006	(6)	235	197	210	1,991	1,175	3,802	162	3,964	
Fund Balances, June 30, 2007	\$ 4	\$ 1,500	200	222	1,226	1,390	4,542	168	4,710	

See Independent Auditors' Report.

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

June 30, 2007

(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
<u>ASSETS:</u>				
Cash in Bank	\$ -	6	-	6
Equity in Pooled Cash and Investments	83	91	4	178
Investments	16	-	-	16
	99	97	4	200
<u>TOTAL ASSETS</u>	99	97	4	200
<u>FUND BALANCES:</u>				
Reserved for Encumbrances	-	13	-	13
Reserved for Projects	15	-	-	15
Unreserved, Undesignated	84	84	4	172
	99	97	4	200
<u>TOTAL FUND BALANCES</u>	99	97	4	200

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
<u>REVENUES:</u>				
Federal Government	\$ 63	-	26	89
Fines and Forfeitures	-	108	-	108
Investment Earnings	2	-	-	2
Total Revenues	<u>65</u>	<u>108</u>	<u>26</u>	<u>199</u>
<u>EXPENDITURES:</u>				
General and Administrative	-	1	-	1
Public Safety	4	89	62	155
Capital Outlay	17	23	-	40
Total Expenditures	<u>21</u>	<u>113</u>	<u>62</u>	<u>196</u>
Net Change in Fund Balances	44	(5)	(36)	3
Fund Balance, July 1, 2006	<u>55</u>	<u>102</u>	<u>40</u>	<u>197</u>
Fund Balance, June 30, 2007	<u>\$ 99</u>	<u>97</u>	<u>4</u>	<u>200</u>

See Independent Auditors' Report.

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

June 30, 2007

(amounts expressed in thousands)

<u>ASSETS:</u>	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
Equity in Pooled Cash and Investments	\$ 1	-	-	1
Due from Other Governments	182	104	220	506
Total Assets	183	104	220	507

LIABILITIES AND FUND BALANCES:

<u>Liabilities:</u>				
Accounts Payable	5	3	134	142
Due to Other Funds	57	82	4	143
Total Liabilities	62	85	138	285

Fund Balances:

Reserved for Encumbrances	16	2	80	98
Unreserved, Undesignated	105	17	2	124
Total Fund Balances	121	19	82	222
Total Liabilities and Fund Balances	\$ 183	104	220	507

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>REVENUES:</u>				
Federal Government	395	-	-	395
State Government	376	220	1,267	1,863
Charges for Services	97	-	-	97
Total Revenues	<u>868</u>	<u>220</u>	<u>1,267</u>	<u>2,355</u>
<u>EXPENDITURES:</u>				
Highway Transportation Planning	833	268	1,719	2,820
Capital Outlay	229	-	-	229
Total Expenditures	<u>1,062</u>	<u>268</u>	<u>1,719</u>	<u>3,049</u>
Deficiency of Revenues Under Expenditures	(194)	(48)	(452)	(694)
<u>OTHER FINANCING SOURCES -</u>				
Transfers	197	57	452	706
Net Change in Fund Balances	3	9	-	12
Fund Balance, July 1, 2006	118	10	82	210
Fund Balance, June 30, 2007	<u>\$ 121</u>	<u>19</u>	<u>82</u>	<u>222</u>

See Independent Auditors' Report.

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

June 30, 2007

(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	\$ 752	192	-	-	-	5	949
Investments	709	-	18	12	75	28	842
Due from Other Governments	510	-	-	-	-	-	510
Total Assets	<u>1,971</u>	<u>192</u>	<u>18</u>	<u>12</u>	<u>75</u>	<u>33</u>	<u>2,301</u>
<u>LIABILITIES AND FUND BALANCES:</u>							
<u>Liabilities:</u>							
Accounts Payable	-	-	-	-	-	6	6
Due to Other Funds	1,069	-	-	-	-	-	1,069
Total Liabilities	<u>1,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>1,075</u>
<u>Fund Balances:</u>							
Reserve for Encumbrances	-	-	-	-	-	4	4
Reserved for Projects	-	143	-	-	-	-	143
Unreserved, Undesignated	902	49	18	12	75	23	1,079
Total Fund Balances	<u>902</u>	<u>192</u>	<u>18</u>	<u>12</u>	<u>75</u>	<u>27</u>	<u>1,226</u>
Total Liabilities and Fund Balances	<u>\$ 1,971</u>	<u>192</u>	<u>18</u>	<u>12</u>	<u>75</u>	<u>33</u>	<u>2,301</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, 2007  
(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	\$ 3,215	-	-	-	-	-	3,215
Charges for Services	-	-	-	-	-	21	21
Investment Earnings	56	-	1	2	6	2	67
Contributions and Donations	-	-	-	-	18	3	21
Total Revenues	3,271	-	1	2	24	26	3,324
<u>EXPENDITURES -</u>							
Culture and Recreation	-	-	-	13	8	23	44
Total Expenditures	-	-	-	13	8	23	44
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,271	-	1	(11)	16	3	3,280
<u>OTHER FINANCING USES -</u>							
Transfers	(4,014)	26	-	-	(57)	-	(4,045)
Net Change in Fund Balances	(743)	26	1	(11)	(41)	3	(765)
Fund Balance, July 1, 2006	1,645	166	17	23	116	24	1,991
Fund Balance, June 30, 2007	\$ 902	192	18	12	75	27	1,226

See Independent Auditors' Report.

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

June 30, 2007

(amounts expressed in thousands)

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
<u>ASSETS:</u>					
Cash in Bank	\$ 1,080	-	-	-	1,080
Long-Term Certificates of Deposit	211	-	-	-	211
Investments	-	-	-	62	62
Due from Other Governments	-	310	589	-	899
Inventories	104	-	-	-	104
Total Assets	<u>1,395</u>	<u>310</u>	<u>589</u>	<u>62</u>	<u>2,356</u>

LIABILITIES AND FUND BALANCES:

<u>Liabilities:</u>					
Accounts Payable	-	18	14	-	32
Compensated Absences Payable	-	14	-	-	14
Due to Other Funds	33	281	577	-	891
Deferred Revenue	27	2	-	-	29
Total Liabilities	<u>60</u>	<u>315</u>	<u>591</u>	<u>-</u>	<u>966</u>
<u>Fund Balances:</u>					
Reserved for Encumbrances	-	41	1	-	42
Reserved for Inventories	104	-	-	-	104
Reserved for Banquet Fund	48	-	-	-	48
Unreserved, Undesignated	1,183	(46)	(3)	62	1,196
Total Fund Balances	<u>1,335</u>	<u>(5)</u>	<u>(2)</u>	<u>62</u>	<u>1,390</u>
Total Liabilities and Fund Balances	<u>\$ 1,395</u>	<u>310</u>	<u>589</u>	<u>62</u>	<u>2,356</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
<u>REVENUES:</u>					
Federal Government	\$ 1,328	301	3,556	-	5,185
State Government	28	789	-	-	817
Charges for Services	1,485	10	-	-	1,495
Investment Earnings	10	-	-	4	14
Contributions and Donations	53	-	-	-	53
Total Revenues	<u>2,904</u>	<u>1,100</u>	<u>3,556</u>	<u>4</u>	<u>7,564</u>
<u>EXPENDITURES:</u>					
School Food Service	2,679	-	-	-	2,679
School Federal Projects	-	-	3,435	-	3,435
Education	-	1,410	-	-	1,410
Capital Outlay	-	93	130	-	223
Total Expenditures	<u>2,679</u>	<u>1,503</u>	<u>3,565</u>	<u>-</u>	<u>7,747</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	225	(403)	(9)	4	(183)
<u>OTHER FINANCING SOURCES -</u>					
Transfers	-	398	-	-	398
Net Change in Fund Balances	225	(5)	(9)	4	215
Fund Balance, July 1, 2006	1,110	-	7	58	1,175
Fund Balance, June 30, 2007	<u>\$ 1,335</u>	<u>(5)</u>	<u>(2)</u>	<u>62</u>	<u>1,390</u>

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, 2007  
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>REVENUES:</u>				
Federal Government	\$ -	-	63	63
Investment Earnings	-	-	2	2
Contributions and Donations	8	29	-	(29)
<b>Total Revenues</b>	<b>8</b>	<b>29</b>	<b>65</b>	<b>36</b>
<u>EXPENDITURES:</u>				
Public Safety	8	12	4	8
Capital Outlay	-	17	17	-
<b>Total Expenditures</b>	<b>8</b>	<b>29</b>	<b>21</b>	<b>8</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>44</b>
<b>Fund Balance, July 1, 2006</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>-</b>
<b>Fund Balance, June 30, 2007</b>	<b>\$ 55</b>	<b>55</b>	<b>99</b>	<b>44</b>

CITY OF KINGSPORT, TENNESSEE  
DRUG FUND

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

For the Year Ended June 30, 2007

(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>REVENUES:</u>				
Fines and Forfeitures	\$ 60	100	108	8
Contributions and Donations	-	30	-	(30)
Total Revenues	60	130	108	(22)
<u>EXPENDITURES:</u>				
General and Administrative	2	2	1	1
Public Safety	58	104	89	15
Capital Outlay	-	24	23	1
Total Expenditures	60	130	113	17
Net Change in Fund Balance	-	-	(5)	(5)
Fund Balance, July 1, 2006	102	102	102	-
Fund Balance, June 30, 2007	\$ 102	102	97	(5)

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, 2007  
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Final Budget -</u>
		<u>Amounts</u>	<u>Positive</u>
			<u>(Negative)</u>
<u>REVENUES -</u>			
State Government	\$ 1,299	1,267	(32)
Total Revenues	<u>1,299</u>	<u>1,267</u>	<u>(32)</u>
<u>EXPENDITURES:</u>			
Highway Transportation Planning	2,048	1,719	331
Capital Outlay	10	8	8
Total Expenditures	<u>2,058</u>	<u>1,719</u>	<u>339</u>
Deficiency of Revenues Under Expenditures	<u>(759)</u>	<u>(759)</u>	<u>307</u>
<u>OTHER FINANCING SOURCES -</u>			
Transfers In	759	452	(307)
Total Other Financing Sources	<u>759</u>	<u>452</u>	<u>(307)</u>
Net Change in Fund Balance	-	-	-
Fund Balance, July 1, 2006	82	82	-
Fund Balance, June 30, 2007	<u>\$ 82</u>	<u>82</u>	<u>-</u>

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, 2007  
(amounts expressed in thousands)

	Budgeted Amounts	Actual	Variance with
	Original	Final	Final Budget -
		Amounts	Positive
			(Negative)
<u>REVENUES:</u>			
State Government	\$ 3,130	3,130	85
Investment Earnings	52	52	4
	3,182	3,182	89
<u>OTHER FINANCING USES -</u>			
Transfers Out	(4,330)	(3,182)	(832)
	(4,330)	(3,182)	(832)
Total Other Financing Uses	(1,148)	-	(743)
Net Change in Fund Balance			
Fund Balance, July 1, 2006	1,645	1,645	-
Fund Balance, June 30, 2007	\$ 497	1,645	902
			(743)

