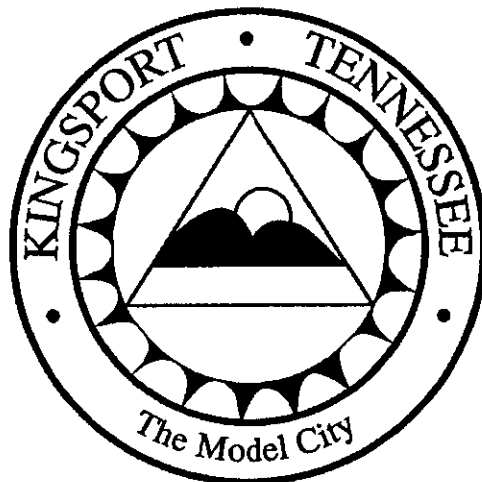


City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008



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

CITY OF KINGSPORT, TENNESSEE
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2008

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CITY OF KINGSPORT, TENNESSEE

December 17, 2008

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, 2008.

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, 2008. 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 47 square miles and serves a population of 44,435. 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 15th. The BMA is required to hold two public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Kingsport's fiscal year. The appropriation budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department and between departments within any fund. Transfers of appropriations between funds, however, require the approval of the BMA. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 30 through 32 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 47 square miles and has an estimated 2008 population of 44,435 with 173,694 persons residing within a 5 mile radius of the existing City limits. 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. On a regional basis, there are approximately 401,000 persons living within a radius of 25 miles, 863,000 persons living within a radius of 50 miles and 1,305,000 persons living within a radius of 75 miles.

As noted in the 2007 annual report, Kingsport has long served as a major commercial retail hub, and that trend strengthened in 2008 with significant new investments, including Best Buy, Decorators Warehouse, Michael's, Panera Bread, Ulta Cosmetics, Starbucks and Stir Fry Café.

The influx of more than \$370 million in new investment since 2006, heavily weighted towards new retail and commercial office, appears to be paying off in the form of significantly increased sales tax collections in Kingsport despite the rough fiscal weather nationally. Although sales tax collections were relatively flat in FY 2008 as compared with FY2007, collections for the first 5 months of FY2009 are running in excess of 10% above the same period for FY2008.

Meanwhile, an announced expansion of the existing 630,000 square foot Kingsport Town Center mall continues on track to begin in the first quarter of 2009 according to developers, adding tens of thousands of square feet of new retail space.

On the home front, as many states and localities struggle with housing depreciation, Kingsport home values continued to climb. According to the September 2008 Federal Housing Finance Agency Report, for the past 12 months, Kingsport area housing prices are up 3.93 percent, with a five-year appreciation rate of 32.41 percent.

And, at the same time, Kingsport was on track for more than 100 new single family housing starts, with total residential building permits valued at \$25.31 million issued through the first 10 months of the year. Average single-family construction permit value in 2008 is \$183,920.

Throughout its history, the foundation of Kingsport's prosperity has always rested with the strength of its manufacturing center. The largest member of that sector, Eastman Chemical Company, has begun work on Project Reinvest, a \$1.3 billion project to expand production lines, reduce production bottlenecks, improve air quality and modernize base infrastructure.

Among the first projects was a new \$20 million plant to produce a new, proprietary plastic product. Project Reinvest will add \$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 firm.

Ten years ago, Eastman accounted for approximately 32% 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.

Long-term Financial Planning. During the FY2008 and FY2009 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 higher education center,

health professions education building, and initial property requisition for future public facilities. As a result, approximately \$19,000,000 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 \$11,400,000 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 \$3,700,000 by the end of FY2010. The annual savings from the debt service reductions have been included in the funding strategies for the CIP.

Major Initiatives

During the summer of 2008, construction was completed on a new 40,000 square feet Regional Center for Health Professions building, the first structure in Kingsport's Downtown Academic Village. The \$4.3 million facility, which opened in the fall 2008, houses nearly 400 students studying nursing and medical technology degrees in partnership with Northeast State Technical Community College and King College.

Meanwhile, work is now underway on a \$13 million Kingsport Center for Higher Education that will host at least five private and public colleges and universities offering baccalaureate and higher degrees.

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.

Kingsport's academic campus also grew further in 2008, with the privately funded Regional Center for Applied Manufacturing set to come online in 2009, providing tailored educational programming for local employers.

Also in 2008, Kingsport embarked on a new effort to expand tourism by approving a 32,000 square feet MeadowView Conference Center expansion, a project that builds on the synergy of a new 110-room expansion at the adjoining, but privately owned, hotel.

The \$15.3 million Conference Center expansion should result in an annual return greater than \$883,000 while bolstering tourism, the fourth largest industry in Sullivan County. Construction is expected to begin during the spring 2009.

Kingsport's Board and Mayor and Aldermen, working from a substantial roll off in debt service over the next few years, has also chosen to reinvest in other key segments, including road infrastructure, a community and non-profit center and a downtown parking garage necessitated by business and education expansion in the downtown area.

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, 2007. This was the eighth 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

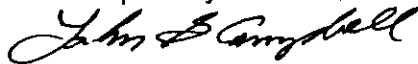
publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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.

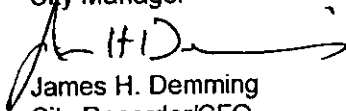
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2007. The annual budget document dated July 1, 2008 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify 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, 2007

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.



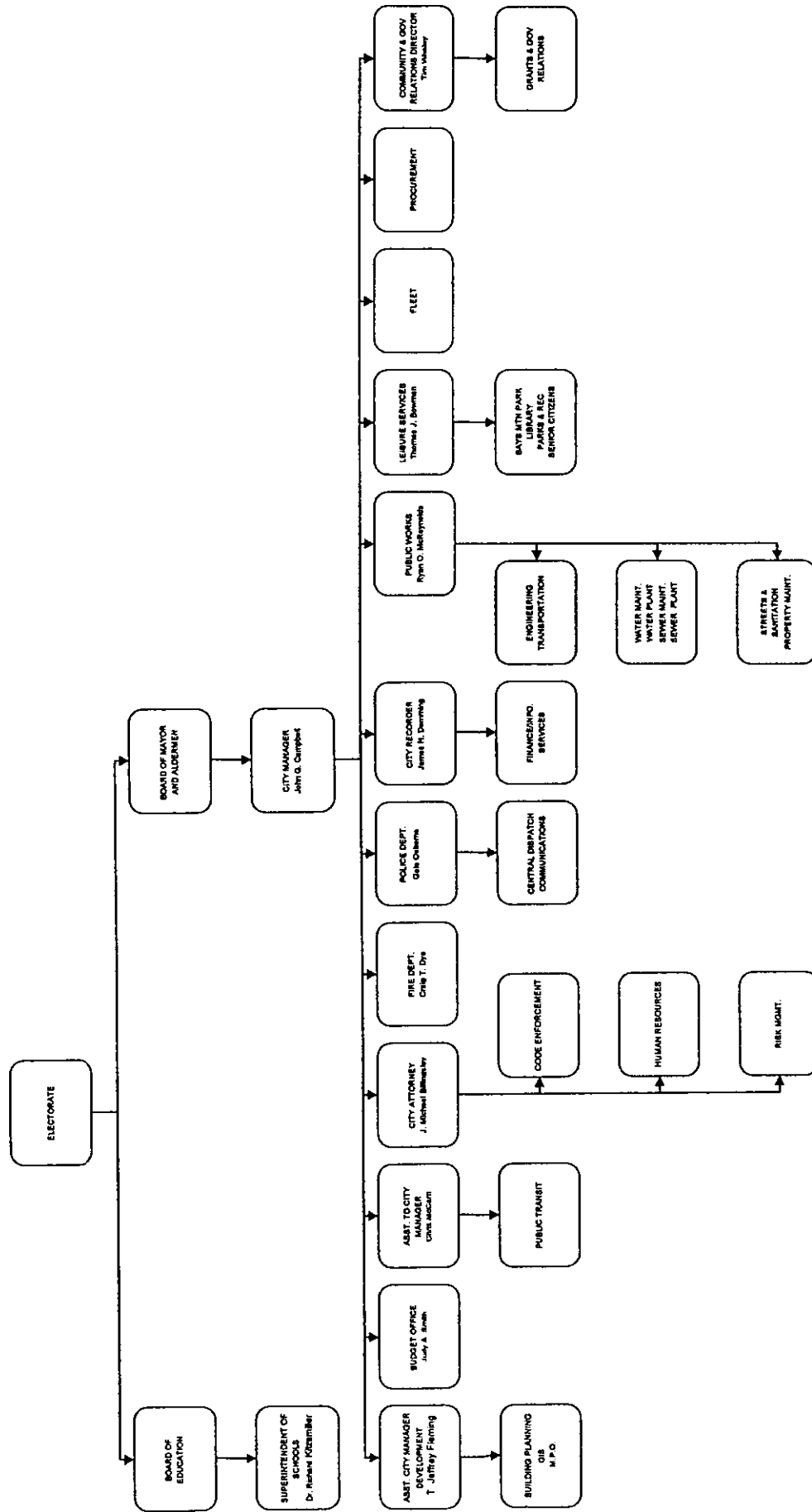
Chene S. Cox

President

Jeffrey R. Emery

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, 2008

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	Mayor
Benjamin K. Mallicote	Vice Mayor
Valerie Joh	Alderman
C. Ken Marsh, Jr.	Alderman
Larry A. Munsey	Alderman
Patrick W. Shull	Alderman
Jantry Shupe	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, 2008



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, 2008, 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, 22 percent, and 13 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic 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, 2008, 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.

Johnson City
Kingsport
Greeneville

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440 E. Sullivan Street, Kingsport, TN 37660
1140 Tusculum Boulevard, Greeneville, TN 37745-4039

(423) 282-4511
(423) 246-1725
(423) 638-8516

Fax (423) 283-4532
Fax (423) 245-2839
Fax (423) 638-3361

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, 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, budgetary comparison information, and schedules of funding progress on pages 12 through 21, 109, and 110 through 111, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual 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 17, 2008

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008
(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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$441,531 (net assets). Of this amount, \$15,901 (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 \$8,716.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$71,330 an increase of \$2,711 in comparison with the prior year. Approximately 74% of this total amount, \$52,978, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,848 or 22% of total general fund expenditures including transfers out.
- The City's total gross debt increased by \$4,893 (4%) during the current fiscal year primarily due to issuance of bonds for construction of a Higher Education Center in Downtown Kingsport.

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 Fiscal Year Ended June 30, 2008
(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 22 and 23 of this report.

Fund financial statements

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

Governmental funds

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

The City maintains twenty-four (24) individual governmental funds. Twenty (20) of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general purpose school fund, the capital project fund, the debt service fund and nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 24-34 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 Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

Proprietary funds

The City maintains eight (8) different 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 35-39 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 40-108 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental 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 112-138 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 \$441,531 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 Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

City of Kingsport's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 143,185	\$ 137,989	\$ 24,699	\$ 21,524	\$ 167,884	\$ 159,513
Capital Assets	290,561	279,322	189,984	186,160	480,545	465,482
Total Assets	433,746	417,311	214,683	207,684	648,429	624,995
Long-term Liabilities Outstanding	88,299	71,843	54,309	59,861	142,608	131,704
Other Liabilities	61,255	57,699	3,035	2,777	64,290	60,476
Total Liabilities	149,554	129,542	57,344	62,638	206,898	192,180
Net Assets:						
Invested in Capital Assets, net of Related Debt	251,707	244,856	142,404	133,884	394,111	378,740
Restricted	30,400	33,768	1,119	952	31,519	34,720
Unrestricted	2,085	9,145	13,816	10,210	15,901	19,355
Total Net Assets	\$ 284,192	\$ 287,769	\$ 157,339	\$ 145,046	\$ 441,531	\$ 432,815

A portion of the City's net assets, \$31,519 or (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$15,901 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 \$8,716. Net assets for governmental activities decreased by \$3,577 while net assets for business type activities increased by \$12,293. The primary reason for the decrease in net assets in the governmental activities was a result of recording OPEB liability of \$5,426 in accordance with GASB 45. 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 2% and sewer rates increased an average of 4% 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 Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2008:

City of Kingsport's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,449	\$ 5,155	\$ 27,978	\$ 27,062	\$ 34,427	\$ 32,217
Operating Grants and Contributions	31,848	29,035	-	-	31,848	29,035
Capital Grants and Contributions	6,983	706	2,661	1,632	9,644	2,338
General Revenues:						
Property Taxes	43,181	42,857	-	-	43,181	42,857
Sales Taxes	27,531	27,570	-	-	27,531	27,570
Other Taxes and Intergovernmental	6,118	5,069	-	-	6,118	5,069
Unrestricted Investment Earnings	3,392	2,801	1,025	1,334	4,417	4,135
Grants and Contributions Not Restricted to Specific Programs	642	713	-	-	642	713
Other	1,307	1,344	-	2	1,307	1,346
Total Revenues	127,451	115,250	31,664	30,030	159,115	145,280
Expenses:						
General Government	10,448	10,185	-	-	10,448	10,185
Public Safety	19,845	16,994	-	-	19,845	16,994
Public Works	13,371	11,388	-	-	13,371	11,388
Highway Transportation Planning	3,121	2,820	-	-	3,121	2,820
Economic and Physical Development	4,098	3,418	-	-	4,098	3,418
Culture and Recreation	6,803	5,097	-	-	6,803	5,097
Education	66,063	60,306	-	-	66,063	60,306
Interest on Long-term Debt	3,244	1,470	-	-	3,244	1,470
Water	-	-	8,971	7,910	8,971	7,910
Sewer	-	-	7,941	7,582	7,941	7,582
Solid Waste Management	-	-	3,799	4,432	3,799	4,432
MeadowView Conference Resort and Convention Center	-	-	1,247	1,230	1,247	1,230
Cattails at MeadowView Golf Course	-	-	1,448	1,432	1,448	1,432
Total Expenses	126,993	111,678	23,406	22,586	150,399	134,264
Increase (Decrease) in Net Assets before Transfers	458	3,572	8,258	7,444	8,716	11,016
Transfers	(4,035)	(3,810)	4,035	3,810	-	-
Change in Net Assets	(3,577)	(238)	12,293	11,254	8,716	11,016
Net Assets, beginning of period	287,769	288,007	145,046	133,792	432,815	421,799
Net Assets, end of period	\$ 284,192	\$ 287,769	\$ 157,339	\$ 145,046	\$ 441,531	\$ 432,815

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

Governmental activities

Governmental activities reduced the City's net assets by \$3,577. Total governmental revenues increased by \$12,201. However, these increases were not enough to offset all governmental expenditures specifically depreciation expense and OPEB liabilities.

Business-type activities

Business-type activities increased the City's net assets by \$12,293.

- Charges for services for business-type activities increased by \$916 (3%) 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 \$71,330, an increase of \$2,711 in comparison with the prior year. Approximately 74% of this total amount, \$52,978, constitutes unreserved fund balance, which is available for spending at the City's discretion. However, of this unreserved amount \$30,074 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 (\$14,132) and for 3) a variety of other restricted purposes (\$1,150).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$14,848 while total fund balance reached \$18,240. 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 22% of total general fund expenditures and transfers out, while total fund balance represents 27% of that same amount. During 2008, the fund balance of the City's General Fund decreased by \$2,679. Of this \$2,000 represents fund balance appropriations for a new Higher Education Building.

The general-purpose school fund has a total fund balance of \$4,142, of which most is unreserved. The net decrease in fund balance during the current year in the general-purpose school fund was \$399.

CITY OF KINGSPORT, TENNESSEE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2008
 (amounts expressed in thousands)

The capital project fund has a total fund balance of \$42,922 of which \$12,848 is encumbered at year-end and \$30,074 is unreserved but designated for approved capital projects. The net increase in this fund balance of \$5,510 was primarily due to new bonds issued during the year.

The debt service fund has a total fund balance of \$1,173. This represents an increase of \$128 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 \$14,642 for fiscal year 2008. This was approximately \$4,684 more than the debt service expenditures paid in fiscal year 2007. However, \$4,000 of this is attributed to early payoff of a short term capital outlay note after long term bonds were issued.

Nonmajor (other) governmental funds have a fund balance of \$4,855. The net increase in fund balance during the current year in nonmajor governmental funds was \$151.

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 \$8,687 and \$8,581 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$5,263 increase in appropriations and include the following:

\$	2,000	Provide funding for new Higher Education building
	1,000	Provide funding for Hope VI project (low income neighborhood)
	700	Provide funding for new Regional Center for Health Profession building
	403	Provide funding for FY2007 outstanding purchase orders/encumbrances
	233	Provide funding for renovation to City Hall building
	161	Provide funding for acquisition of fire department equipment
	161	Provide funding for acquisition of property 118 Shelby Street
	100	Provide funding for central fire station roof replacement
	100	Provide funding for new Boys & Girls Club facility
	90	Provide funding for renovation to general facilities
	90	Provide funding for employee performance awards
	90	Provide funding for Art/Sculpture Walk program
	40	Provide funding for Visitor Enhancement program
	12	Provide funding for ETSU Arts program
	10	Provide funding for Senior Citizen program
	<u>73</u>	Other miscellaneous
\$	<u>5,263</u>	

Of this increase, approximately \$704 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$4,559 was to be budgeted from available fund balance.

CITY OF KINGSPORT, TENNESSEE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2008
 (amounts expressed in thousands)

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, 2008, amounts to \$480,545 (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 \$18,991.
- Construction continued and/or began on a variety of general governmental facilities including the Higher Education Center, Regional Center for Health Professions, John Adams Elementary School, 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 \$51,209.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 18,789	\$ 13,304	\$ 4,961	\$ 4,961	\$ 23,750	\$ 18,265
Buildings and Systems	45,057	49,040	160,219	145,207	205,276	194,247
Improvements other than Buildings	4,769	4,351	4,979	5,251	9,748	9,602
Machinery and Equipment	9,946	9,364	834	324	10,780	9,688
Software	73	103	-	-	73	103
Infrastructure	160,718	164,673	-	-	160,718	164,673
Construction in Progress	51,209	38,487	18,991	30,417	70,200	68,904
Total Capital Assets	\$ 290,561	\$ 279,322	\$ 189,984	\$ 186,160	\$ 480,545	\$ 465,482

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

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$133,959. 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	
	2008	2007	2008	2007	2008	2007
Notes Payable	\$ 6,419	\$ 6,302	\$ -	\$ -	\$ 6,419	\$ 6,302
General Obligation Bonds	74,292	63,481	47,657	53,860	121,949	117,341
Loans from Other Governments	-	-	5,591	5,423	5,591	5,423
Total Long-term Debt	\$ 80,711	\$ 69,783	\$ 53,248	\$ 59,283	\$ 133,959	\$ 129,066

During the current fiscal year, the City's total debt increased by \$4,893 (4%). This increase is primarily due to bonds issued to fund construction of a Higher Education Center in Downtown Kingsport. The City maintains an A1 rating from Moody's Investors Service for its General Obligation debt.

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 65-96 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 6.2%, which is an increase of 1.8% from a year ago. This compares to the state's average unemployment rate of 6.5 %.
- Inflationary trends in the region are comparable to national indices.
- 884 building permits with an estimated value of \$180,938 were issued during this fiscal year, compared to 886 building permits with an estimated value of \$123,352 for the previous year.
- Growth in local sales tax collections is expected to be approximately 2.7% in FY2009.

Short term interest rates on investments for the City's operating funds decreased to approximately 2.25% in fiscal year 2008 as the federal funding rate was decreased by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2009 fiscal year.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008
(amounts expressed in thousands)

During the current fiscal year, unreserved fund balance in the general fund decreased to \$14,848. The City has appropriated \$920 of this amount for spending in the fiscal year 2009 budget.

Water and sewer rates were increased for the 2009 budget year. The water rates were increased 3.5% for customers outside City limits while customers inside the City remained at the same rates. Sewer rates increased 8% for outside customers and 2.8% 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.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash	\$ 1,108,561	\$ 0	\$ 1,108,561	\$ 1,623,429	\$ 1,639,746
Cash with Fiscal Agent	0	36,762	36,762	0	0
Equity in Pooled Cash and Investments	33,990,690	16,304,077	50,294,767	0	0
Long Term Certificates of Deposit	365,434	0	365,434	0	0
Investments	395,926	45	395,971	0	0
Accounts Receivable	32,218,368	3,734,625	35,953,013	10,592	31,193
Accrued Interest Receivable	343,733	62	343,795	0	32,757
Due from Other Governments	22,814,325	90,191	22,904,516	0	18,070
Due from Primary Government	0	0	0	2,961,800	0
Due from Component Units	10,592	25,511	36,103	0	0
Internal Balances	3,992,035	(3,992,035)	0	0	0
Inventories	520,649	513,373	1,034,022	0	0
Prepays	511,448	1,444	512,892	2,400	21,776
Land Held for Sale or Development	0	0	0	5,037,589	0
Restricted Assets:					
Cash	27,498,705	6,460,631	33,959,336	155,099	0
Long Term Certificates of Deposit	4,300,000	58,000	4,358,000	0	0
Investments	14,200,336	973,998	15,174,334	154,069	0
Receivables	0	0	0	501,312	0
Capital Assets:					
Land	18,788,827	4,961,314	23,750,141	0	0
Buildings and Systems	91,008,318	241,026,772	332,035,090	0	0
Improvements Other Than Buildings	11,774,469	8,560,194	20,334,663	75,725	0
Machinery and Equipment	34,218,594	3,824,851	38,043,445	0	695,540
Software	283,042	0	283,042	0	0
Infrastructure	258,598,229	0	258,598,229	0	0
Construction in Progress	51,209,271	18,991,340	70,200,611	0	0
Less: Accumulated Depreciation	(175,319,895)	(87,380,859)	(262,700,854)	(62,556)	(382,199)
Other Assets, net	914,307	494,457	1,408,764	0	0
Total Assets	433,745,964	214,682,653	648,428,637	10,459,439	2,056,883
LIABILITIES:					
Accounts Payable and Other Current Liabilities	12,915,915	1,338,261	14,254,176	269,209	5,586
Due to Primary Government	0	0	0	36,103	0
Due to Other Governments	238,985	81,457	320,442	0	0
Compensated Absences Payable	3,206,479	511,645	3,718,124	0	0
Arbitrage Rebate Payable	0	379,003	379,003	0	0
Matured Bonds and Interest Payable	0	41,262	41,262	0	0
Accrued Interest Payable	929,287	542,990	1,472,277	137,317	0
Unearned Revenue	43,964,170	0	43,964,170	17,807	0
Liabilities Payable from Restricted Assets	0	139,353	139,353	155,099	0
Noncurrent Liabilities:					
Due Within One Year	8,250,016	5,499,595	13,749,611	432,189	0
Due in More Than One Year	74,623,255	48,318,603	122,939,858	2,067,811	0
OPEB Liability	5,426,075	493,268	5,919,343	0	0
Total Liabilities	149,554,182	57,343,437	206,897,619	3,115,535	5,586
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	251,706,778	142,403,592	394,110,370	13,169	313,341
Restricted for Debt Service	0	578,749	578,749	0	0
Restricted for Capital Improvements	30,247,255	540,370	30,787,625	0	0
Restricted for Perpetual Care (Nonexpendable)	152,691	0	152,691	0	0
Unrestricted	2,085,078	13,816,505	15,901,583	7,330,735	1,737,856
Total Net Assets	\$ 284,191,802	\$ 157,339,216	\$ 441,531,018	\$ 7,343,904	\$ 2,051,297

See accompanying notes to the basic financial statements.

CITY OF KINGSFORD, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Component Units - Emergency Communications District
Primary Government:									
General Government	\$ 10,448,110	\$ 139,937	\$ 164,889	\$ 6,677,067	\$ (3,487,207)	\$ 0	\$ (3,487,207)		
Public Safety	18,844,589	2,478,198	295,025	0	(17,071,366)	0	(17,071,366)		
Public Works	13,370,957	0	0	0	(13,370,957)	0	(13,370,957)		
Highways and Transportation	3,121,176	97,070	2,188,432	305,635	(530,039)	0	(530,039)		
Economic and Physical Development	4,087,855	513,585	414,787	0	(3,168,463)	0	(3,168,463)		
Culture and Recreation	6,802,922	748,935	137,078	0	(5,916,908)	0	(5,916,908)		
Education	66,083,108	2,472,281	28,648,288	0	(34,942,528)	0	(34,942,528)		
Interest on Long Term Debt	3,244,491	0	0	0	(3,244,491)	0	(3,244,491)		
Total Governmental Activities	128,993,208	6,449,016	31,848,530	6,982,702	(81,712,980)	0	(81,712,980)		
Business - Type Activities:									
Water	8,871,314	13,073,516	0	1,130,241	0	5,232,443	5,232,443		
Sewer	7,941,556	12,740,986	0	1,530,484	0	6,329,834	6,329,834		
Solid Waste Management	3,798,666	783,960	0	0	(3,014,706)	0	(3,014,706)		
MeadowView Conference Resort and Convention Center	1,246,702	283,188	0	0	(963,514)	0	(963,514)		
Cattails at MeadowView Golf Course	1,447,581	1,095,861	0	0	(351,730)	0	(351,730)		
Total Business - Type Activities	23,405,829	27,877,521	0	2,660,735	0	7,232,427	7,232,427		
Total Primary Government	\$ 150,399,037	\$ 34,428,537	\$ 31,848,530	\$ 9,643,437	(81,712,980)	7,232,427	(74,480,553)		
Component Units:									
Industrial Development Board	\$ 5,084,628	\$ 4,685,138	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (409,490)	\$ 0
Emergency Communications District	537,657	622,507	0	0	0	0	0	0	84,850
Total Component Units	\$ 5,622,285	\$ 5,307,645	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	(409,490)	84,850
General Revenues:									
Property Taxes					43,181,138	0	43,181,138	0	0
Sales Taxes					27,531,437	0	27,531,437	0	0
Alcoholic Beverage Taxes					1,458,593	0	1,458,593	0	0
Occupational Licenses and Business Taxes					1,951,834	0	1,951,834	0	0
Hotel / Motel Taxes					1,381,181	0	1,381,181	0	0
Income Taxes					1,324,987	0	1,324,987	0	0
Grants and Contributions Not Restricted to Specific Programs					641,999	0	641,999	0	10,000
Unrestricted Investment Earnings					3,382,236	1,024,862	4,407,098	167,919	87,902
Gain (Loss) on Disposal of Capital Assets					289,917	50	289,967	0	(2,437)
Miscellaneous Transfers					1,036,779	0	1,036,779	0	0
					(4,035,319)	4,035,319	0	0	0
Total General Revenues and Transfers					78,135,782	5,080,231	83,195,993	167,919	95,465
Change in Net Assets					(3,577,198)	12,282,658	8,715,460	(241,571)	180,315
Net Assets - Beginning					287,789,000	145,046,558	432,815,558	7,585,475	1,892,765
Prior Period Adjustments:					0	0	0	0	(4,436)
Additional Accumulated Depreciation Over Accrual of Due From Other Governments					0	0	0	0	(17,347)
Net Assets - Ending					\$ 284,181,802	\$ 157,339,216	\$ 441,531,018	\$ 7,343,904	\$ 2,051,297

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash	\$ 8,668	\$ 0	\$ 0	\$ 0	\$ 1,099,893	\$ 1,108,561
Equity in Pooled Cash and Investments	11,781,556	7,598,437	392,348	4,783,968	1,663,035	26,219,344
Long-Term Certificates of Deposit	0	0	0	0	365,434	365,434
Investments	0	0	0	0	395,926	395,926
Taxes Receivable, net	31,454,179	0	0	0	0	31,454,179
Accounts Receivable, net	718,256	38,975	1,225	0	0	758,456
Accrued Interest Receivable	0	0	102,684	0	165	102,829
Due from Other Governments	5,252,236	15,055,675	0	150,319	2,350,439	22,808,669
Due from Other Funds	3,455,049	879,460	0	0	45,766	4,380,275
Due from Component Unit	10,592	0	0	0	0	10,592
Inventories	1,863	11,961	0	0	119,902	133,726
Prepays	17,356	0	0	368,861	0	386,217
Cash - Restricted	0	0	98,328	26,633,817	319,995	27,052,140
Investments - Restricted	0	0	701,963	13,361,892	16,137	14,079,992
Total Assets	\$ 52,699,755	\$ 23,584,508	\$ 1,296,528	\$ 45,298,857	\$ 6,376,692	\$ 129,256,340
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 338,104	\$ 176,546	\$ 0	\$ 1,788,336	\$ 217,987	\$ 2,520,973
Compensated Absences Payable	2,027	7,209	0	0	0	9,236
Other Liabilities	2,297,139	5,994,827	123,750	0	5,073	8,420,789
Due to Other Governments	238,985	0	0	0	0	238,985
Due to Other Funds	0	0	0	0	1,264,962	1,264,962
Contracts Payable	0	0	0	589,072	0	589,072
Deferred Revenue	31,583,754	13,264,380	0	0	33,790	44,881,924
Total Liabilities	34,460,009	19,442,962	123,750	2,377,408	1,521,812	57,925,941

(continued)

CITY OF KINGSPOUR, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2008

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Reserved for:						
Encumbrances	281,638	351,377	32,013	12,848,061	619,862	14,132,951
Cattails at Meadowview	3,069,547	0	0	0	0	3,069,547
Industrial Park	20,927	0	0	0	0	20,927
Career Ladder	0	198,759	0	0	0	198,759
Safe Schools	0	15,472	0	0	0	15,472
Inventories	1,863	11,961	0	0	119,902	133,726
Prepays	17,356	0	0	0	0	17,356
Perpetual Care	0	0	0	0	152,691	152,691
Projects	0	15,000	0	0	158,867	173,867
State BEP	0	437,050	0	0	0	437,050
Unreserved, Reported in:						
General Fund	14,848,415	0	0	0	0	14,848,415
Debt Service Fund	0	0	1,140,765	0	0	1,140,765
Special Revenue Funds	0	3,111,927	0	0	3,783,265	6,895,192
Capital Projects Fund	0	0	0	30,073,388	0	30,073,388
Permanent Fund	0	0	0	0	20,293	20,293
Total Fund Balances	<u>18,239,746</u>	<u>4,141,546</u>	<u>1,172,778</u>	<u>42,921,449</u>	<u>4,854,880</u>	<u>71,330,399</u>
Total Liabilities and Fund Balances	<u>\$ 52,699,755</u>	<u>\$ 23,584,508</u>	<u>\$ 1,296,528</u>	<u>\$ 45,298,857</u>	<u>\$ 6,376,692</u>	<u>\$ 129,256,340</u>

See accompanying notes to the basic financial statements.

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CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

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

Total Fund Balance of Governmental Funds	\$ 71,330,399
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	283,360,771
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.	917,754
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	884,307
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, and employee health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	19,911,763
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(92,213,192)</u>
Net Assets of Governmental Activities	<u>\$ 284,191,802</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 34,196,929	\$ 20,061,412	\$ 0	\$ 0	\$ 3,214,653	\$ 57,472,994
Licenses and Permits	778,788	0	0	0	0	778,788
Intergovernmental	20,799,950	22,518,209	0	349,260	8,550,441	52,217,860
Charges for Services	1,270,450	1,057,623	0	0	1,612,036	3,940,109
Fines and Forfeitures	2,034,486	0	0	0	198,860	2,233,346
Investment Earnings	939,112	0	1,727,978	10,793	77,113	2,754,996
Contributions and Donations	7,350	0	0	152,983	225,175	385,508
Miscellaneous	346,667	365,513	0	2,719	0	714,899
Total Revenues	60,373,732	44,002,757	1,727,978	515,755	13,878,278	120,498,500
EXPENDITURES:						
Current:						
General Government	7,005,005	0	0	0	1,223,815	8,228,820
Public Safety	16,860,706	0	0	0	122,893	16,983,599
Public Works	5,639,582	0	0	0	0	5,639,582
Economic & Physical Development	3,282,588	0	0	0	398,874	3,681,462
Transportation	0	0	0	0	3,121,176	3,121,176
Culture and Recreation	4,462,490	0	0	0	132,185	4,594,675
Education	0	50,717,578	0	0	7,252,394	57,969,972
Miscellaneous	1,019,288	0	0	0	0	1,019,288
Debt Service:						
Principal	0	0	12,191,783	0	0	12,191,783
Interest	0	0	2,449,755	0	0	2,449,755
Bond Issuance Costs	0	0	85,747	303,809	0	389,556
Other Costs	0	0	7,590	0	0	7,590
Capital Outlay	898,876	227,162	0	19,417,440	719,572	21,263,050
Total Expenditures	39,168,535	50,944,740	14,734,875	19,721,249	12,970,909	137,540,308

(continued)

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over (Under) Expenditures	21,205,197	(6,941,983)	(13,006,897)	(19,205,494)	907,369	(17,041,808)
OTHER FINANCING SOURCES (USES):						
Transfers In	2,524,363	15,279,054	8,945,713	5,746,767	3,905,099	36,400,996
Transfers Out	(27,206,550)	(8,735,910)	(44,283)	(30,715)	(4,661,270)	(40,680,728)
Issuance of Debt	0	0	4,207,932	18,912,068	0	23,120,000
Premiums on Debt Issue	0	0	25,273	87,125	0	112,398
Sale of Building	800,000	0	0	0	0	800,000
Total Other Financing Sources (Uses)	(23,884,187)	6,543,144	13,134,635	24,715,245	(756,171)	19,752,666
Net Change in Fund Balances	(2,678,990)	(398,839)	127,738	5,509,751	151,198	2,710,858
Fund Balances, July 1, 2007	20,918,736	4,540,385	1,045,040	37,411,698	4,703,682	68,619,541
Fund Balances, June 30, 2008	<u>\$ 18,239,746</u>	<u>\$ 4,141,546</u>	<u>\$ 1,172,778</u>	<u>\$ 42,921,449</u>	<u>\$ 4,854,880</u>	<u>\$ 71,330,399</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