CITY OF KINGSFORT, TENNESSEE  
EASTMAN ANNEX TAX FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Budgeted Amounts	Actual	Variance with
	Original	Final	Final Budget -
		Amounts	Positive
			(Negative)
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In	\$ 1,817	1,586	(35)
Transfers Out	(1,817)	(1,525)	61
	-	26	26
Total Other Financing Sources (Uses)			
Net Change in Fund Balance	-	26	26
Fund Balance, July 1, 2006	166	166	-
Fund Balance, June 30, 2007	\$ 166	192	26

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(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
Net Change in Fund Balance	-	1	1
Fund Balance, July 1, 2006	<u>17</u>	<u>17</u>	<u>-</u>
Fund Balance, June 30, 2007	<u>\$ 17</u>	<u>18</u>	<u>1</u>

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, 2007  
 (amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>REVENUES:</u>				
Investment Earnings	\$ 1	1	2	1
Contributions and Donations	-	4	-	(4)
<u>Total Revenues</u>	<u>1</u>	<u>5</u>	<u>2</u>	<u>(3)</u>
<u>EXPENDITURES -</u>				
Culture and Recreation	1	28	13	15
<u>Total Expenditures</u>	<u>1</u>	<u>28</u>	<u>13</u>	<u>15</u>
<u>Net Change in Fund Balance</u>	<u>-</u>	<u>(23)</u>	<u>(11)</u>	<u>12</u>
Fund Balance, July 1, 2006	23	23	23	-
Fund Balance, June 30, 2007	<u>\$ 23</u>	<u>-</u>	<u>12</u>	<u>12</u>

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Investment Earnings	\$ 4	6	2
Contributions and Donations	30	18	(12)
Total Revenues	<u>34</u>	<u>24</u>	<u>(10)</u>
<u>EXPENDITURES -</u>			
Culture and Recreation	122	8	114
Total Expenditures	<u>122</u>	<u>8</u>	<u>114</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(88)</u>	<u>16</u>	<u>104</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In	100	-	(100)
Transfers Out	-	(57)	(57)
Total Other Financing Sources	<u>100</u>	<u>(57)</u>	<u>(157)</u>
Net Change in Fund Balance	12	(41)	(53)
Fund Balance, July 1, 2006	<u>116</u>	<u>116</u>	<u>-</u>
Fund Balance, June 30, 2007	<u>\$ 128</u>	<u>75</u>	<u>(53)</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, 2007  
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Charges for Services	\$ 65	21	(44)
Investment Earnings	-	2	2
Contributions and Donations	2	3	1
Total Revenues	67	26	(41)
<u>EXPENDITURES -</u>			
Culture and Recreation	67	23	44
Total Expenditures	67	23	44
Net Change in Fund Balance	-	3	3
Fund Balance, July 1, 2006	24	24	-
Fund Balance, June 30, 2007	\$ 24	27	3

See Independent Auditors' Report.

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, 2007  
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>REVENUES:</u>				
Federal Government	\$ 1,136	1,136	1,328	192
State Government	30	30	28	(2)
Charges for Services	1,545	1,411	1,485	74
Investment Earnings	4	4	10	6
Contributions and Donations	-	133	53	(80)
<b>Total Revenues</b>	<u>2,715</u>	<u>2,714</u>	<u>2,904</u>	<u>190</u>
<u>EXPENDITURES:</u>				
School Food Service	2,636	2,668	2,679	(11)
Capital Outlay	78	46	-	46
<b>Total Expenditures</b>	<u>2,714</u>	<u>2,714</u>	<u>2,679</u>	<u>35</u>
<b>Net Change in Fund Balance</b>	<u>1</u>	<u>-</u>	<u>225</u>	<u>225</u>
<b>Fund Balance, July 1, 2006</b>	<u>1,110</u>	<u>1,110</u>	<u>1,110</u>	<u>-</u>
<b>Fund Balance, June 30, 2007</b>	<u>\$ 1,111</u>	<u>1,110</u>	<u>1,335</u>	<u>225</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, 2007  
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 1	4	3
Total Revenues	1	4	3
<u>EXPENDITURES -</u>			
Capital Outlay	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	4	4
Fund Balance, July 1, 2006	58	58	-
Fund Balance, June 30, 2007	\$ 58	62	4

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, 2007  
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Charges for Services	\$ 6	6	-
Total Revenues	6	6	-
<u>EXPENDITURES -</u>			
General and Administrative	6	-	6
Total Expenditures	6	-	6
Net Change in Fund Balance	-	6	6
Fund Balance, July 1, 2006	162	162	-
Fund Balance, June 30, 2007	\$ 162	168	6

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2007  
(amounts expressed in thousands)

<u>ASSETS:</u>	<u>Fleet Operations &amp; Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<b>Current Assets:</b>				
Equity in Pooled Cash and Investments	\$ 2,050	3,103	2,640	7,793
Long-Term Certificates of Deposit	-	500	-	500
Accounts Receivable	2	-	5	7
Due from Other Funds	1,027	-	-	1,027
Inventories	366	-	-	366
Prepays	-	118	-	118
Total Current Assets	<u>3,445</u>	<u>3,721</u>	<u>2,645</u>	<u>9,811</u>
<b>Capital Assets:</b>				
Land	15	-	-	15
Machinery and Equipment	19,853	-	-	19,853
Less: Accumulated Depreciation	(13,394)	-	-	(13,394)
Total Capital Assets	<u>6,474</u>	<u>-</u>	<u>-</u>	<u>6,474</u>
<b>Other Assets -</b>				
Deposits	-	30	-	30
Total Other Assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
<b>Restricted Assets:</b>				
Cash in Bank	431	-	-	431
Investments	3,979	-	-	3,979
Total Restricted Assets	<u>4,410</u>	<u>-</u>	<u>-</u>	<u>4,410</u>
Total Assets	<u>14,329</u>	<u>3,751</u>	<u>2,645</u>	<u>20,725</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	169	141	9	319
Benefits Payable	-	272	900	1,172
Compensated Absences Payable	67	5	3	75
Total Current Liabilities	<u>236</u>	<u>418</u>	<u>912</u>	<u>1,566</u>
Total Liabilities	<u>236</u>	<u>418</u>	<u>912</u>	<u>1,566</u>
<b>NET ASSETS:</b>				
Invested in Capital Assets	6,474	-	-	6,474
Reserve for Encumbrances	1,166	-	-	1,166
Unrestricted	6,453	3,333	1,733	11,519
Total Net Assets	<u>\$ 14,093</u>	<u>3,333</u>	<u>1,733</u>	<u>19,159</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, 2007  
(amounts expressed in thousands)

	<u>Fleet Operations &amp; Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<u>OPERATING REVENUE -</u>				
Charges for Sales and Services	\$ 4,749	1,925	5,372	12,046
Total Operating Revenue	<u>4,749</u>	<u>1,925</u>	<u>5,372</u>	<u>12,046</u>
<u>OPERATING EXPENSES:</u>				
Personnel Services and Benefits	1,037	161	28	1,226
Materials and Supplies	2,299	5	2	2,306
Contractual Services	77	53	327	457
Insurance	2	347	257	606
Insurance Claims	-	1,242	4,925	6,167
Depreciation	1,259	-	-	1,259
Miscellaneous	44	-	-	44
Total Operating Expenses	<u>4,718</u>	<u>1,808</u>	<u>5,539</u>	<u>12,065</u>
Operating Income (Loss)	31	117	(167)	(19)
<u>NONOPERATING REVENUES:</u>				
Gain on Disposal of Capital Assets	6	-	-	6
Reimbursed Insured Loss	-	36	-	36
Investment Earnings	352	182	144	678
Change in Net Assets	389	335	(23)	701
Net Assets, July 1, 2006	<u>13,704</u>	<u>2,998</u>	<u>1,756</u>	<u>18,458</u>
Net Assets, June 30, 2007	<u>\$ 14,093</u>	<u>3,333</u>	<u>1,733</u>	<u>19,159</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2007  
(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	\$ 3,722	1,960	5,388	11,070
Payments to Suppliers	(2,358)	(1,561)	(5,502)	(9,421)
Payments to Employees	(1,037)	(99)	(25)	(1,161)
Net Cash Provided (Used) by Operating Activities	<u>327</u>	<u>300</u>	<u>(139)</u>	<u>488</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchases of Capital Assets	(2,055)	-	-	(2,055)
Proceeds from Sales of Capital Assets	39	-	-	39
Net Cash Used by Capital and Related Financing Activities	<u>(2,016)</u>	<u>-</u>	<u>-</u>	<u>(2,016)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Proceeds from Sales and Maturities of Investments	5,974	-	-	5,974
Purchase of Investments	(3,994)	-	-	(3,994)
Interest Received	352	182	143	677
Net Cash Provided by Investing Activities	<u>2,332</u>	<u>182</u>	<u>143</u>	<u>2,657</u>
Net Increase in Cash and Cash Equivalents	643	482	4	1,129
Cash and Cash Equivalents, July 1, 2006	<u>1,838</u>	<u>2,621</u>	<u>2,636</u>	<u>7,095</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 2,481</u>	<u>3,103</u>	<u>2,640</u>	<u>8,224</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>				
Operating Income (Loss)	\$ (996)	153	(167)	(1,010)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,259	-	-	1,259
(Increase) Decrease in Assets:				
Accounts Receivable	-	-	16	16
Inventories	(35)	-	-	(35)
Prepays	-	(1)	-	(1)
Increase (Decrease) in Liabilities:				
Accounts Payable	99	86	9	194
Benefits Payable	-	64	-	64
Compensated Absences Payable	-	(2)	3	1
Net Cash Provided (Used) by Operating Activities	<u>\$ 327</u>	<u>300</u>	<u>(139)</u>	<u>488</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	\$ 2,050	3,103	2,640	7,793
Restricted Assets - Cash in Bank	431	-	-	431
Cash and Cash Equivalents, June 30, 2007	<u>\$ 2,481</u>	<u>3,103</u>	<u>2,640</u>	<u>8,224</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2007  
(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	\$ 478	654
Payments to Suppliers	(5,939)	(357)
Net Cash Provided (Used) by Operating Activities	<u>(5,461)</u>	<u>297</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Transfer from Primary Government	<u>2,500</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,500</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Purchases of Capital Assets	-	(140)
Proceeds from Line of Credit	2,500	-
Grants	-	10
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>2,500</u>	<u>(130)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sales and Maturities of Investments	867	-
Purchases of Investments	(143)	-
Loss on Sale of Property	(15)	-
Interest Received	4	53
Net Cash Provided by Investing Activities	<u>713</u>	<u>53</u>
Net Increase (Decrease) in Cash and Cash Equivalents	252	220
Cash and Cash Equivalents, July 1, 2006	<u>200</u>	<u>1,249</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 452</u>	<u>1,469</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u>		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (2,680)	235
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4	75
(Increase) Decrease in Assets:		
Accounts Receivable	19	-
Due from Other Governments	-	(19)
Due from Primary Government	(2,500)	-
Land Held for Sale or Development	(257)	-
Prepaid Items	-	5
Increase (Decrease) in Liabilities:		
Accounts Payable	(67)	1
Other Payables	20	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,461)</u>	<u>297</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULES BY SOURCE  
June 30, 2007 and 2006  
 (amounts expressed in thousands)