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

Net Change in Fund Balance of Governmental Funds	\$ 2,710,858
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay in the current period exceeded depreciation of general fixed assets.	10,772,605
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is a decrease to net assets.	(259,468)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(141,150)
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, and employee health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	752,719
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated Absences	(477,643)
OPEB Liability	(5,426,075)
Accrued Interest	(805,537)
The issuance of long term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of the principal of long term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	<u>(10,703,507)</u>
Change in Net Assets of Governmental Activities	<u>\$ (3,577,198)</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 Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes:				
General Property	\$ 29,702,300	\$ 29,702,300	\$ 29,771,313	\$ 69,013
Gross Receipts	3,525,700	4,107,400	4,425,616	318,216
Licenses and Permits	603,000	603,000	778,788	175,788
Intergovernmental:				
Federal	18,600	18,600	0	(18,600)
State	4,952,500	5,006,350	5,524,371	518,021
County	15,491,400	15,491,400	14,995,835	(495,565)
Local	272,500	272,500	279,744	7,244
Charges for Services	1,606,400	1,574,510	1,270,450	(304,060)
Fines and Forfeitures	2,049,000	2,049,000	2,034,486	(14,514)
Investment Earnings	1,300,000	1,300,000	939,112	(360,888)
Contributions and Donations	50,000	50,000	7,350	(42,650)
Miscellaneous	135,600	227,100	346,667	119,567
Total Revenues	<u>59,707,000</u>	<u>60,402,160</u>	<u>60,373,732</u>	<u>(28,428)</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	147,300	88,601	87,153	1,448
Judicial	30,800	26,565	26,129	436
City Attorney	412,000	438,928	430,455	8,473
City Manager	508,500	492,961	479,919	13,042
Deputy City Manager	101,000	40,688	2,997	37,691
Budget Office	135,600	143,734	135,552	8,182
Special Programs	1,542,300	1,682,518	1,673,009	9,509
Public Information Office	173,400	187,254	179,154	8,100
Personnel	903,400	893,446	820,462	72,984
Purchasing	207,600	218,276	210,047	8,229
Finance Administration	1,583,600	1,613,190	1,576,499	36,691
Information Services	997,000	1,056,397	1,045,964	10,433
Geographic Information	299,800	376,516	286,448	90,068
Grant Office	53,100	58,537	51,217	7,320
Total General Government	<u>7,095,400</u>	<u>7,317,611</u>	<u>7,005,005</u>	<u>312,606</u>

(continued)

**CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public Safety:				
Police Administration	1,670,400	1,821,194	1,807,788	13,406
Jail Operations	319,500	321,090	313,572	7,518
Training	311,400	268,232	245,996	22,236
Traffic School	29,800	15,324	9,757	5,567
Investigations	1,321,800	1,555,298	1,508,850	46,448
Patrol Division	5,128,900	5,036,490	4,976,149	60,341
Animal Control	117,000	127,192	116,910	10,282
Central Dispatch	957,500	972,003	952,619	19,384
Communications	255,600	236,921	219,061	17,860
Fire Control and Prevention	<u>6,761,600</u>	<u>6,804,669</u>	<u>6,710,004</u>	<u>94,665</u>
Total Public Safety	<u>16,873,500</u>	<u>17,158,413</u>	<u>16,860,706</u>	<u>297,707</u>
Public Works:				
Administration	373,600	386,549	377,395	9,154
Street Cleaning	393,100	455,844	448,077	7,767
Street Maintenance	1,750,600	1,653,084	1,614,511	38,573
Building Maintenance	1,380,200	1,488,497	1,460,372	28,125
Grounds Maintenance	963,900	974,720	964,447	10,273
Park Maintenance	392,200	385,092	337,914	47,178
Landscaping	<u>493,800</u>	<u>487,100</u>	<u>436,866</u>	<u>50,234</u>
Total Public Works	<u>5,747,400</u>	<u>5,830,886</u>	<u>5,639,582</u>	<u>191,304</u>
Economic and Physical Development:				
Administration	282,800	314,522	304,674	9,848
Planning	410,200	404,228	395,870	8,358
Transportation	1,021,700	1,036,469	994,839	41,630
Charter Bus Service	0	35,489	15,564	19,925
Engineering	1,074,700	1,070,056	1,058,221	11,835
Code Enforcement	<u>571,300</u>	<u>521,957</u>	<u>513,420</u>	<u>8,537</u>
Total Economic and Physical Development	<u>3,360,700</u>	<u>3,382,721</u>	<u>3,282,588</u>	<u>100,133</u>

(continued)

**CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Culture and Recreation:				
Administration	356,800	350,526	328,773	21,753
Parks and Recreation Centers	351,500	458,398	446,081	12,317
Swimming Pools	117,600	132,040	119,655	12,385
Athletics	590,500	563,336	543,584	19,752
Cultural Arts	245,200	261,025	244,521	16,504
Allandale	193,900	222,782	201,745	21,037
K - Play	200,300	207,781	195,897	11,884
Senior Citizens Center	401,500	399,140	383,817	15,323
Bays Mountain Park	975,400	978,776	963,603	15,173
Library	<u>1,060,300</u>	<u>1,059,793</u>	<u>1,034,814</u>	<u>24,979</u>
Total Culture and Recreation	<u>4,493,000</u>	<u>4,633,597</u>	<u>4,462,490</u>	<u>171,107</u>
Miscellaneous	<u>1,032,850</u>	<u>1,067,563</u>	<u>1,019,288</u>	<u>48,275</u>
Capital Outlay	<u>438,900</u>	<u>1,114,861</u>	<u>898,876</u>	<u>215,985</u>
Total Expenditures	<u>39,041,750</u>	<u>40,505,652</u>	<u>39,168,535</u>	<u>1,337,117</u>
Excess of Revenues Over Expenditures	<u>20,665,250</u>	<u>19,896,508</u>	<u>21,205,197</u>	<u>1,308,689</u>
Other Financing Sources (Uses):				
Transfers In	2,593,700	2,602,600	2,524,363	(78,237)
Transfers Out	(23,478,950)	(27,277,870)	(27,208,550)	69,320
Sale of Building	<u>0</u>	<u>0</u>	<u>800,000</u>	<u>800,000</u>
Net Other Financing Sources (Uses)	<u>(20,885,250)</u>	<u>(24,675,270)</u>	<u>(23,884,187)</u>	<u>791,083</u>
Net Change in Fund Balances	(220,000)	(4,778,762)	(2,678,990)	2,099,772
Fund Balances, July 1, 2007	<u>220,000</u>	<u>4,778,762</u>	<u>20,918,736</u>	<u>16,139,974</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,239,746</u>	<u>\$ 18,239,746</u>

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
County Taxes:				
Property Taxes	\$ 14,040,000	\$ 13,440,000	\$ 13,550,975	\$ 110,975
Gross Receipts Taxes	6,660,000	6,430,000	6,459,153	29,153
Other Taxes	62,000	62,000	51,284	(10,716)
Intergovernmental:				
Federal	178,400	185,127	190,490	5,363
State	20,120,000	21,807,575	21,778,710	(28,865)
County	0	549,009	549,009	0
Charges for Services	1,154,100	1,154,100	1,057,623	(96,477)
Miscellaneous	140,000	328,465	365,513	37,048
Total Revenues	<u>42,354,500</u>	<u>43,956,276</u>	<u>44,002,757</u>	<u>46,481</u>
EXPENDITURES:				
Instruction:				
Regular	26,711,841	27,945,363	27,312,161	633,202
Special Education	3,839,000	3,831,339	3,827,624	3,715
Vocational	1,312,200	1,317,075	1,292,511	24,564
Adult Education	163,800	178,868	171,797	7,071
Total Instruction	<u>32,026,841</u>	<u>33,272,645</u>	<u>32,604,093</u>	<u>668,552</u>
Student Support Services:				
Attendance	89,900	112,131	109,536	2,595
Health Services	421,200	484,981	474,591	10,390
Other	1,766,600	1,783,684	1,752,520	31,164
Total Student Support Services	<u>2,277,700</u>	<u>2,380,796</u>	<u>2,336,647</u>	<u>44,149</u>
Instructional Staff Support Services:				
Regular	2,672,100	2,754,472	2,652,073	102,399
Special Education	341,400	336,900	335,909	991
Vocational	143,100	144,400	142,748	1,652
Adult Education	146,500	147,600	140,887	6,713
Total Instructional Staff Support Services	<u>3,303,100</u>	<u>3,383,372</u>	<u>3,271,617</u>	<u>111,755</u>
General Administrative Support Services:				
Board of Education	920,250	931,100	928,588	2,512
Office of Superintendent	894,900	935,825	933,400	2,425
Total General Administrative Support Services	<u>1,815,150</u>	<u>1,866,925</u>	<u>1,861,988</u>	<u>4,937</u>

(continued)

**CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
School Administrative Support Services	2,424,200	2,357,058	2,342,587	14,471
Business Administrative Support Services	304,400	301,639	297,519	4,120
Operations and Maintenance Support Services:				
Operations	3,615,050	3,622,636	3,611,984	10,652
Plant Maintenance	1,801,600	2,477,100	2,394,424	82,676
Total Operations and Maintenance Support Services	5,416,650	6,099,736	6,006,408	93,328
Student Transportation Support Services	1,340,500	1,367,589	1,310,006	57,583
Noninstructional Services:				
After School Programs	173,750	176,748	170,768	5,980
Community Service	545,850	547,544	515,945	31,599
Total Noninstructional Services	719,600	724,292	686,713	37,579
Capital Outlay	1,208,059	472,556	227,162	245,394
Total Expenditures	50,836,200	52,226,608	50,944,740	1,281,868
Deficiency of Revenues Under Expenditures	(8,481,700)	(8,270,332)	(6,941,983)	1,328,349
OTHER FINANCING SOURCES (USES):				
Transfers In	15,493,400	15,493,400	15,279,054	(214,346)
Transfers Out	(7,122,200)	(8,911,703)	(8,735,910)	175,793
Total Other Financing Sources (Uses)	8,371,200	6,581,697	6,543,144	(38,553)
Net Change in Fund Balances	(110,500)	(1,688,635)	(398,839)	1,289,796
Fund Balances, July 1, 2007	110,500	1,688,635	4,540,385	2,851,750
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,141,546</u>	<u>\$ 4,141,546</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Business -Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
ASSETS:							
Current Assets:							
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	7,750,882	7,904,658	641,802	6,935	0	16,304,077	7,771,346
Investments	0	45	0	0	0	45	0
Accounts Receivable	1,871,912	1,712,093	42,728	58,067	48,825	3,734,625	5,753
Accrued Interest Receivable	62	0	0	0	0	62	240,904
Due from Other Governments	0	90,191	0	0	0	90,191	5,656
Due from Other Funds	0	0	0	0	0	0	876,722
Due from Component Units	10,715	14,796	0	0	0	25,511	0
Inventories	414,230	0	0	0	99,143	513,373	386,923
Prepays	1,444	0	0	0	0	1,444	125,231
Total Current Assets	10,085,807	9,721,783	684,530	65,002	148,988	20,706,090	9,412,535
Noncurrent Assets:							
Restricted Assets:							
Cash	34,394	104,959	0	85,000	0	224,353	446,585
Cash from Unspent Bonds	2,123,015	4,108,448	6,815	0	0	6,236,278	0
Long Term Certificates of Deposit	56,000	0	0	0	0	56,000	4,300,000
Investments	142,079	377,253	3,355	411,159	40,152	973,998	120,344
Total Restricted Assets	2,355,488	4,588,660	10,170	496,159	40,152	7,490,629	4,866,909
Capital Assets:							
Land	639,744	516,352	1,308,121	1,515,497	981,600	4,961,314	14,695
Buildings and Systems	77,888,704	140,279,319	155,508	21,545,085	1,158,156	241,026,772	0
Improvements Other Than Buildings	0	0	2,255,794	332,973	5,971,427	8,560,194	0
Machinery and Equipment	1,179,707	886,799	455,543	879,944	422,858	3,824,851	21,317,718
Construction in Progress	6,730,271	12,201,869	0	59,200	0	18,991,340	0
Less: Accumulated Depreciation	(30,878,186)	(45,678,382)	(1,258,993)	(6,850,822)	(2,914,576)	(87,380,959)	(14,132,328)
Total Capital Assets	55,560,240	108,205,957	2,915,973	17,687,877	5,619,465	189,983,512	7,200,085
Other Assets:							
Deposits	0	0	0	0	0	0	30,000
Unamortized Bond Costs	142,739	330,035	4,336	0	17,347	494,457	0
Total Other Assets	142,739	330,035	4,336	0	17,347	494,457	30,000
Total Noncurrent Assets	58,058,467	113,124,652	2,930,479	18,178,036	5,676,984	197,988,598	12,096,994
Total Assets	68,144,274	122,846,435	3,615,009	18,243,038	5,825,932	218,674,688	21,509,529

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

Business-Type Activities - Enterprise Funds

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
LIABILITIES:							
Current Liabilities:							
Accounts Payable	262,510	396,443	48,622	100,850	7,018	815,443	267,162
Due to Other Governments	81,457	0	0	0	0	81,457	0
Due to Other Funds	0	0	876,722	0	3,115,313	3,992,035	0
Compensated Absences Payable	260,524	145,329	105,792	0	0	511,645	88,935
Retainages Payable	34,394	104,959	0	0	0	139,353	0
Arbitrage Rebate Payable	76,316	295,884	6,803	0	0	379,003	0
Matured Bonds Payable	35,262	0	0	0	0	35,262	0
Matured Interest Payable	6,000	0	0	0	0	6,000	0
Accrued Interest Payable	149,989	387,169	5,832	0	0	542,990	0
General Obligation Bonds - Current	1,351,302	3,178,698	21,875	0	510,500	5,062,375	0
State Revolving Loan Current	122,016	315,204	0	0	0	437,220	0
Other Payables	416,182	106,636	0	0	0	522,818	1,241,669
Total Current Liabilities	2,795,952	4,930,322	1,085,646	100,850	3,632,831	12,525,801	1,597,766
Noncurrent Liabilities:							
General Obligation Bonds Payable (Net of Deferred Refunding Costs, Discounts and Premiums)	12,137,737	28,953,404	342,117	0	1,829,500	43,162,758	0
State Revolving Loan Payable	1,211,332	3,942,513	0	0	0	5,153,845	0
OPEB Liability	253,272	138,891	101,105	0	0	493,268	0
Total Noncurrent Liabilities	13,602,341	32,934,808	443,222	0	1,829,500	48,809,871	0
Total Liabilities	16,398,293	37,865,130	1,508,868	100,850	5,462,331	61,335,472	1,597,766
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	42,860,868	76,022,586	2,558,796	17,681,877	3,279,465	142,403,592	7,200,085
Restricted for Debt Service	198,141	377,253	3,355	0	0	578,749	0
Restricted for Capital Improvements	0	0	0	498,159	44,211	540,370	0
Reserved for Encumbrances	0	0	0	0	0	0	824,027
Unrestricted	8,686,972	8,581,466	(458,010)	(35,848)	(2,960,075)	13,816,505	11,887,651
Total Net Assets	\$ 51,745,981	\$ 84,981,305	\$ 2,106,141	\$ 18,142,188	\$ 363,601	\$157,339,216	\$ 19,911,763

See accompanying notes to the basic financial statements.

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CITY OF KINGSFORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Business - Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
OPERATING REVENUES:							
Charges and Fees	\$ 12,631,980	\$ 12,551,309	\$ 783,960	\$ 283,188	\$ 1,095,861	\$ 27,346,278	\$ 12,803,140
Penalties and Fines	414,291	185,288	0	0	0	599,559	0
Miscellaneous	27,265	4,419	0	0	0	31,684	9,060
Total Operating Revenue	13,073,516	12,740,996	783,960	283,188	1,095,861	27,977,521	12,812,200
OPERATING EXPENSES:							
Operating Costs	6,615,169	3,963,017	3,692,347	631,837	1,080,637	15,983,007	11,555,488
Depreciation	1,830,681	2,807,051	91,569	587,728	269,344	5,586,391	1,402,053
Total Operating Expenses	8,445,850	6,770,068	3,783,936	1,219,563	1,349,981	21,569,398	12,957,541
Operating Income (Loss)	4,627,666	5,970,928	(2,999,976)	(936,375)	(254,120)	6,408,123	(145,341)
NONOPERATING REVENUES (EXPENSES):							
Investment Earnings	391,995	578,535	33,239	19,329	1,764	1,024,862	637,241
Interest Expense	(503,132)	(1,103,299)	(14,342)	(24,223)	(92,971)	(1,737,967)	0
Gain on Disposal of Capital Assets	50	0	0	0	0	50	10,750
Amortization Expense	(18,873)	(44,527)	(345)	(2,916)	(4,639)	(71,300)	0
Arbitrage Expense	(3,459)	(23,662)	(43)	0	0	(27,164)	0
Other Revenue	0	0	0	0	0	0	5,656
Total Nonoperating Revenues (Expenses)	(133,419)	(592,953)	18,509	(7,810)	(95,846)	(811,519)	653,647
Income (Loss) Before Capital Contributions and Transfers	4,494,247	5,377,975	(2,981,467)	(944,195)	(349,986)	5,596,604	508,306
Capital Contributions	1,130,241	1,530,494	0	0	0	2,660,735	0
Transfers In	87,163	0	3,084,800	2,492,199	624,591	6,288,753	244,413
Transfers Out	(1,223,870)	(1,029,564)	0	0	0	(2,253,434)	0
Change in Net Assets	4,487,781	5,878,905	103,333	1,548,014	274,625	12,292,658	752,719
Net Assets, July 1, 2007	47,258,200	79,102,400	2,002,808	16,594,174	88,976	145,046,558	19,159,044
Net Assets, June 30, 2008	\$ 51,745,981	\$ 84,981,305	\$ 2,106,141	\$ 18,142,188	\$ 363,601	\$ 157,339,216	\$ 19,911,763

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Business Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from Customers and Users	\$ 12,974,087	\$ 12,503,213	\$ 758,814	\$ 342,143	\$ 1,123,754	\$ 27,700,021	\$ 0	
Receipts from Interfund Services Provided	108,521	200,428	0	0	0	308,950	12,814,188	
Payments to Suppliers	(2,379,263)	(1,483,402)	(2,224,881)	(623,850)	(1,087,087)	(7,808,463)	(10,220,348)	
Payments to Employees	(3,792,233)	(2,072,763)	(1,527,198)	0	0	(7,392,194)	(1,332,581)	
Net Cash Provided (Used) by Operating Activities	6,911,122	9,147,477	(2,985,265)	(281,707)	28,687	12,808,314	1,281,279	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Transfers from Other Funds	87,163	0	3,084,800	2,492,199	624,591	6,288,753	0	
Transfers to Other Funds	(1,223,870)	(1,029,564)	0	0	0	(2,253,434)	0	
Advances From Other Funds	0	0	(149,778)	(88,362)	(22,809)	(281,049)	149,778	
Net Cash Provided (Used) by Noncapital Financing Activities	(1,136,707)	(1,029,564)	2,935,022	2,403,837	601,682	3,774,270	149,778	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Proceeds from Capital Debt	1,183,708	531,374	0	0	0	1,715,082	0	
Capital Transfers from Other Funds	0	0	0	0	0	0	244,413	
Acquisition and Construction of Capital Assets	(1,975,111)	(4,422,663)	28,880	(98,070)	(49,044)	(6,487,888)	(2,131,988)	
Principal Paid on Capital Debt	(1,413,996)	(3,857,850)	(21,250)	(2,045,000)	(485,000)	(7,823,096)	0	
Interest Paid on Capital Debt	(522,785)	(1,182,159)	(14,792)	(51,125)	(92,871)	(1,863,832)	0	
Proceeds from Sales of Capital Assets	50	0	0	0	0	50	14,550	
Net Cash Used by Capital and Related Financing Activities	(2,728,134)	(6,931,198)	(9,152)	(2,164,195)	(627,015)	(14,459,894)	(1,873,023)	
CASH FLOWS FROM INVESTING ACTIVITIES:								
Proceeds from Sales and Maturities of Investments	0	0	9,348	29,871	0	39,019	1,500,000	
Purchase of Investments	(94,285)	(125,047)	0	0	(3,118)	(222,450)	(1,508,940)	
Interest Received	391,995	578,531	33,238	19,328	1,784	1,024,857	484,423	
Net Cash Provided (Used) by Investing Activities	297,710	453,484	42,586	49,000	(1,354)	841,428	455,483	
Net Increase (Decrease) in Cash and Cash Equivalents	3,343,991	(369,601)	(26,809)	6,935	0	2,964,316	(6,483)	
Cash and Cash Equivalents, July 1, 2007	6,000,862	12,475,886	675,426	85,000	0	19,837,154	8,224,394	
Cash and Cash Equivalents, June 30, 2008	\$ 9,944,853	\$ 12,116,085	\$ 848,617	\$ 91,935	\$ 0	\$ 22,801,470	\$ 8,217,911	

(continued)

**CITY OF KINGSFORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008**

	Business Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
\$ 4,827,668	\$ 5,970,928	\$ (2,998,978)	\$ (936,375)	\$ (254,120)	\$ 6,408,123	\$ (145,341)	
1,830,661	2,807,051	91,589	587,726	289,344	5,586,391	1,402,053	
6,354	(37,354)	(27,146)	58,955	27,893	28,702	1,986	
(43,008)	0	0	0	(933)	(43,941)	(20,440)	
8,560	0	0	0	0	8,560	(7,287)	
68,716	156,913	(166,307)	7,987	(15,497)	52,812	(52,535)	
22,038	10,812	5,470	0	0	38,320	13,467	
253,272	138,891	101,105	0	0	493,268	0	
101,449	52,789	0	0	0	154,238	69,376	
34,394	47,447	0	0	0	81,841	0	
\$ 6,911,122	\$ 9,147,477	\$ (2,895,265)	\$ (281,707)	\$ 29,697	\$ 12,808,314	\$ 1,281,279	

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:
 Accounts Receivable
 Inventory
 Prepaids
 Increase (Decrease) in Liabilities:
 Accounts Payable
 Compensated Absences
 OPEB Liability
 Other Payables
 Retainages Payable

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 Cash from Unspent Bonds
 Restricted Cash
 Cash and Cash Equivalents, June 30, 2008

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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 Fiscal Year Ended June 30, 2008

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 Fiscal Year Ended June 30, 2008

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 Fiscal Year Ended June 30, 2008

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 Fiscal Year Ended June 30, 2008

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 Park 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 annexation 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.

The *visitors enhancement fund* accounts for 25% of the hotel and motel taxes collected in Kingsport from hotel and motel room rentals. This revenue is intended to fund special visitor enhancement projects.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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.

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 Fiscal Year Ended June 30, 2008

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
For the Fiscal Year Ended June 30, 2008

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 \$5,000 and an estimated useful life in excess of two years for property, plant and equipment and assets with an initial, individual cost of more than \$100,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 \$613,017 and \$1,528,054, respectively. Of these amounts, \$109,885 and \$424,755, 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$283,360,771 difference are as follows:

Governmental funds capital assets	\$ 444,548,337
Less: accumulated depreciation	<u>(161,187,566)</u>
 Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$ 283,360,771</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 \$884,307 difference are as follows:

Deferred bond issuance costs	\$ 1,129,782
Less: accumulated amortization	<u>(245,475)</u>
 Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$ 884,307</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 \$(92,213,192) difference are as follows:

Bonds payable	\$ (73,954,097)
Notes payable	(4,819,174)
Interlocal cooperative agreement	(2,500,000)
Capital outlay notes payable	(1,600,000)
Compensated absences	(3,108,307)
OPEB liability	(5,426,075)
Accrued interest payable	<u>(805,539)</u>
 Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$ (92,213,192)</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2008

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 capital outlays exceeded depreciation of the general fixed assets in the current period." The details of this \$10,772,605 difference are as follows:

Capital outlays	\$ 21,263,051
Depreciation expense	<u>(10,490,446)</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>10,772,605</u>

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets." The details of this \$(259,468) difference are as follows:

Capital asset donations reported in statement of activities	\$ 6,172,105
Capital project expenditures not meeting capitalization requirements	(5,831,708)
Asset disposals	<u>(599,865)</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>(259,468)</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 \$(141,150) difference are as follows:

Deferred property taxes as of June 30, 2008	\$ 917,754
Prior years' property taxes collected during current year	<u>(1,058,904)</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>(141,150)</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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

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

Another element of that reconciliation states that "the net revenue of certain activities of internal service funds is reported with governmental activities." The details of this \$752,719 difference are as follows:

Investment earnings	\$ 637,241
State grant	5,656
Gain on disposal of capital assets	10,750
Operating loss	(145,341)
Transfers In	<u>244,413</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>752,719</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$(10,703,507) difference are as follows:

Principal repayments	\$ 12,191,783
Issuance of capital outlay note	(4,000,000)
Issuance of general obligation bonds and notes	(19,120,000)
Premium on issuance of general obligation bonds	(112,398)
Amortization of premiums, discounts and refunding costs	10,801
Bond issue costs	385,781
Amortization of deferred bond issue costs	<u>(59,474)</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>(10,703,507)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary Information

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

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

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

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

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as 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 fiscal year ended June 30, 2008, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

For the fiscal year ended June 30 2008, there were no instances of deficit fund equity in any funds.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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.

At year end, the City's carrying amount of deposits was \$85,353,996 and the bank balance was \$88,717,055. Of the bank balance, \$600,000 was covered by federal depository insurance with the remaining balance of \$88,117,055 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 \$1,778,528 and the bank balance was \$2,051,593. Of the bank balance, \$200,000 was covered by federal depository insurance. Of the remaining balance, \$1,637,467 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, \$100,000 was covered by the Securities Investor Protection Corporation and \$115,126 was protected with insurance coverage held by the entity's agent in the IDBK's name.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$1,639,746 and the bank balance was \$1,651,974. Of the bank balance, \$500,000 was covered by federal depository insurance, with the remaining balance of \$1,151,974 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 ECD's name.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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.

The City's investments generally include long term certificates of deposit with the State of Tennessee Local Government Investment Pool (LGIP).

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

At 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	\$ 4,721,434	0.24
Tennessee Local Government Investment Pool	<u>15,570,305</u>	0.21
Total	\$ <u>20,291,739</u>	

The City does not have a policy for determining which investments will be recorded at amortized cost. No investments are recorded at amortized cost at June 30, 2008.

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 KINGSPOUR, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2008 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	Debt Service	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	\$32,258,196	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$32,258,196	\$ -
Accounts Intergovernmental	727,508	61,623	1,225	-	1,948,856	1,980,151	49,878	59,067	49,825	5,753	-	4,882,984	41,785
	5,252,238	15,055,675	-	150,319	-	90,191	-	-	-	5,856	2,350,439	22,904,516	18,070
Gross receivables	38,235,938	15,117,298	1,225	150,319	1,948,856	2,070,342	49,878	59,067	49,825	11,408	2,350,439	80,043,696	59,855
Less: Allowances for uncollectibles	(811,287)	(22,648)	-	-	(78,944)	(288,058)	(7,250)	-	-	-	-	(1,186,187)	-
Net total receivables	\$37,424,651	\$15,094,650	\$1,225	\$150,319	\$1,871,912	\$1,802,284	\$42,728	\$59,067	\$49,825	\$11,408	\$2,350,439	\$88,857,529	\$59,855

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	\$ 205,287
Uncollectibles related to water sales	(49,625)
Uncollectibles related to sewer charges	(6,393)
Uncollectibles related to solid waste charges	539
Total uncollectibles of the current fiscal year	<u>\$ 149,808</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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)	\$ -	\$30,266,000
Delinquent property taxes receivable (general fund)	917,754	-
Other taxes receivable (general fund)	-	400,000
Property taxes receivable (general purpose school fund)	-	13,260,000
Grant drawdowns receivable (general purpose school fund)	-	4,380
Grant drawdowns receivable (special school project fund)	-	5,647
Receipts for meals not yet served (school nutrition services)	-	28,143
Total deferred / unearned revenue for governmental funds	\$ 917,754	\$43,964,170

Property taxes which are delinquent at year end are earned but not available. The tax year 2008 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1. Unearned revenue is considered a liability in the government wide statement of net assets. However deferred revenue at the fund financial statement level includes both unearned and unavailable revenues.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2008, was as follows:

Primary government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 13,303,601	\$ 5,485,226	\$ -	\$ -	\$ 18,788,827
Construction in Progress	38,486,595	19,634,124	(6,911,448)	-	51,209,271
Total capital assets, not being depreciated	51,790,196	25,119,350	(6,911,448)	-	69,998,098
Capital assets, being depreciated:					
Buildings	90,885,181	673,137	(550,000)	-	91,008,318
Improvements other than buildings	10,578,656	1,195,813	-	-	11,774,469
Equipment	32,334,891	2,756,905	(873,202)	-	34,218,594
Software	283,042	-	-	-	283,042
Infrastructure	257,689,751	908,478	-	-	258,598,229
Total capital assets, being depreciated	391,771,521	5,534,333	(1,423,202)	-	395,882,652
Less accumulated depreciation for:					
Buildings	(41,845,144)	(4,115,206)	9,167	-	(45,951,183)
Improvements other than buildings	(6,227,747)	(777,849)	-	-	(7,005,596)
Equipment	(22,971,052)	(2,105,599)	803,569	-	(24,273,082)
Software	(180,108)	(28,972)	-	-	(209,080)
Infrastructure	(93,016,081)	(4,864,873)	-	-	(97,880,954)
Total accumulated depreciation	(164,240,132)	(11,892,499)	812,736	-	(175,319,895)
Total capital assets, being depreciated, net	227,531,389	(6,358,166)	(610,466)	-	220,562,757
Governmental activities capital assets, net	\$ 279,321,585	\$ 18,761,184	\$ (7,521,914)	\$ -	\$ 290,560,855

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Amount
Business-type activities:					
Capital assets, not being depreciated:					
<u>Water</u>					
Land	\$ 639,744	\$ -	\$ -	\$ -	\$ 639,744
Construction in Progress	8,260,981	1,252,447	(2,783,157)	-	6,730,271
<u>Sewer</u>					
Land	516,352	-	-	-	516,352
Construction in Progress	21,634,672	3,881,966	(13,314,769)	-	12,201,869
<u>Solid waste management</u>					
Land	1,308,121	-	-	-	1,308,121
Construction in Progress	521,259	-	(521,259)	-	-
<u>Meadowview Conference Resort and Convention Center</u>					
Land	1,515,497	-	-	-	1,515,497
Construction in Progress	-	59,200	-	-	59,200
<u>Cattails at Meadowview Golf Course</u>					
Land	981,600	-	-	-	981,600
Total capital assets, not being depreciated	35,378,226	5,193,613	(16,619,185)	-	23,952,654
Capital assets, being depreciated:					
<u>Water</u>					
Buildings and system	73,354,111	4,534,593	-	-	77,888,704
Equipment and machinery	1,119,921	102,970	(43,184)	-	1,179,707
<u>Sewer</u>					
Buildings and system	124,646,495	15,632,824	-	-	140,279,319
Equipment and machinery	915,988	14,270	(43,459)	-	886,799
<u>Solid waste management</u>					
Buildings and system	155,508	-	-	-	155,508
Improvements other than Buildings	2,186,362	69,432	-	-	2,255,794
Equipment and machinery	31,082	424,461	-	-	455,543
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	21,545,085	-	-	-	21,545,085
Improvements other than Buildings	324,103	8,870	-	-	332,973
Equipment	879,944	-	-	-	879,944
<u>Cattails at MeadowView Golf Course</u>					
Buildings	1,158,156	-	-	-	1,158,156
Improvements other than Buildings	5,971,427	-	-	-	5,971,427
Equipment	373,813	49,045	-	-	422,858
Total capital assets, being depreciated	232,661,995	20,836,465	(86,643)	-	253,411,817

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Amount
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(28,186,791)	(1,796,903)	-	-	(29,983,694)
Equipment and machinery	(902,398)	(33,778)	41,684	-	(894,492)
<u>Sewer</u>					
Buildings and system	(42,055,989)	(2,785,677)	-	-	(44,841,666)
Equipment and machinery	(857,801)	(21,374)	42,459	-	(836,716)
<u>Solid waste management</u>					
Buildings and system	(66,666)	(4,833)	-	-	(71,499)
Improvements other than Buildings	(1,077,068)	(78,010)	-	-	(1,155,078)
Equipment and machinery	(23,670)	(8,746)	-	-	(32,416)
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	(5,079,975)	(539,761)	-	-	(5,619,736)
Improvements other than Buildings	(124,608)	(42,511)	-	-	(167,119)
Equipment	(858,513)	(5,454)	-	-	(863,967)
<u>Cattails at MeadowView Golf Course</u>					
Buildings	(262,346)	(29,299)	-	-	(291,645)
Improvements other than Buildings	(2,029,059)	(230,251)	-	-	(2,259,310)
Equipment	(353,827)	(9,794)	-	-	(363,621)
Total accumulated depreciation	<u>(81,878,711)</u>	<u>(5,586,391)</u>	<u>84,143</u>	<u>-</u>	<u>(87,380,959)</u>
Total capital assets, being depreciated, net	<u>150,783,284</u>	<u>15,250,074</u>	<u>(2,500)</u>	<u>-</u>	<u>166,030,858</u>
Business-type activities capital assets, net	<u>\$ 186,161,510</u>	<u>\$ 20,443,687</u>	<u>\$ (16,621,685)</u>	<u>\$ -</u>	<u>\$ 189,983,512</u>

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

Governmental activities:	
General government	\$ 368,034
Economic and physical development	199,540
Public safety	874,311
Public works	5,603,417
Culture and recreation	985,548
Education	<u>3,861,649</u>
Total depreciation expense – governmental activities	<u>\$ 11,892,499</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Business-type activities:

Water	\$ 1,830,681
Sewer	2,807,051
Solid waste management	91,589
MeadowView Conference Resort and Convention Center	587,726
Cattails at MeadowView Golf Course	<u>269,344</u>