	2007	2006
<u>Governmental Funds Capital Assets:</u>		
Land	\$ 13,289	12,216
Buildings	90,885	90,335
Improvements other than Buildings	10,578	10,251
Equipment	12,482	12,035
Software	283	223
Infrastructure	257,690	257,197
Construction in Progress	38,487	38,610
Total Governmental Funds Capital Assets	423,694	420,867
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Obligation Bonds	320,622	320,663
Contributions from Municipalities	577	577
Federal Grants	4,942	4,724
State Grants	286	286
County Grants	64	64
Federal Revenue Sharing	261	261
General Fund Revenue	15,726	14,722
Gifts	9,500	7,854
Forfeitures	35	9
Special Revenue Funds	29,400	29,321
Operating Revenue	3,682	3,664
Capital Lease Purchase	111	111
Notes Payable	1	1
Construction in Progress	38,487	38,610
Total Governmental Funds Capital Assets	\$ 423,694	420,867

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

See Independent Auditors' Report.

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

June 30, 2007

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than			Software	Infrastructure	Construction in Progress	Total
			Buildings	Equipment	Buildings				
<u>General Government:</u>									
General Government	\$ 4,315	2,213	292	98	27	-	805	7,750	
City Manager	-	-	21	-	-	-	-	21	
Finance	-	-	-	48	5	-	-	53	
Information Services	-	-	-	1,365	-	-	-	1,365	
Geographic Information	-	-	-	124	9	-	-	133	
<b>Total General Government</b>	<b>4,315</b>	<b>2,213</b>	<b>313</b>	<b>1,635</b>	<b>41</b>	<b>-</b>	<b>805</b>	<b>9,322</b>	
<u>Economic and Physical Development:</u>									
Development Services	-	651	46	35	-	-	6	738	
Transportation	-	638	41	1,238	64	-	-	1,981	
Engineering	-	-	-	39	-	-	-	39	
<b>Total Economic and Physical Development</b>	<b>-</b>	<b>1,289</b>	<b>87</b>	<b>1,312</b>	<b>64</b>	<b>-</b>	<b>6</b>	<b>2,758</b>	
<u>Public Safety:</u>									
Police	91	4,411	59	836	23	-	-	5,420	
Fire	456	2,139	216	776	-	-	39	3,626	
Communication	-	67	-	66	-	-	-	133	
Central Dispatch	-	-	78	2,169	-	-	-	2,247	
<b>Total Public Safety</b>	<b>547</b>	<b>6,617</b>	<b>353</b>	<b>3,847</b>	<b>23</b>	<b>-</b>	<b>39</b>	<b>11,426</b>	

(Continued)

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

June 30, 2007

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than			Equipment	Software	Infrastructure	Construction in Progress	Total
			Buildings	Buildings	Buildings					
<u>Public Works:</u>										
General and Administrative	-	315	5	33	-	-	342	-	-	695
Sanitation	-	-	-	14	-	-	-	-	-	14
Streets	-	-	1,006	188	-	-	2,655	1,861	-	5,710
Maintenance	-	-	-	210	-	-	-	-	-	210
Bridges System	-	-	-	-	-	-	6,206	772	-	6,978
Highways System	-	-	-	-	-	-	244,065	-	-	244,065
<b>Total Public Works</b>	<b>-</b>	<b>315</b>	<b>1,011</b>	<b>445</b>	<b>-</b>	<b>-</b>	<b>253,268</b>	<b>2,633</b>	<b>-</b>	<b>257,672</b>
<u>Culture and Recreation:</u>										
Senior Citizens	-	3,872	-	7	-	-	-	-	-	3,879
Recreation	4,611	7,564	2,076	440	-	-	-	8,414	-	23,105
Bays Mountain	885	862	316	156	-	-	-	161	-	2,380
Allandale	502	345	160	269	-	-	-	-	-	1,276
Library	133	3,621	-	121	-	-	4,422	-	-	8,297
<b>Total Culture and Recreation</b>	<b>6,131</b>	<b>16,264</b>	<b>2,552</b>	<b>993</b>	<b>-</b>	<b>-</b>	<b>4,422</b>	<b>8,575</b>	<b>-</b>	<b>38,937</b>
<u>Education</u>	2,296	64,187	6,262	4,250	155	-	-	26,429	-	103,579
<b>Total Governmental Funds Capital Assets</b>	<b>\$ 13,289</b>	<b>90,885</b>	<b>10,578</b>	<b>12,482</b>	<b>283</b>	<b>-</b>	<b>257,690</b>	<b>38,487</b>	<b>-</b>	<b>423,694</b>

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

See Independent Auditors' Report.

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

For the Year Ended June 30, 2007  
(amounts expressed in thousands)

Function and Activity	Governmental Funds Capital Assets July 1, 2006	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2007
<b>General Government:</b>					
General Government	\$ 8,471	1,316	(548)	(1,489)	7,750
City Manager	21	-	-	-	21
Finance	36	17	-	-	53
Information Services	1,371	-	(6)	-	1,365
Geographic Information	122	11	-	-	133
Total General Government	<u>10,021</u>	<u>1,344</u>	<u>(554)</u>	<u>(1,489)</u>	<u>9,322</u>
<b>Economic and Physical Development:</b>					
Development Services	766	-	-	(28)	738
Transportation	2,229	106	(108)	(246)	1,981
Engineering	39	-	-	-	39
Total Economic and Physical Development	<u>3,034</u>	<u>106</u>	<u>(108)</u>	<u>(274)</u>	<u>2,758</u>
<b>Public Safety:</b>					
Police	5,325	130	(35)	-	5,420
Fire	3,803	307	(483)	(1)	3,626
Communication	133	-	-	-	133
Central Dispatch	2,247	-	-	-	2,247
Total Public Safety	<u>11,508</u>	<u>437</u>	<u>(518)</u>	<u>(1)</u>	<u>11,426</u>
<b>Public Works:</b>					
General and Administrative	695	-	-	-	695
Sanitation	14	-	-	-	14
Streets	7,689	1,307	(2,088)	(1,198)	5,710
Maintenance	98	152	(137)	97	210
Bridges System	6,871	108	-	(1)	6,978
Highways System	244,066	-	(784)	783	244,065
Total Public Works	<u>259,433</u>	<u>1,567</u>	<u>(3,009)</u>	<u>(319)</u>	<u>257,672</u>
<b>Culture and Recreation:</b>					
Senior Citizens	3,879	-	-	-	3,879
Recreation	22,389	434	-	282	23,105
Bays Mountain	1,987	399	-	(6)	2,380
Allandale	1,271	-	-	5	1,276
Library	8,306	-	(9)	-	8,297
Total Culture and Recreation	<u>37,832</u>	<u>833</u>	<u>(9)</u>	<u>281</u>	<u>38,937</u>
Education	<u>99,039</u>	<u>2,895</u>	<u>(157)</u>	<u>1,802</u>	<u>103,579</u>
Total Governmental Funds Capital Assets	<u>\$ 420,867</u>	<u>7,182</u>	<u>(4,355)</u>	<u>-</u>	<u>423,694</u>

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
ENTERPRISE FUNDS  
SCHEDULE OF OPERATING COSTS  
For the Year Ended June 30, 2007  
(amounts expressed in thousands)

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds
<b>General and Administrative:</b>						
Personnel Services	\$ 436	114	-	-	-	550
Supplies	5	1	-	-	-	6
Contractual Services	142	299	-	-	31	472
Accounting and Finance	122	32	35	7	38	234
Insurance	16	8	-	8	7	39
Subsidies and Contributions	32	9	-	22	-	63
Base Management Fee	-	-	-	105	30	135
Taxes and Permits	-	-	-	22	-	22
Other	292	-	-	1	22	315
<b>Total General and Administrative</b>	<b>1,045</b>	<b>463</b>	<b>35</b>	<b>165</b>	<b>128</b>	<b>1,836</b>
<b>Operations:</b>						
Personnel Services	848	782	-	-	-	1,630
Supplies	301	215	-	-	-	516
Contractual Services	411	454	207	326	112	1,510
Distribution System Maintenance	2,310	-	-	-	-	2,310
Collection System Maintenance	-	1,692	-	-	-	1,692
Reading, Service and Maintenance of Meters	820	-	-	-	-	820
Landfill Operations and Services	-	-	696	-	-	696
Waste Collection Services	-	-	534	-	-	534
Organic Refuse Services	-	-	2,485	-	-	2,485
Recycling Services	-	-	319	-	-	319
Golf Pro Shop	-	-	-	-	373	373
Golf Grounds	-	-	-	-	309	309
Food and Beverage	-	-	-	-	72	72
Utilities	-	-	-	-	34	34
<b>Total Operations</b>	<b>4,690</b>	<b>3,143</b>	<b>4,241</b>	<b>326</b>	<b>900</b>	<b>13,300</b>
<b>Total Operating Costs</b>	<b>\$ 5,735</b>	<b>3,606</b>	<b>4,276</b>	<b>491</b>	<b>1,028</b>	<b>15,136</b>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2007  
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2006	Cash Receipts	Expend- itures	Balance June 30, 2007
<u>SCHOOL NUTRITION SERVICES FUND:</u>						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (5)	1,361	1,356	-
10.553	School Breakfast Program	U.S. Department of Agriculture	-	-	-	-
Pass-Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	77	115	117	75 ***
Total School Nutrition Services Fund			<u>72</u>	<u>1,476</u>	<u>1,473</u>	<u>75</u>
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 07-01	U.S. Department of Education	-	1,240	1,495	(255) *
84.010	Title I, Project 05-01	U.S. Department of Education	-	-	-	-
84.010	Title I, Project 06-01, 06-21	U.S. Department of Education	(101)	192	91	-
84.027	IDEA Part B, 07-01	U.S. Department of Education	-	780	925	(145) *
84.027	IDEA Part B, 05-21	U.S. Department of Education	-	-	-	-
84.027	IDEA Part B, 06-01, 06-21	U.S. Department of Education	(162)	484	322	-
84.048	Carl Perkins, 2007	U.S. Department of Education	-	120	146	(26) *
84.048	Carl Perkins, 2006	U.S. Department of Education	(51)	75	24	-
84.173	Pre-School, 07-01	U.S. Department of Education	-	37	44	(7) *
84.298	Title V, 2007	U.S. Department of Education	-	-	4	(4) *
84.298	Title V, 2005	U.S. Department of Education	(7)	7	-	-
84.298	Title V, 2006	U.S. Department of Education	(6)	6	-	-
84.365	Title III, 2007	U.S. Department of Education	-	14	26	(12) *
84.365	Title III, 2006	U.S. Department of Education	(10)	10	-	-
84.367	Title II A, 05-01	U.S. Department of Education	-	-	-	-
84.367	Title II, 05-21	U.S. Department of Education	(45)	45	-	-
84.367	Title II, 06-01, 06-21	U.S. Department of Education	(105)	251	146	-
84.367	Title II, 07-01	U.S. Department of Education	-	142	271	(129) *
84.367	Title II D, 05-01	U.S. Department of Education	-	-	-	-
84.367	Title II D, 07-01	U.S. Department of Education	-	-	4	(4) *
84.367	Title II D, 06-01, 06-21	U.S. Department of Education	-	12	12	-
84.366	Title IV, 07-01	U.S. Department of Education	-	25	32	(7) *
84.366	Title IV, 06-01, 06-21	U.S. Department of Education	-	14	14	-
Total Public Law 93-380 Fund			<u>(487)</u>	<u>3,454</u>	<u>3,556</u>	<u>(589)</u>