Total depreciation expense – business-type activities \$ 5,586,391

Construction commitments

The City has active construction projects as of June 30, 2008. 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 \$39,137,567 and \$319,995 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 \$6,236,278. 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, 2008, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Amount
Capital assets, being depreciated:					
Signs	\$ 55,422	\$ -	\$ -	\$ -	\$ 55,422
Improvements other than buildings	20,303	-	-	-	20,303
Total capital assets, being depreciated	75,725	-	-	-	75,725
Less accumulated depreciation for:					
Signs	(39,169)	(3,084)	-	-	(42,253)
Improvements other than buildings	(20,303)	-	-	-	(20,303)
Total accumulated depreciation	(59,472)	(3,084)	-	-	(62,556)
Total capital assets, being depreciated, net	16,253	(3,084)	-	-	13,169
IDBK capital assets, net	\$ 16,253	\$ (3,084)	\$ -	\$ -	\$ 13,169

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Activity for the ECD for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Amount
Capital assets, being depreciated:					
Equipment	\$ 649,562	\$ 54,392	\$ (8,414)	\$ -	\$ 695,540
Total capital assets, being depreciated	649,562	54,392	(8,414)	-	695,540
Less accumulated depreciation for:					
Equipment	(297,388)	(86,737)	5,926	(4,000)	(382,199)
Total accumulated depreciation	(297,388)	(86,737)	5,926	(4,000)	(382,199)
Total capital assets, being depreciated, net	352,174	(32,345)	(2,488)	(4,000)	313,341
ECD capital assets, net	<u>\$ 352,174</u>	<u>\$ (32,345)</u>	<u>\$ (2,488)</u>	<u>\$ (4,000)</u>	<u>\$ 313,341</u>

D. Interfund receivables, payables, and transfers

Interfund receivables and payables

The composition of interfund balances as of June 30, 2008, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General (major)	Cattails at MeadowView Golf Course (major)	\$ 3,069,547
	Community development (nonmajor)	37,527
	Federal transit administration (nonmajor)	234,525
	Metropolitan planning office (nonmajor)	65,578
	State street aid (nonmajor)	46,001
	Senior Citizens Advisory Board (nonmajor)	1,871
General purpose school (major)	Public law 93-380 (nonmajor)	610,837
	Special school projects (nonmajor)	268,623
Regional sales tax (major)	Cattails at MeadowView Golf Course (major)	45,766
Fleet maintenance (internal service)	Solid waste management (major)	<u>876,722</u>
	Total	<u>\$ 5,256,997</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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	\$ 10,592
Primary government – Sewer Fund	Component unit - IDBK	14,796
Primary government – Water Fund	Component unit - IDBK	<u>10,715</u>
Total		<u>\$ 36,103</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 and also to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. 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	Solid Waste Management	MeadowView Conference Resort and Convention Center	Catfalls at MeadowView Golf Course	Total Internal Service
General	\$ -	\$ 14,747,167	\$ 1,775,027	\$ 4,014,622	\$ 3,388,844	\$ 23,925,860	\$ -	\$ 3,084,800	\$ -	\$ -	\$ 198,090
General Purpose School	185,376	-	6,664,154	1,687,910	152,147	8,689,587	-	-	-	-	46,323
Debt Service	-	-	-	44,283	-	44,283	-	-	-	-	-
Capital Projects	30,715	-	-	-	-	30,715	-	-	-	-	44,283
Nonmajor Governmental	150,504	531,887	506,532	(48)	355,605	1,544,480	-	2,492,199	624,591	3,116,790	30,715
Total Governmental	366,595	15,279,054	8,945,713	5,748,767	3,896,586	34,234,725	-	3,084,800	2,492,199	6,201,590	244,413
Water	1,222,932	-	-	-	938	1,223,870	-	-	-	-	-
Sewer	934,836	-	-	-	7,585	942,401	87,163	-	-	87,163	-
Total Proprietary	2,157,768	-	-	-	8,503	2,166,271	87,163	-	-	87,163	-
Total	\$ 2,524,363	\$ 15,279,054	\$ 8,945,713	\$ 5,748,767	\$ 3,905,099	\$ 36,400,996	\$ 87,163	\$ 3,084,800	\$ 2,492,199	\$ 6,288,753	\$ 244,413
											\$ 42,934,162

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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, 2008, the following bonds outstanding are considered to be defeased:

<u>Date of Refunding</u>		<u>Amount</u>	<u>Issues Refunded</u>
03/15/04	General Obligation	\$3,830,000	1999, 2001
03/15/04	Water & Sewer System Revenue	<u>4,970,000</u>	1999, 2001
		<u>\$ 8,800,000</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 \$413,697 with a maturity date of November 11, 2011. Annual principal payments are \$34,474 and the interest is variable. As of June 30, 2008, \$137,905 is outstanding. The City also issued a loan for Qualified Zone Academy Projects in November 2004 for \$3,524,680 with a maturity date of November 2020. Annual principal payments are \$220,293 and the interest rate is variable. As of June 30, 2008, \$2,863,802 is outstanding. The City also issued a loan for the Qualified Zone Academy Bonds in December 2005 for \$1,549,000 with a maturity date of December 2020. Annual principal payments are \$103,267 and the interest rate is variable. As of June 30, 2008, \$1,342,466 is outstanding.

The City issued a General Obligation Capital Outlay Note, Series 2007 on May 2, 2007 for \$1,600,000 for energy management improvement projects. The note has an annual interest rate of 4.12% with a maturity date of May 2019.

The City issued a Local Government Energy Efficiency Note on May 25, 2007 for \$475,000 for energy efficiency improvement projects. The note is interest free with a maturity date of July 15, 2014.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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 QZAB	2004 QZAB	2005 QZAB	Capital Outlay Note	Energy Efficiency Loan
2009	\$ 34,474	\$ 220,293	\$ 103,266	\$ 121,000	\$ 67,857
2010	34,474	220,292	103,267	123,000	67,857
2011	34,474	220,293	103,266	128,000	67,857
2012	34,483	220,292	103,267	133,000	67,857
2013	-	220,293	103,266	139,000	67,857
2014	-	220,292	103,267	144,000	67,857
2015	-	220,293	103,266	150,000	67,858
2016	-	220,292	103,267	156,000	-
2017	-	220,293	103,266	162,000	-
2018	-	220,292	103,267	169,000	-
2019	-	220,293	103,267	175,000	-
2020	-	220,292	103,267	-	-
2021	-	220,292	103,267	-	-
	<u>\$ 137,905</u>	<u>\$ 2,863,802</u>	<u>\$ 1,342,466</u>	<u>\$ 1,600,000</u>	<u>\$ 475,000</u>

Interlocal Cooperative Agreement

The City entered into an interlocal cooperative agreement in October 2006 to contribute \$2,500,000 to IDBK for the purchase of property for commercial development in the City. This contribution is to be made in five installments of \$500,000 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
For the Fiscal Year Ended June 30, 2008

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:

Debt Service Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2008
1999 General Obligation Refunding and Improvement	03/01, 09/01	04/01/99	\$ 5,975,000	4.000%-4.250%	\$ 445,000
2001 General Obligation	03/01, 09/01	11/06/01	2,620,000	1.750%-4.000%	365,000
2002A General Obligation Refunding	01/01, 07/01	08/28/02	12,500,000	4.000%-4.500%	5,500,000
2003 General Obligation	04/01, 10/01	12/01/03	7,900,000	2.000%-4.200%	5,960,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	5,825,000	2.200%-5.000%	5,825,000
2004 General Obligation School	05/01, 11/01	12/06/04	2,850,000	3.000%-4.000%	2,335,000
2005 General Obligation	02/01, 08/01	12/06/05	2,826,250	3.750%-5.000%	2,537,500
2006 General Obligation	02/01, 08/01	12/20/06	13,320,000	3.625%-4.100%	13,320,000
2007 General Obligation	08/01, 02/01	06/08/07	19,360,000	4.000%-5.000%	19,360,000
2008A General Obligation	03/01, 09/01	06/12/08	7,480,000	3.500%-4.375%	7,480,000
2008B General Obligation	03/01, 09/01	06/12/08	11,165,000	3.500%-4.375%	11,165,000
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of \$338,402)					<u>\$ 74,292,500</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 445,000	\$ 18,913	\$ 463,913
	<u>\$ 445,000</u>	<u>\$ 18,913</u>	<u>\$ 463,913</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 180,000	\$ 14,600	\$ 194,600
2010	185,000	7,400	192,400
	<u>\$ 365,000</u>	<u>\$ 22,000</u>	<u>\$ 387,000</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 5,500,000	\$ 247,500	\$ 5,747,500
	<u>\$ 5,500,000</u>	<u>\$ 247,500</u>	<u>\$ 5,747,500</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 Ending June 30	Principal	Interest	Total
2009	\$ 500,000	\$ 218,114	\$ 718,114
2010	525,000	203,114	728,114
2011	550,000	187,364	737,364
2012	560,000	169,489	729,489
2013	580,000	149,889	729,889
2014	600,000	129,589	729,589
2015	625,000	107,089	732,089
2016	650,000	82,870	732,870
2017	670,000	56,870	726,870
2018	700,000	29,400	729,400
	<u>\$ 5,960,000</u>	<u>\$ 1,333,788</u>	<u>\$ 7,293,788</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 245,000	\$ 254,365	\$ 499,365
2010	730,000	248,975	978,975
2011	950,000	219,775	1,169,775
2012	985,000	181,775	1,166,775
2013	1,040,000	142,375	1,182,375
2014	1,085,000	90,375	1,175,375
2015	565,000	36,125	601,125
2016	225,000	7,875	232,875
	<u>\$ 5,825,000</u>	<u>\$ 1,181,640</u>	<u>\$ 7,006,640</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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 Ending June 30	Principal	Interest	Total
2009	\$ 180,000	\$ 85,365	\$ 265,365
2010	185,000	79,515	264,515
2011	200,000	73,503	273,503
2012	200,000	67,002	267,002
2013	200,000	60,003	260,003
2014	200,000	53,002	253,002
2015	220,000	45,803	265,803
2016	225,000	37,662	262,662
2017	225,000	29,000	254,000
2018	250,000	20,000	270,000
2019	250,000	10,000	260,000
	<u>\$ 2,335,000</u>	<u>\$ 560,855</u>	<u>\$ 2,895,855</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 153,125	\$ 97,973	\$ 251,098
2010	157,500	92,230	249,730
2011	166,250	86,324	252,574
2012	175,000	80,090	255,090
2013	175,000	73,527	248,527
2014	183,750	66,965	250,715
2015	192,500	57,777	250,277
2016	201,250	48,152	249,402
2017	218,750	38,090	256,840
2018	218,750	31,527	250,277
2019	227,500	24,965	252,465
2020	231,875	18,140	250,015
2021	236,250	9,155	245,405
	<u>\$ 2,537,500</u>	<u>\$ 724,915</u>	<u>\$ 3,262,415</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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	Principal	Interest	Total
2009	\$ -	\$ 525,221	\$ 525,221
2010	525,000	525,221	1,050,221
2011	545,000	504,222	1,049,222
2012	565,000	482,421	1,047,421
2013	585,000	459,821	1,044,821
2014	610,000	437,884	1,047,884
2015	630,000	415,009	1,045,009
2016	655,000	391,384	1,046,384
2017	680,000	367,640	1,047,640
2018	710,000	342,990	1,052,990
2019	735,000	314,590	1,049,590
2020	765,000	285,190	1,050,190
2021	795,000	254,590	1,049,590
2022	830,000	222,790	1,052,790
2023	865,000	189,590	1,054,590
2024	900,000	154,990	1,054,990
2025	935,000	118,990	1,053,990
2026	975,000	81,590	1,056,590
2027	1,015,000	41,615	1,056,615
	<u>\$ 13,320,000</u>	<u>\$ 6,115,748</u>	<u>\$ 19,435,748</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	\$ 818,050	\$ 818,050
2010	745,000	818,050	1,563,050
2011	775,000	784,525	1,559,525
2012	810,000	751,588	1,561,588
2013	840,000	719,187	1,559,187
2014	875,000	685,588	1,560,588
2015	910,000	650,587	1,560,587
2016	945,000	614,188	1,559,188
2017	1,000,000	566,937	1,566,937
2018	1,040,000	516,938	1,556,938
2019	1,075,000	475,337	1,550,337
2020	1,115,000	432,338	1,547,338
2021	1,160,000	387,737	1,547,737
2022	1,210,000	339,888	1,549,888
2023	1,260,000	289,975	1,549,975
2024	1,315,000	238,000	1,553,000
2025	1,370,000	182,112	1,552,112
2026	1,425,000	123,888	1,548,888
2027	1,490,000	63,325	1,553,325
	<u>\$ 19,360,000</u>	<u>\$ 9,458,238</u>	<u>\$ 28,818,238</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	\$ 216,364	\$ 216,364
2010	275,000	300,738	575,738
2011	285,000	291,113	576,113
2012	295,000	281,138	576,138
2013	305,000	270,813	575,813
2014	315,000	258,613	573,613
2015	330,000	246,013	576,013
2016	340,000	232,813	572,813
2017	355,000	219,213	574,213
2018	370,000	206,788	576,788
2019	380,000	191,988	571,988
2020	400,000	176,788	576,788
2021	415,000	160,788	575,788
2022	430,000	144,188	574,188
2023	450,000	126,988	576,988
2024	465,000	108,425	573,425
2025	485,000	88,663	573,663
2026	505,000	68,050	573,050
2027	530,000	46,588	576,588
2028	550,000	24,063	574,063
	<u>\$ 7,480,000</u>	<u>\$ 3,660,135</u>	<u>\$ 11,140,135</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	\$ 322,959	\$ 322,959
2010	410,000	448,900	858,900
2011	425,000	434,550	859,550
2012	440,000	419,675	859,675
2013	455,000	404,275	859,275
2014	470,000	386,075	856,075
2015	490,000	367,275	857,275
2016	510,000	347,675	857,675
2017	530,000	327,275	857,275
2018	550,000	308,725	858,725
2019	570,000	286,725	856,725
2020	595,000	263,925	858,925
2021	620,000	240,125	860,125
2022	645,000	215,325	860,325
2023	670,000	189,525	859,525
2024	695,000	161,888	856,888
2025	725,000	132,350	857,350
2026	755,000	101,537	856,537
2027	790,000	69,450	859,450
2028	820,000	35,875	855,875
	<u>\$ 11,165,000</u>	<u>\$ 5,464,109</u>	<u>\$ 16,629,109</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 7,203,125	\$ 2,819,424	\$ 10,022,549
2010	3,737,500	2,724,143	6,461,643
2011	3,896,250	2,581,376	6,477,626
2012	4,030,000	2,433,178	6,463,178
2013	4,180,000	2,279,890	6,459,890
Next Five Years	19,570,000	8,857,781	28,427,781
Next Five Years	15,930,625	5,250,650	21,181,275
Next Five Years	15,745,000	1,841,399	17,586,399
	<u>\$ 74,292,500</u>	<u>\$ 28,787,841</u>	<u>\$ 103,080,341</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 30th.

Notes Payable

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

	Date Issued	Amount Issued	Interest Rate	Outstanding June 30, 2008
<u>Water Fund:</u>				
State Revolving Loan - DWF#98-009	03/25/98	\$ 1,937,015	3.675%	<u>\$ 1,333,348</u>
<u>Sewer Fund:</u>				
State Revolving Loan - SRF#98-119	02/28/99	2,364,929	3.550%	\$ 1,670,397
State Revolving Loan - SRF#99-123	06/28/99	2,731,550	3.550%	1,997,056
State Revolving Loan - SRF#07-197	11/29/07	19,366,647	3.140%	590,264
State Revolving Loan - SRF#07-200	07/15/07	2,850,000	3.200%	-
Total				<u>\$ 4,257,717</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

A \$1,937,015 line to provide for water system improvements consisting of the replacement of water lines along Sevier Avenue.

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 122,016	\$ 46,956	\$ 168,972
2010	126,574	42,396	168,970
2011	131,306	37,668	168,974
2012	136,214	32,760	168,974
2013	141,305	27,672	168,977
2014	146,586	22,392	168,978
2015	152,065	16,908	168,973
2016	157,748	11,220	168,968
2017	163,644	5,328	168,972
2018	55,890	428	56,318
	<u>\$ 1,333,348</u>	<u>\$ 243,728</u>	<u>\$ 1,577,076</u>

A \$2,364,929 line to provide for the repair and replacement of sewer lines throughout the Mad Branch sewer shed and along Sevier Avenue.

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 147,480	\$ 56,916	\$ 204,396
2010	152,801	51,588	204,389
2011	158,315	46,080	204,395
2012	164,027	40,368	204,395
2013	169,946	34,452	204,398
2014	176,078	28,320	204,398
2015	182,432	21,960	204,392
2016	189,015	15,384	204,399
2017	195,834	8,556	204,390
2018	134,469	1,800	136,269
	<u>\$ 1,670,397</u>	<u>\$ 305,424</u>	<u>\$ 1,975,821</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

A \$2,731,550 line to provide for improvements.

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 167,724	\$ 68,184	\$ 235,908
2010	173,766	62,136	235,902
2011	180,041	55,860	235,901
2012	186,538	49,368	235,906
2013	193,268	42,636	235,904
2014	200,243	35,664	235,907
2015	207,467	28,440	235,907
2016	214,954	20,952	235,906
2017	222,710	13,188	235,898
2018	230,746	5,160	235,906
2019	19,599	696	20,295
	\$ 1,997,056	\$ 382,284	\$ 2,379,340

In addition to the above loans, the City has two state revolving credit lines which are still being drawn against for projects that are not yet complete. Currently, the City is making interest payments only on these loans. Principal payments will begin upon substantial completion of the projects.

A \$19,366,647 credit line is available for upgrades to the waste water treatment facility. Upon completion of the project this loan will be paid over 20 years. \$590,264 had been drawn as of June 30, 2008.

A \$2,850,000 credit line is available for sewer system replacement projects in the West Kingsport area. At June 30, 2008, the City had not drawn any of these funds. Upon completion of the project, the loan will be paid over 15 years.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 437,220	\$ 172,056	\$ 609,276
2010	453,141	156,120	609,261
2011	469,662	139,608	609,270
2012	486,779	122,496	609,275
2013	504,519	104,760	609,279
Next Five Years	2,629,881	235,700	2,865,581
Thereafter	609,863	696	610,559
	<u>\$ 5,591,065</u>	<u>\$ 931,436</u>	<u>\$ 6,522,501</u>

The interest calculation for the State Revolving Loan is based on the outstanding balance at year end for the item listed above. It is unknown at this time when the City will begin principal payments; therefore, the entire \$590,264 is included in the "thereafter" information.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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:

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2008
<u>Solid Waste Management Fund</u>					
2005 General Obligation	02/01, 08/01	12/06/05	\$ 403,750	3.000%-5.000%	\$ <u>362,500</u>
Total Solid Waste Management Fund (before bond premiums of (\$1,492))					\$ <u>362,500</u>
<u>Cattails at MeadowView Golf Course Fund</u>					
1995 Golf Course-TMBF	Monthly	05/22/95	\$ 4,750,000	Variable	\$ 1,336,000
1998 Golf Course-TMBF	Monthly	1998	1,450,000	Variable	<u>1,004,000</u>
Total Cattails at MeadowView Golf Course Fund					<u>\$ 2,340,000</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Water Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2008
1978 Waterworks	01/01, 07/01	04/06/78	\$ 450,000	5.000%	\$ 180,000
1999 General Obligation Refunding Improvement-Water	03/01, 09/01	04/01/99	2,820,000	4.000%-6.500%	210,000
2001 Water System Improvement	03/01, 09/01	11/06/01	2,140,000	2.300%-4.650%	295,000
2002 Water and Sewer Revenue and Tax	06/01, 12/01	12/12/02	2,725,000	3.000%-4.350%	1,900,000
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	1,315,000	2.000%-4.200%	990,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	4,126,955	2.050%-5.000%	3,995,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	2,200,000	3.500%-5.000%	2,200,000
2004 Water and Sewer Revenue and Tax	05/01, 11/01	12/06/04	1,625,000	2.750%-4.125%	1,330,000
2005 Water and Sewer Revenue and Tax	06/01, 12/01	12/06/05	870,000	3.000%-5.000%	780,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	316,463	3.750%-5.000%	307,044
2008 Water and Sewer Revenue and Tax	03/01, 09/01	06/12/08	1,200,000	3.500%-4.250%	<u>1,200,000</u>
Total Water Fund (before deferred debt refunding costs of \$389,309 and net premiums and discounts of (\$491,304))					<u><u>\$ 13,387,044</u></u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Sewer Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2008
1999 Sewer Refunding	03/01, 09/01	04/01/99	\$ 3,155,000	4.000%-6.500%	\$ 235,000
2001 Sewer System Improvement	03/01, 09/01	11/06/01	2,790,000	2.300%-4.650%	390,000
2002 Water and Sewer Revenue and Tax	06/01, 12/01	12/12/02	5,275,000	3.000%-4.350%	3,670,000
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	4,585,000	2.000%-4.200%	3,475,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	12,473,045	2.000%-5.000%	10,665,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	3,010,000	2.200%-5.000%	3,010,000
2004 Water and Sewer Revenue and Tax	11/01, 05/01	12/06/04	6,275,000	2.750%-4.125%	5,120,000
2005 Water and Sewer Revenue and Tax	06/01, 12/01	12/06/05	4,100,000	2.750%-4.125%	3,680,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	1,363,537	3.750%-5.000%	<u>1,322,956</u>
Total Sewer Fund (before deferred debt refunding costs of \$641,738 and net premiums and discounts of (\$1,105,884))					<u>\$ 31,567,956</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 21,875	\$ 13,996	\$ 35,871
2010	22,500	13,176	35,676
2011	23,750	12,332	36,082
2012	25,000	11,441	36,441
2013	25,000	10,504	35,504
2014	26,250	9,566	35,816
2015	27,500	8,254	35,754
2016	28,750	6,879	35,629
2017	31,250	5,441	36,691
2018	31,250	4,504	35,754
2019	32,500	3,566	36,066
2020	33,125	2,591	35,716
2021	33,750	1,308	35,058
	<u>\$ 362,500</u>	<u>\$ 103,558</u>	<u>\$ 466,058</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Payments on the Cattails at MeadowView Golf Course TMBF bonds issued in 1995 totaling \$4,750,000 and in 1998 totaling \$1,450,000 are made to the State monthly. These bonds mature in 2011 and 2017, respectively.

The interest rate on the TMBF 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 funds is as follows:

Fiscal Year Ending June 30	TMBF Series		Total
	1998	1995	
2009	\$ 89,000	\$ 421,500	\$ 510,500
2010	94,000	445,000	539,000
2011	99,000	469,500	568,500
2012	105,000	-	105,000
2013	110,000	-	110,000
2014	117,000	-	117,000
2015	123,000	-	123,000
2016	130,000	-	130,000
2017	137,000	-	137,000
	<u>\$ 1,004,000</u>	<u>\$ 1,336,000</u>	<u>\$ 2,340,000</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 20,000	\$ 9,000	\$ 29,000
2010	20,000	8,000	28,000
2011	20,000	7,000	27,000
2012	20,000	6,000	26,000
2013	20,000	5,000	25,000
2014	25,000	4,000	29,000
2015	25,000	2,750	27,750
2016	30,000	1,500	31,500
	<u>\$ 180,000</u>	<u>\$ 43,250</u>	<u>\$ 223,250</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 210,000	\$ 8,925	\$ 218,925
	<u>\$ 210,000</u>	<u>\$ 8,925</u>	<u>\$ 218,925</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 145,000	\$ 11,800	\$ 156,800
2010	<u>150,000</u>	<u>6,000</u>	<u>156,000</u>
	<u>\$ 295,000</u>	<u>\$ 17,800</u>	<u>\$ 312,800</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 180,000	\$ 76,040	\$ 256,040
2010	195,000	69,740	264,740
2011	200,000	62,427	262,427
2012	205,000	54,428	259,428
2013	210,000	46,227	256,227
2014	215,000	37,828	252,828
2015	220,000	29,227	249,227
2016	235,000	20,428	255,428
2017	240,000	10,440	250,440
	<u>\$ 1,900,000</u>	<u>\$ 406,785</u>	<u>\$ 2,306,785</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 85,000	\$ 36,234	\$ 121,234
2010	85,000	33,684	118,684
2011	90,000	31,134	121,134
2012	95,000	28,209	123,209
2013	95,000	24,884	119,884
2014	100,000	21,559	121,559
2015	105,000	17,809	122,809
2016	110,000	13,740	123,740
2017	110,000	9,340	119,340
2018	115,000	4,830	119,830
	<u>\$ 990,000</u>	<u>\$ 221,423</u>	<u>\$ 1,211,423</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 March 1, 2004, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 555,000	\$ 199,750	\$ 754,750
2010	585,000	172,000	757,000
2011	615,000	142,750	757,750
2012	650,000	112,000	762,000
2013	505,000	79,500	584,500
2014	530,000	54,250	584,250
2015	555,000	27,750	582,750
	<u>\$ 3,995,000</u>	<u>\$ 788,000</u>	<u>\$ 4,783,000</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	\$ 97,200	\$ 97,200
2010	215,000	97,200	312,200
2011	385,000	88,600	473,600
2012	395,000	73,200	468,200
2013	405,000	57,400	462,400
2014	430,000	37,150	467,150
2015	180,000	15,650	195,650
2016	190,000	6,650	196,650
	<u>\$ 2,200,000</u>	<u>\$ 473,050</u>	<u>\$ 2,673,050</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 100,000	\$ 48,411	\$ 148,411
2010	105,000	45,411	150,411
2011	110,000	42,261	152,261
2012	110,000	38,686	148,686
2013	115,000	34,946	149,946
2014	120,000	30,921	150,921
2015	125,000	26,601	151,601
2016	130,000	21,851	151,851
2017	135,000	16,781	151,781
2018	135,000	11,381	146,381
2019	145,000	5,981	150,981
	<u>\$ 1,330,000</u>	<u>\$ 323,231</u>	<u>\$ 1,653,231</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 45,000	\$ 29,944	\$ 74,944
2010	50,000	28,256	78,256
2011	50,000	26,381	76,381
2012	50,000	24,506	74,506
2013	55,000	22,631	77,631
2014	55,000	20,569	75,569
2015	55,000	17,819	72,819
2016	60,000	15,069	75,069
2017	70,000	12,069	82,069
2018	75,000	9,969	84,969
2019	70,000	7,719	77,719
2020	70,000	5,619	75,619
2021	75,000	2,906	77,906
	<u>\$ 780,000</u>	<u>\$ 223,457</u>	<u>\$ 1,003,457</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 Ending June 30	Principal	Interest	Total
2009	\$ 11,302	\$ 12,865	\$ 24,167
2010	12,244	12,300	24,544
2011	12,244	11,688	23,932
2012	12,244	11,076	23,320
2013	13,186	10,525	23,711
2014	13,186	9,932	23,118
2015	14,128	9,338	23,466
2016	15,070	8,702	23,772
2017	15,070	8,024	23,094
2018	18,837	7,459	26,296
2019	18,837	6,753	25,590
2020	18,837	6,046	24,883
2021	18,837	5,317	24,154
2022	18,837	4,563	23,400
2023	18,837	3,810	22,647
2024	18,837	3,056	21,893
2025	18,837	2,303	21,140
2026	18,837	1,549	20,386
2027	18,837	777	19,614
	<u>\$ 307,044</u>	<u>\$ 136,083</u>	<u>\$ 443,127</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	\$ 33,558	\$ 33,558
2010	65,000	46,644	111,644
2011	70,000	44,044	114,044
2012	70,000	41,594	111,594
2013	75,000	39,144	114,144
2014	75,000	36,519	111,519
2015	80,000	33,894	113,894
2016	85,000	30,894	115,894
2017	85,000	27,706	112,706
2018	90,000	24,306	114,306
2019	95,000	20,706	115,706
2020	95,000	16,906	111,906
2021	100,000	13,106	113,106
2022	105,000	9,006	114,006
2023	110,000	4,675	114,675
	<u>\$ 1,200,000</u>	<u>\$ 422,702</u>	<u>\$ 1,622,702</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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	Principal	Interest	Total
2009	\$ 235,000	\$ 9,988	\$ 244,988
	<u>\$ 235,000</u>	<u>\$ 9,988</u>	<u>\$ 244,988</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 190,000	\$ 15,600	\$ 205,600
2010	<u>200,000</u>	<u>8,000</u>	<u>208,000</u>
	<u>\$ 390,000</u>	<u>\$ 23,600</u>	<u>\$ 413,600</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 350,000	\$ 146,920	\$ 496,920
2010	365,000	134,670	499,670
2011	380,000	120,983	500,983
2012	395,000	105,783	500,783
2013	405,000	89,983	494,983
2014	420,000	73,783	493,783
2015	430,000	56,983	486,983
2016	455,000	39,783	494,783
2017	<u>470,000</u>	<u>20,445</u>	<u>490,445</u>
	<u>\$ 3,670,000</u>	<u>\$ 789,333</u>	<u>\$ 4,459,333</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 295,000	\$ 127,185	\$ 422,185
2010	315,000	118,335	433,335
2011	310,000	108,885	418,885
2012	320,000	98,810	418,810
2013	335,000	87,610	422,610
2014	350,000	75,885	425,885
2015	360,000	62,760	422,760
2016	390,000	48,810	438,810
2017	390,000	33,210	423,210
2018	410,000	17,220	427,220
	<u>\$ 3,475,000</u>	<u>\$ 778,710</u>	<u>\$ 4,253,710</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 1,395,000	\$ 528,250	\$ 1,923,250
2010	1,465,000	458,500	1,923,500
2011	1,550,000	385,250	1,935,250
2012	1,625,000	307,750	1,932,750
2013	1,315,000	226,500	1,541,500
2014	1,370,000	160,750	1,530,750
2015	1,445,000	92,250	1,537,250
2016	500,000	20,000	520,000
	<u>\$ 10,665,000</u>	<u>\$ 2,179,250</u>	<u>\$ 12,844,250</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 40,000	\$ 132,505	\$ 172,505
2010	285,000	131,625	416,625
2011	500,000	120,225	620,225
2012	520,000	100,225	620,225
2013	540,000	79,425	619,425
2014	575,000	52,425	627,425
2015	295,000	23,675	318,675
2016	255,000	8,925	263,925
	<u>\$ 3,010,000</u>	<u>\$ 649,030</u>	<u>\$ 3,659,030</u>

Water and Sewer 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	Principal	Interest	Total
2009	\$ 400,000	\$ 186,341	\$ 586,341
2010	395,000	174,341	569,341
2011	415,000	162,491	577,491
2012	430,000	149,004	579,004
2013	445,000	134,384	579,384
2014	460,000	118,809	578,809
2015	475,000	102,249	577,249
2016	495,000	84,199	579,199
2017	515,000	64,894	579,894
2018	535,000	44,294	579,294
2019	555,000	22,893	577,893
	<u>\$ 5,120,000</u>	<u>\$ 1,243,899</u>	<u>\$ 6,363,899</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Water and Sewer 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	Principal	Interest	Total
2009	\$ 225,000	\$ 142,438	\$ 367,438
2010	230,000	134,000	364,000
2011	240,000	125,375	365,375
2012	250,000	116,375	366,375
2013	255,000	107,000	362,000
2014	270,000	97,437	367,437
2015	285,000	83,938	368,938
2016	295,000	69,687	364,687
2017	305,000	54,938	359,938
2018	310,000	45,787	355,787
2019	325,000	36,488	361,488
2020	340,000	26,737	366,737
2021	350,000	13,563	363,563
	<u>\$ 3,680,000</u>	<u>\$ 1,053,763</u>	<u>\$ 4,733,763</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 sewer portion:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 48,698	\$ 55,434	\$ 104,132
2010	52,756	52,999	105,755
2011	52,756	50,362	103,118
2012	52,756	47,724	100,480
2013	56,814	45,350	102,164
2014	56,814	42,793	99,607
2015	60,872	40,237	101,109
2016	64,930	37,497	102,427
2017	64,930	34,575	99,505
2018	81,163	32,141	113,304
2019	81,163	29,097	110,260
2020	81,163	26,053	107,216
2021	81,163	22,908	104,071
2022	81,163	19,662	100,825
2023	81,163	16,415	97,578
2024	81,163	13,169	94,332
2025	81,163	9,922	91,085
2026	81,163	6,676	87,839
2027	81,163	3,348	84,511
	<u>\$ 1,322,956</u>	<u>\$ 586,362</u>	<u>\$ 1,909,318</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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 \$2,340,000 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 4,551,875	\$ 1,922,384	\$ 6,474,259
2010	4,812,500	1,744,881	6,557,381
2011	5,023,750	1,542,188	6,565,938
2012	5,225,000	1,326,811	6,551,811
2013	4,870,000	1,101,013	5,971,013
Next Five Years	17,400,000	2,469,728	19,869,728
Next Five Years	3,034,375	334,394	3,368,769
Next Five Years	<u>400,000</u>	<u>40,800</u>	<u>440,800</u>
	<u>\$45,317,500</u>	<u>\$10,482,199</u>	<u>\$55,799,699</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,013,047 and the net premiums and discounts of (\$1,598,680).

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
General Obligation Debt	\$ 63,481,250	\$ 18,645,000	\$ 7,833,750	\$ 74,292,500	\$ 7,203,125
Less: Deferred amounts for refunding	(874,000)	-	(95,000)	(779,000)	-
Plus: Premiums and discounts	434,000	112,398	105,801	440,597	-
Total Bonds Payable	63,041,250	18,757,398	7,844,551	73,954,097	7,203,125
Compensated Absences	2,764,000	442,479	-	3,206,479	3,206,479
Interlocal Cooperative Agreement	2,500,000	-	-	2,500,000	500,000
Capital Outlay Note	1,600,000	4,000,000	4,000,000	1,600,000	121,000
Energy Efficiency Note	-	475,000	-	475,000	67,857
Notes Payable-State	4,702,207	-	358,033	4,344,174	358,034
Totals	\$ 74,607,457	\$ 23,674,877	\$ 12,202,584	\$ 86,079,750	\$ 11,456,495

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type activities:					
General Obligation Debt	\$ 14,108,750	\$ -	\$ 4,886,250	\$ 9,222,500	\$ 1,372,375
Water and Sewer Revenue and Tax Bonds	39,750,000	1,200,000	2,515,000	38,435,000	3,690,000
Less: Deferred amounts for refunding	(1,219,374)	-	(188,327)	(1,031,047)	-
Plus: Premiums and discounts	1,799,126	17,007	217,453	1,598,680	-
Total Bonds Payable	54,438,502	1,217,007	7,430,376	48,225,133	5,062,375
Compensated Absences	473,325	38,320	-	511,645	511,645
State Revolving Notes	5,422,648	590,264	421,847	5,591,065	437,220
Totals	\$ 60,334,475	\$ 1,845,591	\$ 7,852,223	\$ 54,327,843	\$ 6,011,240

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, 2008, 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 Fiscal Year Ended June 30, 2008**

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. 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 June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Claims Accrued, Beginning	\$ 272,293	\$ 207,764
Claims Incurred	1,093,512	921,529
Claims Paid	<u>(1,024,136)</u>	<u>(857,000)</u>
Claims Accrued, Ending	<u>\$ 341,669</u>	<u>\$ 272,293</u>

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2008.