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

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2007  
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
84.287	Community of Learners	U.S. Department of Education	(62)	295	233	-
Pass-Through Tennessee Department of Education:						
84.196	Education for Homeless Children & Youth	U.S. Department of Education	(9)	9	-	-
84.184	Safe Schools	U.S. Department of Education	(21)	35	14	-
84.938	Hurricane Relief	U.S. Department of Education	-	27	27	-
84.173	Pre-Kindergarten	U.S. Department of Education	(49)	266	217	-
83.318	Education for Tennessee Grant	U.S. Department of Education	(31)	71	40	-
84.360	Dropout Prevention Program	U.S. Department of Education	(2)	2	-	-
84.349	Early Childhood Program	U.S. Department of Education	(135)	268	133	-
84.349	Family Resource	U.S. Department of Education	(51)	106	55	-
93.556	Families First	U.S. Department of Health and Human Services	(5)	27	22	-
84.196	Homeless Assistance Grant	U.S. Department of Education	-	30	30	-
84.318	Ed Tech - Title II	U.S. Department of Education	(41)	42	1	-
Total Special School Projects Fund			(406)	1,178	772	-
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
97.044	FEMA EMW-2005-FG-01963 / Fire Prevention and Safety Grant	U.S. Department of Homeland Security	-	52	52	-
16.710	Universal Hiring Program / 2003 UMWX-0216	U.S. Department of Justice	-	24	24	-
Pass-through Community Capacity Development Office:						
16.595	Weed and Seed Program	U.S. Department of Justice	-	70	78	(8) *
Pass-through Tennessee Department of Agriculture:						
10.664	Tree Inventory Plan / Z-07-033312-00	U.S. Department of Agriculture / Forest Service	-	-	3	(3) *
Pass-through Tennessee Department of Transportation:						
20.600	Next Step / Z-07-035676-00	U.S. Department of Transportation	-	16	27	(11) *
20.601	High Visibility Campaign / Z-07-035853-00	U.S. Department of Transportation	-	5	5	-
20.600	Everyone Counts / DG-06-01961-00	U.S. Department of Transportation	-	17	17	-
Total Special Revenue General Projects Fund			-	184	206	(22)

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

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2007  
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2006	Cash Receipts	Expend- itures	Balance June 30, 2007
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of Housing and Urban Development	(88)	505	451	(34) *
Total Community Development Fund			(88)	505	451	(34)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X250	U.S. Department of Transportation	-	170	199	(29) *
20.507	FTA Capital/Operating/Planning TN-90-X218	U.S. Department of Transportation	(9)	9	-	-
20.507	FTA Capital/Operating/Planning TN-90-X235	U.S. Department of Transportation	(99)	184	197	(112) *
20.507	Capital Assistance, Section 5309	U.S. Department of Transportation	-	60	60	-
Total Federal Transit Administration Fund			(108)	423	456	(141)
<u>CAPITAL PROJECTS FUND:</u>						
Direct Programs:						
97.044	Federal Emergency Management Agency / EMW-2005-FP-01963	U.S. Department of Homeland Security	-	14	14	-
97.044	Federal Emergency Management Agency / EMW-2006-FG-15973	U.S. Department of Homeland Security	-	97	97	-
Pass-Through Tennessee Department of Transportation:						
20.219	Surface Transportation Program	U.S. Department of Transportation	(93)	24	-	(69) *
Total Capital Projects Fund			(93)	135	111	(69)
<u>SEWER FUND:</u>						
Pass-Through Tennessee Department of Agriculture:						
66.460	Mad Branch Watershed Development	Environmental Protection Agency	-	3	3	-
Total Sewer Fund			-	3	3	-
<u>GENERAL PURPOSE SCHOOL FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.002	Adult Basic Education	U.S. Department of Education	(35)	155	120	-
Total General Purpose School Fund			(35)	155	120	-

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

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2007  
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2006	Cash Receipts	Expend- itures	Balance June 30, 2007
<u>GENERAL FUND:</u>						
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	-	29	29	-
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(37)/Z-00-95857	Federal Highway Administration	-	41	41	-
Total General Fund			-	70	70	-
<u>JUSTICE ASSISTANCE GRANT FUND:</u>						
Direct Programs:						
16.579	Justice Assistance Grant / 2005-DJ-BX-0359	U.S. Department of Justice	40	(2)	38	-
16.579	Justice Assistance Grant / 2006-DJ-BX-0738	U.S. Department of Justice	-	29	25	4 **
Total Justice Assistance Grant Fund			40	27	63	4
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(195)	Federal Highway Administration	(2)	35	33	-
Pass-Through Tennessee Department of Transportation (Continued):						
20.205	FHWA Project No. SPR-PL-1-(210)	Federal Highway Administration	-	75	146	(71) *
20.207	FTA Capital/Operating/Planning Section 5303	U.S. Department of Transportation	-	3	26	(23) *
Pass-through Virginia Department of Transportation:						
20.205	FHWA Project VA PL Funds	Federal Highway Administration	-	-	4	(4) *
20.207	FTA Capital/Operating/Planning VA	U.S. Department of Transportation	-	2	5	(3) *
Total Metropolitan Planning Office Fund			(2)	115	214	(101)
Total Federal Awards			\$ (1,107)	7,725	7,495	(877)

NOTE A: BASIS OF PRESENTATION

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

NOTE B: FOOD DISTRIBUTION

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

\* Receivable    \*\* Unused Revenue    \*\*\* Inventory on Hand  
 See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 For the Year Ended June 30, 2007  
 (amounts expressed in thousands)

State Grant Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2006	Cash Receipts	Expenditures	Balance June 30, 2007
<b>GENERAL FUND:</b>						
N/A	KINGS-2000-OITH-11	First Tennessee Department District Area Agency on Aging	\$ -	27	30	(3) *
RC05075L	Kingsport Art and Sculpture Walk / VIN 0789-2373	Tennessee Arts Commission	-	2	2	-
Total General Fund			-	29	32	(3)
<b>METROPOLITAN PLANNING ORGANIZATION FUND:</b>						
GG-07-20627-00	Project TN-80-0001-01 / 82-5303-F3-005	Tennessee Department of Transportation	-	-	3	(3) *
Total Metropolitan Planning Organization Fund			-	-	3	(3)
<b>FEDERAL TRANSIT ADMINISTRATION FUND:</b>						
82UR0P-52-005	Project TN-90-X250 Capital/Operating/Planning	Tennessee Department of Transportation	-	27	68	(41) *
82UR0P-53-003	Project TN-90-X207 Capital	Tennessee Department of Transportation	-	93	93	-
82UR0P-52-005	Project TN-90-X207 Capital	Tennessee Department of Transportation	-	45	45	-
GG-02-09529-00	Section 5309 Capital Assistance	Tennessee Department of Transportation	-	7	7	-
GG-901-11375	Project TN-90-X218 Operating	Tennessee Department of Transportation	(5)	5	-	-
83UR0PS3-003	Project TN-90-X235 Capital/Operating	Tennessee Department of Transportation	(37)	37	-	-
83UR0P-52-005	Project TN-90-X235 Capital/Operating/Planning	Tennessee Department of Transportation	-	102	102	-
Total Federal Transit Administration Fund			(42)	316	315	(41)
<b>COMMUNITY DEVELOPMENT FUND:</b>						
Z-01-98335	Emergency Shelter Grant	Tennessee Department of Human Services	(14)	41	28	(1) *
Total Community Development Fund			(14)	41	28	(1)
<b>SPECIAL SCHOOL PROJECTS FUND:</b>						
GD7-ABX	One Room Drop in School 07	Tennessee Department of Education	-	70	70	-
GC-05-11308	One-Room Drop-In School 06	Tennessee Department of Education	(44)	47	3	-
GG-07-12671-00	Truancy Intervention Program 2007	Tennessee Department of Children's Services	-	71	71	-
GG-06-12006-00	Truancy Intervention Program 2006	Tennessee Department of Children's Services	(16)	18	2	-
Z-027714-00	LEAPS Program	Tennessee Department of Education	(27)	235	208	-
Total Special School Projects Fund			(87)	441	354	-
<b>CAPITAL PROJECTS FUND:</b>						
GG-05-11550-00	Bays Mountain Land Acquisition	Tennessee Department of Environment and Conservation	4	-	-	4 **
Total Capital Projects Fund			4	-	-	4
<b>SEWER FUND:</b>						
Pass-Through First Tennessee Development District:						
N/A	Tennessee Industrial Infrastructure Program	Tennessee Department of Economic and Community Development	(112)	112	-	-
Total Sewer Fund			(112)	112	-	-
Total State Awards			\$ (251)	939	732	(44)

\* Receivable \*\* Unused Revenue

See Independent Auditors' Report

# STATISTICAL SECTION

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

## **Contents:**

## **Page**

### **Financial Trends**

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

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### **Revenue Capacity**

*Tables 7 -10 contain information to help the reader assess the government's most significant local revenue source, the property tax.*

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### **Debt Capacity**

*Tables 11 - 15 present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.*

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### **Demographic and Economic Information**

*Tables 16 - 17 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.*

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### **Operating Information**

*Tables 18 - 26 contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.*

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

CITY OF KINGSFORT, TENNESSEE  
NET ASSETS BY COMPONENT  
FOR THE FISCAL YEARS NOTED  
 (accrual basis of accounting)  
 (amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
<b>Governmental Activities</b>						
Invested in Capital Assets, Net of Related Debt	\$ 234,544	235,345	236,295	236,125	245,201	244,856
Restricted	8,981	6,876	6,694	1,081	4,099	33,768
Unrestricted	37,305	39,600	38,668	50,500	38,707	9,145
<b>Total Governmental Activities Net Assets</b>	<b>\$ 280,830</b>	<b>281,821</b>	<b>281,657</b>	<b>287,706</b>	<b>288,007</b>	<b>287,769</b>
<b>Business-Type Activities</b>						
Invested in Capital Assets, Net of Related Debt	\$ 98,946	103,253	113,859	119,477	126,885	133,869
Restricted	1,046	1,068	562	897	838	952
Unrestricted	2,627	3,939	43	3,174	6,069	10,225
<b>Total Business-Type Activities Net Assets</b>	<b>\$ 102,619</b>	<b>108,260</b>	<b>114,464</b>	<b>123,548</b>	<b>133,792</b>	<b>145,046</b>
<b>Primary Government</b>						
Invested in Capital Assets, Net of Related Debt	\$ 333,490	338,598	350,154	355,602	372,086	378,725
Restricted	10,027	7,944	7,256	1,978	4,937	34,720
Unrestricted	39,932	43,539	38,711	53,674	44,776	19,370
<b>Total Primary Government Net Assets</b>	<b>\$ 383,449</b>	<b>390,081</b>	<b>396,121</b>	<b>411,254</b>	<b>421,799</b>	<b>432,815</b>

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34.

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CITY OF KINGSPORT, TENNESSEE  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS NOTED  
(accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
<b>Expenses</b>						
<u>Governmental Activities:</u>						
General Government	\$ 5,530	5,295	6,571	4,687	5,605	10,185
Public Safety	12,631	13,395	13,918	14,767	16,076	16,994
Public Works	9,279	9,225	10,151	8,737	11,638	11,388
Highway Transportation Planning	2,034	2,366	2,693	2,679	2,894	2,820
Economic and Physical Development	3,128	3,066	2,829	3,065	3,280	3,418
Culture and Recreation	4,096	4,469	4,294	4,456	5,253	5,097
Education	47,840	50,950	52,939	54,274	57,985	60,306
Interest on Long-Term Debt	2,713	2,329	2,228	2,002	1,737	1,470
Other	234	314	475	-	-	-
<b>Total Governmental Activities Expenses</b>	<b>\$ 87,485</b>	<b>91,409</b>	<b>96,098</b>	<b>94,667</b>	<b>104,468</b>	<b>111,678</b>
<u>Business-Type Activities:</u>						
Water	\$ 8,216	7,503	7,483	7,618	8,051	7,910
Sewer	8,015	6,824	7,631	7,545	7,700	7,582
Solid Waste Management	2,794	2,915	3,078	3,304	3,168	4,432
MeadowView Conference Center	2,117	1,701	2,321	1,740	1,392	1,230
Cattails at MeadowView Golf Course	1,351	1,246	1,255	1,323	1,355	1,432
<b>Total Business-Type Activities Expenses</b>	<b>\$ 22,493</b>	<b>20,189</b>	<b>21,768</b>	<b>21,530</b>	<b>21,666</b>	<b>22,586</b>
<b>Total Primary Government Expenses</b>	<b>\$ 109,978</b>	<b>111,598</b>	<b>117,866</b>	<b>116,197</b>	<b>126,134</b>	<b>134,264</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS NOTED  
(accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
<b>Program Revenues</b>						
<u>Governmental Activities:</u>						
Charges for Services:						
General Government	\$ 1,564	406	322	368	507	821
Public Safety	140	274	216	287	288	314
Highway Transportation Planning	51	49	98	95	88	97
Economic and Physical Development	247	241	321	308	435	519
Culture and Recreation	563	519	495	571	679	678
Education	2,584	2,600	2,571	2,648	2,639	2,726
Operating Grants and Contributions	22,877	24,420	25,195	27,005	26,957	29,035
Capital Grants and Contributions	821	1,629	940	2,738	1,627	706
<b>Total Governmental Activities Program Revenues</b>	<b>\$ 28,847</b>	<b>30,138</b>	<b>30,158</b>	<b>34,020</b>	<b>33,220</b>	<b>34,896</b>
<u>Business-Type Activities:</u>						
Charges for Services:						
Water	\$ 10,157	10,708	11,198	11,904	12,493	13,445
Sewer	10,349	10,429	11,120	12,709	12,895	13,357
Solid Waste Management	391	383	441	580	489	580
MeadowView Conference Center	239	248	248	267	253	287
Cattails at MeadowView Golf Course	1,132	973	958	950	982	1,025
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	201	-	-	-	-	-
<b>Total Business-Type Activities Program Revenues</b>	<b>\$ 22,469</b>	<b>22,741</b>	<b>23,965</b>	<b>26,410</b>	<b>27,112</b>	<b>28,694</b>
<b>Total Primary Government Program Revenues</b>	<b>\$ 51,316</b>	<b>52,879</b>	<b>54,123</b>	<b>60,430</b>	<b>60,332</b>	<b>63,590</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS NOTED

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
<b>Net (Expense)/Revenue</b>						
Governmental Activities	\$ (58,638)	(61,271)	(65,940)	(60,647)	(71,248)	(76,782)
Business-Type Activities	(24)	2,552	2,197	4,880	5,446	6,108
<b>Total Primary Government Net (Expense)</b>	<b>\$ (58,662)</b>	<b>(58,719)</b>	<b>(63,743)</b>	<b>(55,767)</b>	<b>(65,802)</b>	<b>(70,674)</b>
<b>General Revenues and Other Changes in Net Assets</b>						
<u>Governmental Activities:</u>						
Taxes:						
Property Taxes	\$ 35,254	36,399	38,532	39,122	41,609	42,857
Sales Taxes	23,874	24,133	24,394	25,174	26,154	27,570
Other Taxes	4,115	4,013	3,826	3,743	4,460	5,069
Grants and Contributions Not Restricted	986	565	581	524	589	713
Unrestricted Investment Earnings	1,118	673	598	1,015	1,662	2,801
Gain (Loss) on Disposal of Capital Assets	20	4	13	30	2	4
Miscellaneous	621	933	1,589	944	972	1,340
Transfers	(5,067)	(2,987)	(3,757)	(3,856)	(3,899)	(3,810)
<b>Total Governmental Activities</b>	<b>\$ 60,921</b>	<b>63,733</b>	<b>65,776</b>	<b>66,696</b>	<b>71,549</b>	<b>76,544</b>
<u>Business-Type Activities:</u>						
Unrestricted Investment Earnings	\$ 442	295	239	351	877	1,334
Gain (Loss) on Disposal of Capital Assets	(6)	6	4	(8)	-	2
Miscellaneous	-	-	7	5	22	-
Transfers	5,067	2,987	3,757	3,856	3,899	3,810
<b>Total Business-Type Activities</b>	<b>\$ 5,503</b>	<b>3,288</b>	<b>4,007</b>	<b>4,204</b>	<b>4,798</b>	<b>5,146</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS NOTED  
(accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
<b>General Revenues and Other Changes in Net Assets (Continued)</b>						
Total Primary Government	\$ 66,424	67,021	69,783	70,900	76,347	81,690
<b>Change in Net Assets</b>						
Governmental Activities	\$ 2,283	2,462	(164)	6,049	301	(238)
Business-Type Activities	5,479	5,840	6,204	9,084	10,244	11,254
Total Primary Government	\$ 7,762	8,302	6,040	15,133	10,545	11,016

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34.

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

CITY OF KINGSPORT, TENNESSEE  
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
FOR THE FISCAL YEARS NOTED

(accrual basis of accounting)  
(amounts expressed in thousands)

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2002	\$ 35,254	23,874	664	1,427	1,307	717	\$ 63,243
2003	36,399	24,133	659	1,272	1,318	764	64,545
2004	38,532	24,394	379	1,416	1,296	735	66,752
2005	39,122	25,174	468	1,219	1,313	743	68,039
2006	41,609	26,154	750	1,551	1,368	791	72,223
2007	42,857	27,570	1,026	1,707	1,398	938	75,496

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34.

CITY OF KINGSFORT, TENNESSEE  
FUND BALANCES OF GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS  
 (modified accrual basis of accounting)  
 (amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 3,755	4,042	4,190	2,916	2,910	3,378	3,950	3,607	3,232	3,510
Unreserved	4,717	8,869	11,147	13,836	14,627	14,920	12,720	12,078	15,420	17,409
Total General Fund	\$ 8,472	12,911	15,337	16,752	17,537	18,298	16,670	15,685	18,652	20,919
All Other Governmental Funds										
Reserved	\$ 1,002	797	852	563	753	5,602	4,713	7,797	4,747	5,695
Unreserved, reported in:										
Debt Service	-	5,511	113	-	15	-	71	33	69	1,022
Special Revenue Funds	2,601	3,931	4,815	4,991	6,447	5,732	5,956	5,385	5,050	7,556
Capital Project Funds	6,974	12,035	16,977	9,641	8,777	6,689	6,532	688	3,757	33,434
Total all Other Governmental Funds	\$ 10,577	22,274	22,757	15,195	15,992	18,023	17,272	13,903	13,623	47,707