B. 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, 2008, the water fund, sewer, and solid waste funds had arbitrage rebate liabilities recorded of \$76,316, \$295,884, and \$6,803, 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.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

B. Contingencies (continued)

Primary government (continued)

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 \$25,000,000. 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 \$20,000 fine. Thus far, all deadlines have been met. The City is funding the project with a State Revolving Loan, which is recorded in the sewer fund, and a General Obligation Bond.

The City received a "Consent Order" from the State of Tennessee dated October 25, 2005, concerning the waste water treatment plant of the City's sewer system. The City must be in full compliance by 2011. The estimated total cost of the project is \$25,000,000. 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 \$18,000 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 \$2,500,000 Revenue Bond, Series 2005, of which, the City is contingently liable for 31%, or \$775,000. During May 2007, SCEDP issued an additional \$6,500,000 Revenue Bond, of which the City is contingently liable for \$2,015,000. 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, 2008, \$8,810,000 was outstanding on these bonds.

Discretely presented component unit

The IDBK issued \$6,140,000 Multifamily Housing Revenue Bonds, Series 2003A, and \$100,000 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, 2008, \$5,925,000 was outstanding on these bonds.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

C. Pension plan

City of Kingsport plan

Plan description

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

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

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, 2008 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 Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

City of Kingsport plan (continued)

Annual pension cost

For the year ending June 30, 2008, the City's annual pension cost of \$5,546,001 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, 2007, which established contribution rates effective July 1, 2008.

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, 2008	\$5,546,001	100.00%	-
June 30, 2007	5,215,211	100.00%	-
June 30, 2006	4,145,617	100.00%	-
June 30, 2005	4,072,000	100.00%	-

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

Kingsport City Schools Plan

Plan description

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

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

Funding policy

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2008 was 6.24% 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, 2008, 2007, and 2006 were \$1,782,000, \$1,700,866 and \$1,458,036, respectively, equal to the required contributions for each year.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

D. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated for prior years will be phased in over 30 years, commencing with the 2008 liability.

Postemployment Healthcare Plan – City of Kingsport

Plan description

The City of Kingsport provides continuation of medical insurance coverage to eligible employees that retire under the Tennessee Consolidated Retirement System at the same time they end their services to the City. Employees hired prior to June 1, 2007 are eligible to continue coverage if they had been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement. Employees hired after June 1, 2007, must have a minimum of 25 years of service with the City, be at least 55 years old, and must have been enrolled in the health insurance provided by the City for three full consecutive years immediately prior to retirement or have 30 years of service with the City and have been enrolled in the health insurance provided by the City for one full year immediately prior to retirement.

The number of participants as of July 1, 2007, the effective date of the OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

Active employees	1,435
Retired employees	143
Spouses of retired employees	51
Retired employees eligible for death benefits only	<u>544</u>
Total	<u>2,173</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Funding policy

The premium requirements of plan members are established and may be amended by the BMA. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claim liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

<u>Annual OPEB Cost and net OPEB Obligation</u>	<u>City of Kingsport Retiree Plan</u>
Annual Required Contribution (ARC)	\$ 3,166,263
Interest on the Net Pension Obligation (NPO)	-
Adjustment to the Annual Required Contribution (ARC)	-
Annual OPEB cost	3,166,263
Amount of contribution	<u>(647,366)</u>
Increase/Decrease in Net Pension Obligation (NPO)	2,518,897
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - ending of year	<u>\$ 2,518,897</u>

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
06/30/08	City Retiree	\$ 3,166,263	20%	\$ 2,518,897

*Data not available for two preceding years.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Funded Status and Funding Process

The funded status of the plan as of June 30, 2008, was as follows (dollars in thousands):

		City of Kingsport Retiree Plan
Actuarial valuation date		07/01/07
Actuarial accrued liability (AAL)	\$	30,541
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	30,541
Actuarial Value of Assets as a % of the AAL		0%
Covered payroll (active plan members)	\$	21,931
UAAL as a percentage of covered payroll		139%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools

Plan description

The Kingsport City Schools participate in the state-administered Teacher Group Insurance Plan and Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302 (teachers) and TCA 8-27-701 (Medicare Supplement). Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. The required contribution rate for retired teachers ranges from 17 to 23 percent based on their years of service. During the year ended June 30, 2008, Kingsport City Schools contributed \$324,554 for the teacher group plan and \$113,000 for the medicare supplement plan.

<u>Annual OPEB Cost and net OPEB Obligation</u>	<u>Teacher Group Plan</u>	<u>Medicare Supplement Plan</u>
Annual Required Contribution (ARC)	\$ 1,900,000	\$ 1,928,000
Interest on the Net Pension Obligation (NPO)	-	-
Adjustment to the Annual Required Contribution (ARC)	-	-
Annual OPEB cost	1,900,000	1,928,000
Amount of contribution	<u>(324,554)</u>	<u>(113,000)</u>
Increase/Decrease in Net Pension Obligation (NPO)	1,575,446	1,815,000
Net OPEB obligation - beginning of year	<u>-</u>	<u>-</u>
Net OPEB obligation - ending of year	<u>\$ 1,575,446</u>	<u>\$ 1,815,000</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/08	Teacher Group	\$ 1,900,000	17%	\$ 1,575,446
06/30/08	Medicare Supp	1,928,000	6%	1,815,000

*Data not available for two preceding years.

Funded Status and Funding Process

The funded status of the plan as of June 30, 2008, was as follows (dollars in thousands):

	Teacher Group Plan	Medicare Supplement Plan
Actuarial valuation date	07/01/07	07/01/07
Actuarial accrued liability (AAL)	\$ 17,503	\$ 18,268
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 17,503	\$ 18,268
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 24,795	\$ 24,795
UAAL as a percentage of covered payroll	70%	74%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

5. OTHER INFORMATION (CONTINUED):

E. Joint Ventures

Tri-Cities Airport Commission

Tri-Cities Airport Commission (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, 2008 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 6,117,331
Operating Expenses	(5,415,059)
Depreciation	(2,889,942)
Amortization	(13,501)
Other Income	878,429
Capital Contributions	<u>4,330,262</u>
Change in Net Assets	3,007,520
Net Assets, July 1	<u>47,157,818</u>
Net Assets, June 30	\$ <u>50,165,338</u>
Total Assets	\$ 59,600,781
Total Liabilities	<u>(9,435,443)</u>
Total Net Assets	\$ <u>50,165,338</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

5. OTHER INFORMATION (CONTINUED):

E. 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	\$ 501,312
20% interest in capital of Phipps Bend Joint Venture	<u>154,069</u>
Total Investment	\$ <u>655,381</u>

F. Economic dependency

A material portion of the City's property tax revenue is derived from one taxpayer, the loss of which would have a material effect on the City. During the tax years ended December 31, 2007 and 2006, the taxes assessed on the above mentioned taxpayer accounted for approximately 27% and 29%, respectively, of total property taxes assessed.

G. Prior Period Adjustments

Discretely Presented Component Units

The accumulated depreciation related to equipment for ECD was understated in the prior year as a result of an error in the amount of \$4,436. Accordingly net assets was overstated in the same amount and subsequently decreased and restated in the current year.

The Due from Other Governments balance for ECD was overstated in the prior year as a result of over accrual of expected revenues from the State of Tennessee in the amount of \$17,347. Accordingly net assets was overstated in the same amount and subsequently decreased and restated in the current year.

H. Subsequent Events

On August 5, 2008, the City's BMA approved a resolution authorizing indebtedness of not to exceed \$10,000,000 with a loan through the Tennessee Municipal Bond Fund (TMBF) to fund the acquisition and installation of an automated meter reading and leak detection system. TMBF loans have a variable interest rate.

**CITY OF KINGSPORT, TENNESSEE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN
 For the Fiscal Year Ended June 30, 2008**

City of Kingsport, Tennessee Schedule of Funding Progress - Defined Benefit Pension Plan

(Dollar amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 117,466	\$ 142,266	\$ 24,800	82.57%	\$ 31,672	78.30%
July 1, 2005	104,770	129,058	24,288	81.18%	30,278	80.22%
July 1, 2003	97,199	106,661	9,462	91.13%	27,888	33.93%
July 1, 2001	91,035	101,307	10,272	89.86%	26,519	38.73%

**CITY OF KINGSPORT, TENNESSEE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS
 For the Fiscal Year Ended June 30, 2008**

City of Kingsport-Schedule of Funding Progress - Postemployment Health Care Plan

(Dollar amounts expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	City Retiree	\$ -	\$ 30,541	\$ 30,541	0.00%	\$ 21,931	139%

Kingsport City Schools-Schedule of Funding Progress - Postemployment Health Care Plan

(Dollar amounts expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	Teacher Group	\$ -	\$ 17,503	\$ 17,503	0.00%	\$ 24,795	70%
July 1, 2007	Medicare	-	18,268	18,268	0.00%	24,795	74%

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 0	\$ 0	\$ 1,727,978	\$ 1,727,978
Total Revenues	<u>0</u>	<u>0</u>	<u>1,727,978</u>	<u>1,727,978</u>
EXPENDITURES:				
Principal	7,916,600	12,192,445	12,191,783	662
Interest	2,578,500	2,493,888	2,449,755	44,133
Bond Issuance Costs	0	91,972	85,747	6,225
Miscellaneous	20,100	43,512	7,590	35,922
Total Expenditures	<u>10,515,200</u>	<u>14,821,817</u>	<u>14,734,875</u>	<u>86,942</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,515,200)</u>	<u>(14,821,817)</u>	<u>(13,006,897)</u>	<u>1,814,920</u>
OTHER FINANCING SOURCES (USES):				
Transfers, Net	10,515,200	10,222,105	8,901,430	(1,320,675)
Issuance of Debt	0	4,207,932	4,207,932	0
Premium on Debt Issued	0	25,273	25,273	0
Total Other Financing Sources (Uses)	<u>10,515,200</u>	<u>14,455,310</u>	<u>13,134,635</u>	<u>(1,320,675)</u>
Net Change in Fund Balances	0	(366,507)	127,738	494,245
Fund Balances, July 1, 2007	<u>0</u>	<u>366,507</u>	<u>1,045,040</u>	<u>678,533</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,172,778</u>	<u>\$ 1,172,778</u>

See Independent Auditor's Report.

**CITY OF KINGSFORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008**

	Special Revenue Funds							Permanent Fund	
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds	Allandale Trust Fund	Total Nonmajor Governmental Funds
ASSETS:									
Cash	\$ 0	\$ 0	\$ 274	\$ 0	\$ 0	\$ 1,099,619	\$ 1,099,893	\$ 0	\$ 1,099,893
Equity in Pooled Cash & Investments	0	657,591	260,558	0	863,524	92,919	1,844,592	18,443	1,863,035
Long Term Certificates of Deposit	0	0	0	0	0	215,434	215,434	150,000	365,434
Investments	0	0	0	0	327,342	64,208	391,550	4,376	395,926
Accrued Interest Receivable	0	0	0	0	0	0	0	165	165
Due from Other Governments	131,407	16,288	0	728,839	567,393	906,512	2,350,439	0	2,350,439
Due from Other Funds	0	0	0	0	45,766	0	45,766	0	45,766
Inventories	0	0	0	0	0	119,902	119,902	0	119,902
Restricted Cash	0	319,995	0	0	0	0	319,995	0	319,995
Restricted Investments	0	0	18,137	0	0	0	18,137	0	18,137
Total Assets	\$ 131,407	\$ 993,874	\$ 276,969	\$ 728,839	\$ 1,604,025	\$ 2,468,584	\$ 6,203,708	\$ 172,984	\$ 6,376,692
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts Payable	\$ 75,189	\$ 22,456	\$ 0	\$ 99,100	\$ 3,550	\$ 17,692	\$ 217,987	\$ 0	\$ 217,987
Other Liabilities	0	0	0	0	0	5,073	5,073	0	5,073
Due to Other Funds	37,527	0	0	346,104	1,871	879,460	1,264,962	0	1,264,962
Deferred Revenue	0	0	0	0	0	33,790	33,790	0	33,790
Total Liabilities	112,716	22,456	0	445,204	5,421	936,015	1,521,812	0	1,521,812
Fund Balances:									
Reserved for Encumbrances	165,236	105,771	0	250,716	0	98,139	619,862	0	619,862
Reserved for Inventories	0	0	0	0	0	119,902	119,902	0	119,902
Reserved for Projects	0	0	18,137	0	142,730	0	158,867	0	158,867
Reserved for Perpetual Care	0	0	0	0	0	0	0	152,691	152,691
Unreserved, Undesignated	(146,545)	665,647	260,832	32,919	1,455,874	1,314,538	3,783,265	20,293	3,803,558
Total Fund Balances	18,691	971,418	276,969	283,635	1,598,604	1,532,579	4,691,896	172,984	4,864,880
Total Liabilities and Fund Balances	\$ 131,407	\$ 993,874	\$ 276,969	\$ 728,839	\$ 1,604,025	\$ 2,468,584	\$ 6,203,708	\$ 172,984	\$ 6,376,692

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	Special Revenue Funds							Permanent Fund	
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds	Allendale Trust Fund	Total Nonmajor Governmental Funds
REVENUES:									
Local Option Sales Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,214,653	\$ 0	\$ 3,214,653	\$ 0	\$ 3,214,653
Federal Government	414,797	78,861	0	904,637	0	4,570,872	5,989,167	0	5,989,167
State Government	0	11,866	14,327	1,491,457	0	1,063,824	2,581,274	0	2,581,274
Charges for Services	0	0	0	97,070	100,308	1,414,658	1,612,036	0	1,612,036
Fines and Forfeitures	0	0	198,860	0	0	0	198,860	0	198,860
Investment Earnings	0	0	648	1	58,258	11,550	71,455	5,658	77,113
Contributions and Donations	0	61,166	0	0	33,929	130,080	225,175	0	225,175
Total Revenues	414,797	151,893	213,833	2,493,165	3,408,148	7,190,784	13,872,920	5,658	13,878,278
EXPENDITURES:									
General & Administrative	0	1,221,388	2,427	0	0	0	1,223,815	0	1,223,815
School Food Service	0	0	0	0	0	2,713,324	2,713,324	0	2,713,324
School Federal Projects	0	0	0	0	0	3,064,828	3,064,828	0	3,064,828
Economic & Physical Development	398,874	0	0	0	0	0	398,874	0	398,874
Public Safety	0	0	122,893	0	0	0	122,893	0	122,893
Transportation	0	0	0	3,121,176	0	0	3,121,176	0	3,121,176
Culture and Recreation	0	0	0	0	132,185	0	132,185	0	132,185
Education	0	0	0	0	0	1,474,242	1,474,242	0	1,474,242
Capital Outlay	0	94,581	10,500	406,141	0	208,350	719,572	0	719,572
Total Expenditures	398,874	1,315,969	135,820	3,527,317	132,185	7,460,744	12,970,909	0	12,970,909
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,923	(1,164,076)	78,013	(1,034,152)	3,275,963	(269,960)	901,711	5,658	907,369
OTHER FINANCING SOURCES (USES):									
Transfers In	0	638,679	0	1,095,618	1,755,123	417,679	3,905,099	0	3,905,099
Transfers Out	0	(4)	0	0	(4,657,268)	(4,000)	(4,661,270)	0	(4,661,270)
Total Other Financing Sources (Uses)	0	638,675	0	1,095,618	(2,902,145)	413,679	(756,171)	0	(756,171)
Net Change in Fund Balances	15,923	(527,401)	78,013	61,466	373,820	143,719	145,540	5,658	151,198
Fund Balances, July 1, 2007	2,768	1,498,819	196,956	222,169	1,224,784	1,388,860	4,536,356	167,326	4,703,682
Fund Balances, June 30, 2008	\$ 18,691	\$ 971,418	\$ 276,969	\$ 283,635	\$ 1,598,604	\$ 1,532,579	\$ 4,681,896	\$ 172,984	\$ 4,854,860