Source: City of Kingsport Finance Department

**CITY OF KINGSFORD, TENNESSEE**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**

(modified accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues:</b>										
Taxes	\$ 38,812	42,899	40,843	42,567	43,644	45,098	46,524	48,415	51,532	53,341
Licenses and Permits	230	267	209	207	401	264	324	350	350	526
Intergovernmental	37,891	40,124	40,435	43,518	44,025	46,018	46,457	49,907	50,004	52,686
Charges for Services	4,814	5,136	5,506	4,800	4,643	3,503	3,561	3,669	3,900	4,162
Fines and Forfeitures	428	431	394	542	506	421	297	443	560	787
Contributions	464	256	132	26	73	319	272	579	459	316
Investment Earnings	1,021	1,030	2,202	1,997	761	488	395	731	1,188	2,123
Miscellaneous	281	285	542	368	274	276	327	332	360	555
<b>Total Revenues</b>	<b>83,941</b>	<b>90,428</b>	<b>90,263</b>	<b>94,025</b>	<b>94,327</b>	<b>96,387</b>	<b>98,157</b>	<b>104,426</b>	<b>108,353</b>	<b>114,496</b>
<b>Expenditures:</b>										
General Government	4,051	4,801	5,110	5,200	5,326	5,526	5,657	5,898	6,240	7,698
Public Safety	10,344	11,061	11,079	11,331	12,196	12,634	13,085	13,890	14,556	15,568
Public Works	6,893	6,629	7,074	6,841	4,448	4,299	5,207	4,814	5,018	5,178
Transportation	1,831	1,942	2,091	2,106	2,034	2,366	2,693	2,679	2,894	2,820
Development	2,036	2,181	2,243	3,567	2,977	2,816	2,556	2,948	3,068	3,219
Recreation	2,767	2,895	2,962	3,197	3,190	3,274	3,022	3,726	4,011	3,933
Education	37,312	39,193	40,959	42,788	44,589	46,818	48,581	51,437	53,181	55,800
Miscellaneous	639	-	-	249	220	309	348	516	722	878
Capital Outlay	9,548	5,572	6,868	14,951	7,368	7,502	10,048	11,933	10,562	4,954
Debt Service:										
Principal	4,602	5,624	5,219	6,081	6,628	19,770	11,060	7,847	8,525	8,488
Interest	3,793	3,333	2,839	2,898	2,713	2,299	2,170	1,982	1,735	1,470
Bond Issuance Costs	-	-	-	18	34	123	211	43	100	300
Arbitrage Rebate	-	-	257	-	-	-	-	-	-	-
Other Charges	8	5	37	8	14	5	30	15	20	11
<b>Total Expenditures</b>	<b>83,824</b>	<b>83,236</b>	<b>86,738</b>	<b>99,235</b>	<b>91,737</b>	<b>107,741</b>	<b>104,668</b>	<b>107,728</b>	<b>110,632</b>	<b>110,317</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>117</b>	<b>7,192</b>	<b>3,525</b>	<b>(5,210)</b>	<b>2,590</b>	<b>(11,354)</b>	<b>(6,511)</b>	<b>(3,302)</b>	<b>(2,279)</b>	<b>4,179</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(modified accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Other Financing Sources (Uses):</b>										
Transfers In	18,376	16,258	23,161	25,305	24,826	29,658	28,792	30,494	32,824	36,504
Transfers Out	(21,238)	(18,568)	(26,360)	(28,149)	(29,997)	(32,681)	(32,606)	(34,396)	(36,723)	(40,314)
Issuance of Debt	-	10,349	2,035	1,909	2,620	17,155	13,725	2,850	6,771	35,441
State Loan Proceeds	-	380	414	-	-	-	-	-	-	-
Bond Anticipation Notes	-	400	-	-	-	-	-	-	-	-
Bond Premiums	-	-	-	-	-	-	561	-	-	-
Refunding Bond Proceeds	-	26,002	-	-	-	-	-	-	-	-
Payments to Refunded	-	-	-	-	-	-	-	-	-	-
Bond Escrow Agent	-	(26,152)	-	-	-	-	(6,340)	-	-	-
Bond Proceeds From	-	-	-	-	-	-	-	-	-	-
Other Governments	27	-	181	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(2,835)	8,669	(569)	(935)	(2,551)	14,132	4,132	(1,052)	2,872	31,631
Net Change in Fund Balances	\$ (2,718)	15,861	2,956	(6,145)	39	2,778	(2,379)	(4,354)	593	35,810
Debt Service as a Percentage of Noncapital Expenditures	11.3%	11.5%	10.5%	10.7%	11.1%	22.1%	14.2%	10.3%	10.4%	9.7%

Source: City of Kingsport Finance Department

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

CITY OF KINGSPORT, TENNESSEE  
GENERAL GOVERNMENT TAX REVENUES BY SOURCE  
FOR THE FISCAL YEARS NOTED  
(modified accrual basis of accounting)  
(amounts expressed in thousands)

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel/Motel Tax	Total
2002	\$ 34,911	23,874	664	1,427	1,307	717	\$ 62,900
2003	36,117	24,133	659	1,272	1,318	764	64,263
2004	37,775	24,394	379	1,416	1,296	735	65,995
2005	39,290	25,174	468	1,219	1,313	743	68,207
2006	41,770	26,154	750	1,551	1,368	791	72,384
2007	42,929	27,570	1,026	1,707	1,398	938	75,568

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34.

Note: Certain tax revenue that flows from other governments has historically been rolled up as intergovernmental revenue in table 5 and the related statement of revenues, expenditures, and changes in fund balances.

CITY OF KINGSFORT, TENNESSEE  
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)

Fiscal Year Ended June 30	Real Property				Personal Property	Public Utility	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Tax Year	Residential & Farm Property	Industrial & Commercial Property	Industrial & Commercial Property						
1998	1997	\$ 310,253	\$ 282,707	\$ 304,776	\$ 35,707	\$ 933,443	\$ 2.30	\$ 3,028,070	30.83%	
1999	1998	320,295	291,535	308,430	37,274	957,534	2.39	3,105,281	30.84%	
2000	1999	328,274	291,537	289,112	33,217	942,140	2.39	3,155,975	29.85%	
2001	2000	335,408	299,653	280,452	35,563	951,076	2.39	3,177,912	29.93%	
2002	2001	378,891	350,415	307,946	39,512	1,076,764	2.22	3,489,324	30.86%	
2003	2002	381,838	353,944	306,104	44,088	1,085,974	2.29	3,512,115	30.92%	
2004	2003	386,620	381,989	337,980	43,108	1,149,697	2.29	3,705,828	31.02%	
2005	2004	392,198	390,448	332,088	46,710	1,161,444	2.29	3,736,184	31.09%	
2006	2005	416,736	438,583	360,312	48,476	1,264,107	2.26	4,053,938	31.18%	
2007	2006	432,474	450,406	376,929	45,673	1,305,482	2.26	4,194,699	31.12%	

Source: City of Kingsport Finance Department

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

CITY OF KINGSPORT, TENNESSEE  
PROPERTY TAX RATES (per \$100 assessed value)  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	City Direct Rates	Overlapping Rates	
		Sullivan County	Hawkins County
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
2006	2.26	2.53	2.68
2007	2.26	2.53	2.36

Source: City of Kingsport Finance Department

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

CITY OF KINGSPORT, TENNESSEE  
PRINCIPAL PROPERTY TAXPAYERS  
FOR THE FISCAL YEARS NOTED  
(amounts expressed in thousands)

Taxpayer	2007			1998		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 371,525	1	28.5%	304,439	1	32.6%
Weyerhaeuser Company	18,160	2	1.4%			0.0%
Willamette Industries			0.0%	13,196	5	1.4%
Kingsport Power Company	16,643	3	1.3%	13,172	4	1.4%
Quebecor World, Inc.	14,134	4	1.1%	10,775	6	1.2%
Fort Henry Mall	13,921	5	1.1%	4,420	9	0.5%
United Telephone / Sprint	13,269	6	1.0%	10,207	7	1.1%
Wilmington Health System	11,739	7	0.9%	13,308	3	1.4%
Wal Mart Properties/Real Estate	9,563	8	0.7%			0.0%
Mountain States Health / HCA	9,413	9	0.7%	15,202	2	1.6%
Eastman Credit Union	8,985	10	0.7%			0.0%
AFG Industries, Inc.			0.0%	5,115	8	0.5%
Cross Creek Apartments			0.0%	3,339	10	0.4%
<b>Totals</b>	<b>\$ 487,352</b>		<b>37.3%</b>	<b>393,173</b>		<b>42.1%</b>

Total Taxable Assessed Value:  
FYE 2007 (Tax Year 2006) 1,305,482  
FYE 1998 (Tax Year 1997) 933,443

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)

Fiscal Year Ended June 30	Tax Levy for Fiscal Year	Subsequent Adjustments to Levy	Collected within the Fiscal Year of the Levy			Total Collections to Date			Uncollected Delinquent Taxes
			Adjusted Tax Levy	Amount	Percentage of Adjusted Levy	Amount	Percentage of Adjusted Levy	Amount	
1998	\$ 21,469	(54)	\$ 21,415	21,037	98.23%	21,404	99.95%	11	
1999	22,914	(17)	22,897	22,327	97.51%	22,881	99.93%	16	
2000	22,523	18	22,541	21,896	97.14%	22,514	99.88%	27	
2001	22,824	7	22,831	22,121	96.89%	22,768	99.72%	63	
2002	23,911	(13)	23,898	23,043	96.42%	23,788	99.54%	110	
2003	24,869	63	24,932	24,105	96.68%	24,852	99.68%	80	
2004	26,332	1	26,333	25,316	96.14%	26,219	99.57%	114	
2005	26,617	(18)	26,599	25,794	96.97%	26,394	99.23%	205	
2006	28,739	(3)	28,736	27,986	97.39%	28,369	98.72%	367	
2007	29,564	-	29,564	28,770	97.31%	28,770	97.31%	794	

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)

Fiscal Year Ended June 30	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General		Notes Payable	General		Revenue Bonds	Notes Payable			
	Obligation Bonds			Obligation Bonds						
1998	\$ 63,129		560	60,977	402	4,077	\$ 129,145	13.59%	\$ 3	
1999	65,891		380	61,263	378	7,351	135,263	13.76%	3	
2000	62,770		730	71,014	354	7,709	142,577	12.64%	3	
2001	58,416		911	64,017	330	8,625	132,299	11.53%	3	
2002	54,766		554	61,743	300	11,419	128,782	11.04%	3	
2003	48,434		4,450	61,394	270	13,046	127,594	11.37%	3	
2004	49,288		346	63,890	240	7,920	121,684	11.01%	3	
2005	44,395		241	63,045	225	6,293	114,199	9.85%	3	
2006	38,931		3,932	60,303	210	5,829	109,205	9.11%	2	
2007	63,481		6,302	53,663	195	5,423	129,064	10.23%	3	

Source: City of Kingsport Finance Department

Note:

-Details regarding the City's outstanding debt can be found in the notes to the financial statements.  
-See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF KINGSFORT, TENNESSEE  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in		Net General Obligation Bonds	Percentage of Estimated Actual Taxable Value of Property		Per Capita
		Debt Service Fund	Fund		Property	Property	
1998	\$ 63,129	-	-	\$ 63,129	2.08%	\$	2
1999	65,891	5,511		60,380	1.94%		1
2000	62,770	113		62,657	1.99%		1
2001	58,416	-		58,416	1.84%		1
2002	54,766	15		54,751	1.57%		1
2003	48,434	-		48,434	1.38%		1
2004	49,288	71		49,217	1.33%		1
2005	44,395	33		44,362	1.19%		1
2006	38,931	92		38,839	0.96%		1
2007	63,481	422		63,059	1.50%		1

Source: City of Kingsport Finance Department

Note:

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

CITY OF KINGSPORT, TENNESSEE  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF JUNE 30, 2007  
(amounts expressed in thousands)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt Repaid with Property Taxes:</b>			
<b>Net Direct Debt:</b>			
City of Kingsport	\$ 65,910 *	100.00%	65,910
Total Direct Debt	<u>\$ 65,910</u>	<u>100.00%</u>	<u>65,910</u>
<b>Overlapping Debt:</b>			
Sullivan County	\$ 31,815	43.48%	13,833
Hawkins County	11,285	6.81%	769
Subtotal, Overlapping Debt	<u>\$ 43,100</u>	<u>50.29%</u>	<u>14,602</u>
<b>Total Direct and Overlapping Debt</b>	<u><u>\$ 109,010</u></u>		<u><u>80,512</u></u>

\* Includes Conference Center General Obligation Bonded Debt

Sources:

- City of Kingsport Finance Department
- County Governments

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kingsport. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF KINGSFORT, TENNESSEE  
LEGAL DEBT MARGIN INFORMATION  
 LAST TEN FISCAL YEARS  
 (amounts expressed in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Limit	\$ 186,689	191,507	188,428	190,215	215,353	217,195	229,939	232,289	252,821	261,096
Total Net Debt Applicable to Limit	79,364	65,891	62,770	58,416	65,906	62,796	56,978	50,275	43,335	65,910
Legal Debt Margin	\$ 107,325	125,616	125,658	131,799	149,447	154,399	172,961	182,014	209,486	195,186
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	42.51%	34.41%	33.31%	30.71%	30.60%	28.91%	24.78%	21.64%	17.14%	25.24%

Legal Debt Margin Calculation for Fiscal Year 2007

Total Taxable Assessed Value	\$ 1,305,482
Debt Limit (20% of Taxable Assessed Value)	261,096
Debt Applicable to Limit:	
General Obligation Debt	63,481
Add: Conference Center General Obligation Debt	2,045
Add: Solid Waste General Obligation Debt	384
Total Net Debt Applicable to Limit	65,910
Legal Debt Margin	\$ 195,186

Limitation on Borrowing Power

City Charter - Article XIII, Section 5. "The total bonded indebtedness of the City shall not exceed twenty percent (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 KINGSPORT, TENNESSEE  
PLEDGED-REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)

Fiscal Year	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
1998	\$ 17,264	8,105	\$ 9,159	\$ 4,791	2,253	\$ 7,044	\$ 1.30
1999	18,204	8,759	9,445	4,801	2,038	6,839	1.38
2000	18,162	8,832	9,330	5,068	2,407	7,475	1.25
2001	19,500	9,803	9,697	5,996	2,867	8,863	1.09
2002	20,506	9,674	10,832	5,754	1,954	7,708	1.41
2003	21,137	8,770	12,367	6,669	1,588	8,257	1.50
2004	22,318	9,321	12,997	6,851	1,775	8,626	1.51
2005	24,613	9,144	15,469	8,173	1,732	9,905	1.56
2006	25,388	9,601	15,787	6,334	1,734	8,068	1.96
2007	26,802	9,341	17,461	6,327	1,608	7,935	2.20

Water and Sewer Revenue Bonds:

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Population	Personal Income	Per Capita Personal Income	Median Age	Education Level in Years of		School Enrollment	Unemployment Rate
					Formal Schooling			
1997	41,338	\$ 920,638,598	\$ 22,271	*	*	*	6,106	4.0%
1998	41,414	950,285,644	22,946	*	*	*	6,286	4.1%
1999	41,454	982,791,432	23,708	38.5	*	*	6,322	4.2%
2000	44,905	1,127,789,075	25,115	*	*	*	6,341	3.8%
2001	44,467	1,147,648,803	25,809	41.9	*	*	6,316	4.3%
2002	44,362	1,166,986,772	26,306	*	*	*	6,372	5.6%
2003	44,362	1,122,314,238	25,299	*	*	*	6,412	5.9%
2004	44,231	1,105,023,073	24,983	*	*	*	6,382	5.5%
2005	44,070	1,159,746,120	26,316	*	*	*	6,377	5.5%
2006	44,130	1,198,703,190	27,163	*	*	*	6,451	5.4%
2007	44,191	1,261,608,859	28,549	*	*	*	6,455	4.2%

\* Information was not available.

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE  
PRINCIPAL EMPLOYERS  
FOR THE FISCAL YEARS NOTED

Employer	2007			2000*		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	8,000	1	11.1%	8,630	1	12.2%
Wellmont Health Systems	2,000	2	2.8%	1,922	3	2.7%
Kingsport City Schools	1,040	3	1.4%	962	5	1.4%
Wal-Mart	900	4	1.2%	N/A	-	-
Holston Medical Group	890	5	1.2%	N/A	-	-
Mountain States Health	860	6	1.2%	N/A	-	-
City of Kingsport	773	7	1.1%	700	6	1.0%
AFG Industries	600	8	0.8%	1,230	4	1.7%
BAE SYSTEMS Ordnance Systems, Inc.	460	9	0.6%	N/A	-	-
Domtar	350	10	0.5%	N/A	-	-
Quebecor World	N/A	-	-	2,141	2	3.0%
Willamette Industries	N/A	-	-	581	7	0.8%
Chiquola Fabrics	N/A	-	-	375	8	0.5%
ICG Holliston	N/A	-	-	210	9	0.3%
Kingsport Publishing Times-News	N/A	-	-	209	10	0.3%
<b>Total Sullivan County Employment:</b>	<b>15,873</b>		<b>22.0%</b>	<b>16,960</b>		<b>24.0%</b>
	FYE 2007			FYE 2000		
	72,100			70,530		

\*Principal Employer information is not available prior to FY 2000

Sources:

- Kingsport Economic Development Board
- Tennessee Department of Economic Security

CITY OF KINGSPORT, TENNESSEE  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
FOR THE FISCAL YEARS NOTED

Function	Fiscal Year					
	2002	2003	2004	2005	2006	2007
General Government	80	81	79	80	81	80
Public Safety	234	233	235	237	237	243
Public Works	103	105	105	109	106	113
Development	49	49	46	47	47	36
Recreation	53	53	54	56	57	57
Education	913	924	945	961	970	978
Water	78	78	78	80	80	80
Sewer	46	46	45	40	40	40
Solid Waste	37	36	36	36	35	31
	<u>1593</u>	<u>1605</u>	<u>1623</u>	<u>1646</u>	<u>1653</u>	<u>1658</u>

Sources:

- City of Kingsport Finance Department
- Kingsport City School System

Note:

- Information prior to FY2002 was not readily available.

CITY OF KINGSPORT, TENNESSEE  
OPERATING INDICATORS BY FUNCTION  
FOR THE FISCAL YEARS NOTED

Function	Fiscal Year	
	2006	2007
<b>Education:</b>		
Student Transportation:		
Miles		
Average Daily Ridership	369,438	368,869
<b>Public Safety:</b>	1,864	1,949
Police:		
Physical Arrests	3,251	3,206
Parking Citations	3,509	3,722
Traffic Citations	12,484	12,895
Calls for Service	44,236	47,934
Fire:		
Calls for Service	5,752	5,987
Inspections	2,873	3,403
Fire Loss	\$ 2,402,520	1,471,657
<b>Public Works:</b>		
Potholes Repaired	735	538
Streets Swept (linear miles)	4,500	7,853
Traffic Signal Maintenance Calls	630	650
Leaves Collected (Tons)	1,703	1,716
<b>Parks and Recreation:</b>		
Civic Auditorium Rentals	825	1,127
Civic Auditorium Attendance	53,000	54,219
Pool Attendance	29,500	27,552
Participation in athletic events	176,000	180,766
Renaissance Center Rentals	2,000	1,908
Renaissance Center Attendance	190,000	181,650
Allandale Rentals	315	297
Allandale Visitors	33,000	29,808
K - Play Games Played	1,300	1,350
K - Play Attendance	86,000	91,145
<b>Senior Center:</b>		
Active Members	2,000	1,842
Average Daily Attendance	175	188
<b>Bays Mountain Park:</b>		
Total Programs	1,400	1,667
Total Attendance	151,000	148,041
<b>Library:</b>		
Total Circulation	188,490	206,586
Building Attendance	169,254	176,854
<b>Water:</b>		
Average Daily Consumption in Gallons	15.2 mgd	14.5 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd
Water Taps	588	339
<b>Sewer:</b>		
Average Daily Treatment in Gallons	9.2 mgd	8.8 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	12.4 mgd
Sewer Taps	402	187
<b>Solid Waste:</b>		
Landfill Material Accepted (Tons)	25,056	24,434
Household Refuse Collected (Tons)	16,374	16,046
Recyclables Collected (Tons)	2,167	2,587
<b>Golf Course:</b>		
Rounds of Golf	26,925	26,175

Source: Various City Departments

CITY OF KINGSPORT, TENNESSEE  
CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE FISCAL YEARS NOTED

Function	Fiscal Year	
	2006	2007
<b>Education:</b>		
Student Transportation:		
Buses	35	35
<b>Public Safety:</b>		
Police:		
Stations	1	1
Patrol Units	104	104
Motorcycle Units	1	1
Fire:		
Stations	6	6
Fire Trucks/Rescue Units	14	14
<b>Public Works:</b>		
Streets (Miles)	427	429
Street Lights	9,600	9,650
Traffic Signals	101	103
<b>Leisure Services:</b>		
Parks and Recreation:		
Park Sites	17	17
Park Acreage	191	191
Swimming Pools	2	2
Tennis Courts	8	8
Community Centers	5	5
Senior Citizens:		
Senior Center	1	1
Other Recreational Facilities:		
Bays Mountain Park & Nature Center -Acreage	3,461	3,461
Hunter Wright Baseball Stadium - Acreage	54	54
<b>School System:</b>		
Elementary Schools	7	7
Middle Schools	2	2
High Schools	1	1
<b>Water and Sewer:</b>		
Water Mains (Miles)	750	750
Fire Hydrants	1,960	2,000
Sanitary Sewers (Miles)	525	525
Storm Sewers (Miles)	209	209
<b>Solid Waste:</b>		
Collection Trucks	15	14
<b>Golf Courses</b>	1	1

Source: Various City Departments

CITY OF KINGSPORT, TENNESSEE  
UTILITY RATE STRUCTURE, NUMBER OF CUSTOMERS  
AND UNACCOUNTED FOR WATER  
June 30, 2007

**Water Rates:**

	<u>Inside City</u>		
First 1,000 gallons	\$	3.36	per 1000 gal
Next 13,000 gallons	\$	2.71	per 1000 gal
Next 35,000 gallons	\$	2.09	per 1000 gal
Over 50,000 gallons	\$	1.43	per 1000 gal
	<u>Outside City</u>		
First 1,000 gallons	\$	14.25	per 1000 gal
Next 9,000 gallons	\$	6.18	per 1000 gal
Next 10,000 gallons	\$	5.60	per 1000 gal
Next 70,000 gallons	\$	5.19	per 1000 gal
Next 100,000 gallons	\$	4.25	per 1000 gal
Over 190,000 gallons	\$	3.99	per 1000 gal

**Sewer Rates:**

	<u>Inside City</u>		
Minimum charge	\$	12.88	2,000 gal
Additional gallons	\$	6.44	per 1000 gal
	<u>Outside City</u>		
Minimum charge	\$	15.04	2,000 gal
Additional gallons	\$	7.52	per 1000 gal

**Number of Customers:**

	<u>Inside City</u>	<u>Outside City</u>
Water	19,314	14,512
Sewer	18,642	1,784

**Unaccounted for Water:**

	<u>Gallons</u>	<u>% of Total Gallons</u>
Pumped gallons of water	5,300,933,000	100.00%
Accounted for gallons of water	3,594,078,800	67.80%
Unaccounted for (lost) gallons of water	1,706,854,200	32.20%

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE  
TOP TEN WATER CUSTOMERS  
FOR YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY07 Water Sales</u>
Eastman Chemical Company	734,231	\$ 1,078	9.02%
Wellmont Health System	66,054	110	0.92%
Domtar Paper Company, LLC	63,879	97	0.81%
Royal Ordnance of North America, Inc.	51,415	75	0.63%
Pet Dairy, Inc.	43,354	63	0.53%
Kingsport Housing Authority	34,264	58	0.49%
AFG Industries, Inc.	23,815	46	0.39%
Quebecor World	19,379	39	0.33%
Indian Path Hospital	18,363	38	0.32%
Autumn Chase Apts, LLC	17,942	36	0.30%
	1,072,696	\$ 1,640	13.74%

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE  
TOP TEN SEWER CUSTOMERS  
FOR YEAR ENDED JUNE 30, 2007  
(amounts expressed in thousands)

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY07 Sewer User Fees</u>
Eastman Chemical Company	221,315	\$ 1,426	12.02%
Wellmont Health Systems	45,074	290	2.44%
Kingsport Housing Authority	34,624	224	1.89%
Pet Dairy, Inc.	26,153	168	1.42%
Autumn Chase Apts, LLC	17,942	116	0.98%
Model City Apts	12,445	80	0.67%
Indian Path Hospital	11,189	72	0.61%
Cross Creek Apartments, LLC	11,031	71	0.60%
Cabana Apartments, Inc.	10,414	67	0.56%
MeadowView Conference Resort	9,798	63	0.53%
	<u>399,985</u>	<u>\$ 2,577</u>	<u>21.72%</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, 2007  
(amounts expressed in thousands)

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
John Campbell	City Manager	\$ 137	5
J. Michael Bilingsley	City Attorney	104	-
James H. Demming	City Recorder/Chief Financial Officer	96	385
Keith E. Smith	City Treasurer	74	200
Richard Kitzmiller	Director of Schools	122	-
Mark E. Addington	Chief of Police	80	-
Dennis R. Phillips	Mayor	3	-
Larry Munsey	Vice-Mayor	2	-
Patrick W. Shull	Alderman	2	-
C. Ken Marsh, Jr.	Alderman	2	-
Benjamin K. Malicote	Alderman	2	-
Valerie Joh	Alderman	2	-
Kenneth H. Maness	Alderman	2	-

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF INSURANCE IN FORCE

June 30, 2007

(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	7/1/06 - 6/30/10 7/1/07 - 7/1/08 7/1/07 - 7/1/08	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000 3,000 replacement 3,000	\$ 150
Midwest Employers Reinsurance Corp.	EWC 005902 (reinsurance agreement)	1/1/07 - 12/31/08	Worker's Compensation	Statutory	78
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	104703171	1/1/07 - 1/1/08	Employee Blanket Dishonesty (City)	250	1
St. Paul / U.S. Fidelity & Guarantee Co.	406CH3614	7/1/07 - 7/1/08	Employee Blanket Dishonesty (Schools)	250	1
<u>Unemployment Compensation</u>	Self-insured				
<u>Property and Casualty</u> Continental Casualty Co.	RMP271010211	12/31/06 - 12/31/07	Buildings and Contents	194,607	113
Travelers Insurance Co.	1-660-710X3600-660	2/13/07 - 2/13/08	Justice Center Commercial/ Gen Property	5,928	9
Hartford Insurance Co.	20MSCYQ7488	5/26/07 - 5/26/08	Grand Piano - Allandale		1
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	1/1/07 - 1/1/08	Boilers	100	4
<u>Public Officials Bond</u> St. Paul / U.S. Fidelity & Guarantee Co. RLI	400MQ3028 RSB2003698	8/1/06 - 8/1/07 4/30/07 - 4/30/08	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee Schools)	200 1,277	1 5
Travelers Insurance Co. Travelers Insurance Co. St. Paul / U.S. Fidelity & Guarantee Co. Western Surety Co.	400NS5672 104224291 104476426 58368775	3/15/07 - 3/15/08 10/1/06 - 10/1/07 12/31/06 - 12/31/07 4/4/07 - 4/4/08	Bond - Recorder (J. Demming) Bond - City Manager (J. Campbell) Bond - City Judge (J.R. Boatwright) Blanket Notary Errors and Omissions	385 5 1 25	2 - - 1

(Continued)

CITY OF KINGSFORD, TENNESSEE  
SCHEDULE OF INSURANCE IN FORCE

June 30, 2007

(amounts expressed in thousands)

<u>Type of Coverage/ Insurance Carrier</u>	<u>Policy Number</u>	<u>Policy Period</u>	<u>Details of Coverage</u>	<u>Claim Limits</u>	<u>Annual Premiums</u>
Other					
Contractor's Equipment Hartford Insurance Company	20MSG8203	10/4/06 - 7/1/07	Contractor's Equipment Damage	1,251	14
Stadium General Liability/ Hunter Wright Property - Dobyys-Bennett High School Indiana Insurance Company	CBP9566738	3/8/07 - 3/8/08	General Liability/ Scoreboard/ Public Address System	2,000	1
<b>Total Premium</b>					<b>\$ 381</b>

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2007. We did not audit the basic financial statements of the Emergency Communications District (the ECD), a discretely presented component unit, which represents 16 percent, 20 percent, and 62 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, 2007. 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 ECD, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 07-01, 07-02, 07-03 and 07-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### 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 7, 2007.

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

This report is intended solely for the information and use of management, 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 7, 2007



American Institute of Certified Public Accountants

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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

This report is intended solely for the information and use of management, 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 7, 2007

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

**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 (the ECD) of the City, which represents 16 percent, 20 percent, and 62 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based on the report of other auditors.
2. Four significant deficiencies relating to the audit of the consolidated financial statements are reported in the Schedule of Findings and Questioned Costs. Of these significant deficiencies, none are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the City are reported in this Schedule.
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
Federal Transit Administration	20.507
Special Education – 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, 2007

**Section II - Findings – Financial Statement Audit**

**Current Year Findings**

***07-01 Significant Deficiency: Post-Closure Client Adjusting Journal Entries***

**Condition:** During the progression of the audit, the City has historically used client adjusting journal entries (CAJEs) to record changes to the financial statements after officially closing the City's books.

**Criteria:** Adjustments to the financial statements should be completed prior to both the official closing of the books and the onset of the independent audit.

**Effect:** The post-closure CAJEs result in changes to the City's books and are made to correct errors and in order to bring the books into compliance with current GASB pronouncements.

**Recommendation:** The City should complete posting of all CAJEs prior to the closing of the books and review the effects of said entries to ensure that they are both correct and appropriate. This task should be undertaken in order to decrease to a remote possibility the likelihood of the necessity to post material CAJEs after the official closing of the books.

**Management's Comments:** At the end of August when the 13<sup>th</sup> accounting period was closed, city staff was not aware that changes to the standards would have an impact on established closing procedures. In the future, staff will keep the books open for another month to allow preparation of all year end adjustments.

***07-02 Significant Deficiency: Preparation of Government-Wide Adjustments and Financial Statements***

**Condition:** Historically, the City has neither prepared their own government-wide adjusting entries, which are necessary for financial statement preparation, nor prepared their own financial statements.

**Criteria:** Controls should be in place to ensure all government-wide entries have been considered and that all related notes are included.

**Effect:** If the City is not able to aid in the preparation of government-wide adjustments, this matter will continue to be noted as a significant deficiency in future years.

**Recommendation:** We recommend that the City begin working toward this transition immediately in order to prevent this issue from re-occurring.

**Management's Comments:** City staff is already working on the goal of preparing their own financial statements for the year ended June 30, 2008. CAFR 2000 software was purchased in fiscal year 2007 to be used as the tool to prepare the financial statements. Staff has already entered all general ledger account numbers for all funds and established the properties for each account number.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

**Section II - Findings – Financial Statement Audit (Continued)**

Current Year Findings(Continued)

***07-03 Significant Deficiency: Proper Review and Documentation of Client Adjusting Journal Entries***

**Condition:** Not all of the City's general journal entries and CAJEs included proper supporting documentation. Additionally, not all of said entries included the signature of a reviewer.

**Criteria:** All entries should contain the signature of both preparer and reviewer in order to verify that the proper controls for the journal entry process are in place. The reviewer should be an employee of superior position to the preparer. Supporting documentation for all journal entries should be attached and filed with the approved copy of the journal entry.

**Effect:** Both proper authorization in the form of signatures and the inclusion of proper supporting documentation give support to the internal control system for the journal entry process.

**Recommendation:** We recommend that all entries be signed by both the preparer and reviewer in order to verify that the proper controls for the journal entry process are in place. The reviewer should be an employee of superior position to the preparer. In addition, supporting documentation for all journal entries should be attached and filed with the approved copy of the journal entry.

**Management's Comments:** Management will ensure that all journal entries prepared by the Comptroller are reviewed and approved by the City Recorder. In addition, all supervisors will be instructed to keep in mind that the documentation attached needs to be able to explain the entry to someone unfamiliar with the transaction. City staff will periodically review filed journal entries to verify they have been approved and have proper documentation.

***07-04 Significant Deficiency: Tracking of Capital and Non-Capital Expenditures***

**Condition:** It was noted that during the current year, the City posted both capital and non-capital expenditures within the Capital Projects Fund.

**Criteria:** There should be a clear designation between capital and non-capital expenditures within the fund. Additionally, there should be a clear designation of expenditures related to each project.

**Effect:** Currently, capital and non-capital expenditures are indistinguishable within the fund.

**Recommendation:** Because both types of expenditures are included in the fund, we recommend that the City track expenditures related to projects expected to be capitalized separately from expenditures related to projects which are not expected to be capitalized. More specifically, the City should track these expenditures in such a way that they are clearly identifiable with their respective projects, whether it is capital or non-capital in nature.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2007

**Section II - Findings – Financial Statement Audit (Continued)**

Current Year Findings(Continued)

*Management's Comments:* City staff will review all general projects and identify which projects will result in a capital asset and which will not. In addition, staff will maintain a spread sheet to separate capital projects from non capital projects. As new projects are established, staff will identify whether the project is capital or not in the name of the project.

Prior Year Findings Implemented

There were no prior year findings.

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

Current Year Findings

There are no current year findings.

Prior Year Findings Implemented

There were no prior year findings.