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
June 30, 2008**

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Justice Assistance Grant Fund</u>	<u>Total Public Safety Funds</u>
ASSETS:				
Cash	\$ 0	\$ 274	\$ 0	\$ 274
Equity in Pooled Cash and Investments	83,450	176,955	153	260,558
Restricted Investments	16,137	0	0	16,137
Total Assets	<u>\$ 99,587</u>	<u>\$ 177,229</u>	<u>\$ 153</u>	<u>\$ 276,969</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Reserved for:				
Encumbrances	0	0	0	0
Projects	16,137	0	0	16,137
Unreserved, Undesignated	83,450	177,229	153	260,832
Total Fund Balances	<u>99,587</u>	<u>177,229</u>	<u>153</u>	<u>276,969</u>
Total Liabilities and Fund Balances	<u>\$ 99,587</u>	<u>\$ 177,229</u>	<u>\$ 153</u>	<u>\$ 276,969</u>

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
For the Fiscal Year Ended June 30, 2008

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Justice Assistance Grant Fund</u>	<u>Total Public Safety Funds</u>
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 0	\$ 0
State Government	0	14,327	0	14,327
Fines and Forfeitures	0	198,860	0	198,860
Investment Earnings	646	0	0	646
Total Revenues	<u>646</u>	<u>213,187</u>	<u>0</u>	<u>213,833</u>
EXPENDITURES:				
General and Administrative	0	2,427	0	2,427
Public Safety	0	119,345	3,548	122,893
Capital Outlay	0	10,500	0	10,500
Total Expenditures	<u>0</u>	<u>132,272</u>	<u>3,548</u>	<u>135,820</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>646</u>	<u>80,915</u>	<u>(3,548)</u>	<u>78,013</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	646	80,915	(3,548)	78,013
Fund Balances, July 1, 2007	<u>98,941</u>	<u>96,314</u>	<u>3,701</u>	<u>198,956</u>
Fund Balances, June 30, 2008	<u>\$ 99,587</u>	<u>\$ 177,229</u>	<u>\$ 153</u>	<u>\$ 276,969</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
June 30, 2008**

	<u>Federal Transit Administration Fund</u>	<u>Metropolitan Planning Office Fund</u>	<u>State Street Aid Fund</u>	<u>Total Transportation Funds</u>
ASSETS:				
Equity in Pooled Cash and Investments	\$ 0	\$ 0	\$ 0	\$ 0
Due from Other Governments	<u>415,348</u>	<u>102,534</u>	<u>210,957</u>	<u>728,839</u>
Total Assets	<u>\$ 415,348</u>	<u>\$ 102,534</u>	<u>\$ 210,957</u>	<u>\$ 728,839</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 2,162	\$ 14,073	\$ 82,865	\$ 99,100
Due to Other Funds	<u>234,525</u>	<u>65,578</u>	<u>46,001</u>	<u>346,104</u>
Total Liabilities	<u>236,687</u>	<u>79,651</u>	<u>128,866</u>	<u>445,204</u>
Fund Balances:				
Reserved for Encumbrances	225,966	24,696	54	250,716
Unreserved, Undesignated	<u>(47,305)</u>	<u>(1,813)</u>	<u>82,037</u>	<u>32,919</u>
Total Fund Balances	<u>178,661</u>	<u>22,883</u>	<u>82,091</u>	<u>283,635</u>
Total Liabilities and Fund Balances	<u>\$ 415,348</u>	<u>\$ 102,534</u>	<u>\$ 210,957</u>	<u>\$ 728,839</u>

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
For the Fiscal Year Ended June 30, 2008

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
REVENUES:				
Federal Government	\$ 679,308	\$ 225,329	\$ 0	\$ 904,637
State Government	223,008	4,894	1,263,555	1,491,457
Charges for Services	97,070	0	0	97,070
Investment Earnings	0	0	1	1
Total Revenues	999,386	230,223	1,263,556	2,493,165
EXPENDITURES:				
Transportation	960,512	281,658	1,879,006	3,121,176
Capital Outlay	245,900	0	160,241	406,141
Total Expenditures	1,206,412	281,658	2,039,247	3,527,317
Excess (Deficiency) of Revenues Over (Under) Expenditures	(207,026)	(51,435)	(775,691)	(1,034,152)
OTHER FINANCING SOURCES (USES):				
Transfers In	264,750	55,177	775,691	1,095,618
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	264,750	55,177	775,691	1,095,618
Net Change in Fund Balances	57,724	3,742	0	61,466
Fund Balances, July 1, 2007	120,937	19,141	82,091	222,169
Fund Balances, June 30, 2008	\$ 178,661	\$ 22,883	\$ 82,091	\$ 283,635

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
 June 30, 2008

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
ASSETS:								
Equity in Pooled Cash & Investments	\$ 258,894	\$ 242,511	\$ 151,977	\$ 0	\$ 0	\$ 10,142	\$ 0	\$ 683,524
Investments	180,928	0	0	18,448	1,126	82,058	44,782	327,342
Due from Other Governments	567,393	0	0	0	0	0	0	567,393
Due from Other Funds	45,766	0	0	0	0	0	0	45,766
Total Assets	\$ 1,052,981	\$ 242,511	\$ 151,977	\$ 18,448	\$ 1,126	\$ 92,200	\$ 44,782	\$ 1,604,025
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,550	\$ 3,550
Due to Other Funds	0	0	0	0	0	0	1,871	1,871
Total Liabilities	0	0	0	0	0	0	5,421	5,421
Fund Balances:								
Reserved for Encumbrances	0	0	0	0	0	0	0	0
Reserved for Projects	0	0	142,730	0	0	0	0	142,730
Unreserved, Undesignated	1,052,981	242,511	9,247	18,448	1,126	92,209	39,361	1,455,874
Total Fund Balances	1,052,981	242,511	151,977	18,448	1,126	92,200	39,361	1,598,604
Total Liabilities and Fund Balances	\$ 1,052,981	\$ 242,511	\$ 151,977	\$ 18,448	\$ 1,126	\$ 92,200	\$ 44,782	\$ 1,604,025

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
For the Fiscal Year Ended June 30, 2008

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
REVENUES:								
Local Option Sales Tax	\$ 3,214,653	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,214,653
Charges for Services	0	0	0	0	0	0	100,308	100,308
Investment Earnings	53,528	0	0	738	398	3,323	1,271	59,258
Contributions and Donations	0	0	0	0	3,883	23,000	7,046	33,929
Total Revenues	3,268,181	0	0	738	4,281	26,323	108,625	3,408,148
EXPENDITURES:								
Culture and Recreation	0	3,500	0	0	15,000	17,867	95,818	132,185
Total Expenditures	0	3,500	0	0	15,000	17,867	95,818	132,185
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,268,181	(3,500)	0	738	(10,719)	8,456	12,807	3,275,963
OTHER FINANCING SOURCES (USES):								
Transfers In	0	324,201	1,422,418	0	0	8,504	0	1,755,123
Transfers Out	(3,116,790)	(78,190)	(1,462,286)	0	0	0	0	(4,657,266)
Total Other Financing Sources (Uses)	(3,116,790)	246,011	(39,868)	0	0	8,504	0	(2,902,143)
Net Change in Fund Balances	151,391	242,511	(39,868)	738	(10,719)	16,960	12,807	373,820
Fund Balances, July 1, 2007	901,590	0	191,845	17,710	11,845	75,240	26,554	1,224,784
Fund Balances, June 30, 2008	\$ 1,052,981	\$ 242,511	\$ 151,977	\$ 18,448	\$ 1,126	\$ 92,200	\$ 39,361	\$ 1,598,604

**CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
June 30, 2008**

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
ASSETS:					
Cash	\$ 1,099,619	\$ 0	\$ 0	\$ 0	\$ 1,099,619
Equity in Pooled Cash and Investments	62,919	0	0	0	62,919
Long Term Certificates of Deposit	215,434	0	0	0	215,434
Investments	0	0	0	64,208	64,208
Due from Other Governments	0	283,120	623,392	0	906,512
Inventories	119,902	0	0	0	119,902
Total Assets	\$ 1,497,874	\$ 283,120	\$ 623,392	\$ 64,208	\$ 2,468,594
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 1,360	\$ 6,572	\$ 9,760	\$ 0	\$ 17,692
Other Liabilities	0	2,278	2,795	0	5,073
Due to Other Funds	0	268,623	610,837	0	879,460
Deferred Revenue	28,143	5,647	0	0	33,790
Total Liabilities	29,503	283,120	623,392	0	936,015
Fund Balances:					
Reserved for Encumbrances	0	28,969	69,170	0	98,139
Reserved for Inventories	119,902	0	0	0	119,902
Unreserved, Undesignated	1,348,469	(28,969)	(69,170)	64,208	1,314,538
Total Fund Balances	1,468,371	0	0	64,208	1,532,579
Total Liabilities and Fund Balances	\$ 1,497,874	\$ 283,120	\$ 623,392	\$ 64,208	\$ 2,468,594

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
For the Fiscal Year Ended June 30, 2008

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
REVENUES:					
Federal Government	\$ 1,270,148	\$ 122,247	\$ 3,178,477	\$ 0	\$ 4,570,872
State Government	26,920	1,036,704	0	0	1,063,624
Charges for Services	1,410,981	3,677	0	0	1,414,658
Investment Earnings	8,980	0	0	2,570	11,550
Contributions and Donations	130,080	0	0	0	130,080
Total Revenues	2,847,109	1,162,628	3,178,477	2,570	7,190,784
EXPENDITURES:					
School Food Service	2,713,324	0	0	0	2,713,324
School Federal Projects	0	0	3,064,828	0	3,064,828
Education	0	1,474,242	0	0	1,474,242
Capital Outlay	0	96,390	111,960	0	208,350
Total Expenditures	2,713,324	1,570,632	3,176,788	0	7,460,744
Excess (Deficiency) of Revenues Over (Under) Expenditures	133,785	(408,004)	1,689	2,570	(269,960)
OTHER FINANCING SOURCES (USES):					
Transfers In	0	417,679	0	0	417,679
Transfers Out	0	(4,000)	0	0	(4,000)
Total Other Financing Sources (Uses)	0	413,679	0	0	413,679
Net Change in Fund Balances	133,785	5,675	1,689	2,570	143,719
Fund Balances, July 1, 2007	1,334,586	(5,675)	(1,689)	61,638	1,388,860
Fund Balances, June 30, 2008	\$ 1,468,371	\$ 0	\$ 0	\$ 64,208	\$ 1,532,579

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
CRIMINAL FORFEITURE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	8,000	8,000	0	(8,000)
Investment Earnings	0	0	646	646
Contributions and Donations	0	0	0	0
Total Revenues	<u>8,000</u>	<u>8,000</u>	<u>646</u>	<u>(7,354)</u>
EXPENDITURES:				
Public Safety	8,000	8,000	0	8,000
Capital Outlay	0	0	0	0
Total Expenditures	<u>8,000</u>	<u>8,000</u>	<u>0</u>	<u>8,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>646</u>	<u>646</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	646	646
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>98,941</u>	<u>98,941</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,587</u>	<u>\$ 99,587</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
DRUG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
State Government	\$ 0	\$ 0	\$ 14,327	\$ 14,327
Fines and Forfeitures	95,000	112,550	198,860	86,310
Contributions and Donations	0	0	0	0
Total Revenues	<u>95,000</u>	<u>112,550</u>	<u>213,187</u>	<u>100,637</u>
EXPENDITURES:				
General and Administrative	2,500	2,500	2,427	73
Public Safety	59,800	134,775	119,345	15,430
Capital Outlay	55,000	10,595	10,500	95
Total Expenditures	<u>117,300</u>	<u>147,870</u>	<u>132,272</u>	<u>15,598</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(22,300)</u>	<u>(35,320)</u>	<u>80,915</u>	<u>116,235</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(22,300)</u>	<u>(35,320)</u>	<u>80,915</u>	<u>116,235</u>
Fund Balances, July 1, 2007	<u>22,300</u>	<u>35,320</u>	<u>96,314</u>	<u>60,994</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 177,229</u>	<u>\$ 177,229</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
State Government	\$ 1,298,700	\$ 1,283,009	\$ 1,263,555	\$ (19,454)
Investment Earnings	0	0	1	1
Total Revenues	<u>1,298,700</u>	<u>1,283,009</u>	<u>1,263,556</u>	<u>(19,453)</u>
EXPENDITURES:				
Highways and Streets	2,053,700	2,031,849	1,879,006	152,843
Capital Outlay	60,000	160,330	160,241	89
Total Expenditures	<u>2,113,700</u>	<u>2,192,179</u>	<u>2,039,247</u>	<u>152,932</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(815,000)</u>	<u>(909,170)</u>	<u>(775,691)</u>	<u>133,479</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	760,000	775,691	775,691	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>760,000</u>	<u>775,691</u>	<u>775,691</u>	<u>0</u>
Net Change in Fund Balances	<u>(55,000)</u>	<u>(133,479)</u>	<u>0</u>	<u>133,479</u>
Fund Balances, July 1, 2007	<u>55,000</u>	<u>133,479</u>	<u>82,091</u>	<u>(51,388)</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 82,091</u>	<u>\$ 82,091</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
REGIONAL SALES TAX REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local Option Sales Tax	\$ 3,280,700	\$ 3,280,700	\$ 3,214,653	\$ (66,047)
Investment Earnings	50,000	50,000	53,528	3,528
Total Revenues	<u>3,330,700</u>	<u>3,330,700</u>	<u>3,268,181</u>	<u>(62,519)</u>
EXPENDITURES:				
Miscellaneous	0	0	0	0
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,330,700</u>	<u>3,330,700</u>	<u>3,268,181</u>	<u>(62,519)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(3,330,700)	(3,330,700)	(3,116,790)	213,910
Total Other Financing Sources (Uses)	<u>(3,330,700)</u>	<u>(3,330,700)</u>	<u>(3,116,790)</u>	<u>213,910</u>
Net Change in Fund Balances	0	0	151,391	151,391
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>901,590</u>	<u>901,590</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,052,981</u>	<u>\$ 1,052,981</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
VISITORS ENHANCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Other	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXPENDITURES:				
Culture and Recreation	0	175,240	3,500	171,740
Capital Outlay	<u>0</u>	<u>50,000</u>	<u>0</u>	<u>50,000</u>
Total Expenditures	<u>0</u>	<u>225,240</u>	<u>3,500</u>	<u>221,740</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(225,240)</u>	<u>(3,500)</u>	<u>221,740</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	324,300	324,201	(99)
Transfers Out	<u>0</u>	<u>(85,000)</u>	<u>(78,190)</u>	<u>6,810</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>239,300</u>	<u>246,011</u>	<u>6,711</u>
Net Change in Fund Balances	0	14,060	242,511	228,451
Fund Balances, July 1, 2007	<u>0</u>	<u>(14,060)</u>	<u>0</u>	<u>14,060</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 242,511</u>	<u>\$ 242,511</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
EASTMAN ANNEX TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Other	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXPENDITURES:				
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	1,550,500	1,422,400	1,422,418	18
Transfers Out	<u>(1,550,500)</u>	<u>(1,462,452)</u>	<u>(1,462,286)</u>	<u>166</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>(40,052)</u>	<u>(39,868)</u>	<u>184</u>
Net Change in Fund Balances	0	(40,052)	(39,868)	184
Fund Balances, July 1, 2007	<u>0</u>	<u>40,052</u>	<u>191,845</u>	<u>151,793</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 151,977</u>	<u>\$ 151,977</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
 STEADMAN CEMETERY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 738	\$ 638
Total Revenues	<u>100</u>	<u>100</u>	<u>738</u>	<u>638</u>
EXPENDITURES:				
Maintenance	<u>100</u>	<u>100</u>	<u>0</u>	<u>100</u>
Total Expenditures	<u>100</u>	<u>100</u>	<u>0</u>	<u>100</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>738</u>	<u>738</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	738	738
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>17,710</u>	<u>17,710</u>
Fund Balances, June 30, 2008	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 18,448</u></u>	<u><u>\$ 18,448</u></u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
PUBLIC LIBRARY COMMISSION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 500	\$ 500	\$ 398	\$ (102)
Contributions and Donations	0	3,883	3,883	0
Total Revenues	<u>500</u>	<u>4,383</u>	<u>4,281</u>	<u>(102)</u>
EXPENDITURES:				
Culture and Recreation	500	15,500	15,000	500
Total Expenditures	<u>500</u>	<u>15,500</u>	<u>15,000</u>	<u>500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(11,117)</u>	<u>(10,719)</u>	<u>398</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(11,117)</u>	<u>(10,719)</u>	<u>398</u>
Fund Balances, July 1, 2007	<u>0</u>	<u>11,117</u>	<u>11,845</u>	<u>728</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,126</u>	<u>\$ 1,126</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
BAYS MOUNTAIN PARK FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 4,000	\$ 4,000	\$ 3,323	\$ (677)
Contributions and Donations	18,000	18,000	23,000	5,000
Total Revenues	<u>22,000</u>	<u>22,000</u>	<u>26,323</u>	<u>4,323</u>
EXPENDITURES:				
Culture and Recreation	45,000	45,000	17,867	27,133
Total Expenditures	<u>45,000</u>	<u>45,000</u>	<u>17,867</u>	<u>27,133</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(23,000)</u>	<u>(23,000)</u>	<u>8,456</u>	<u>31,456</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	8,504	8,504
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>8,504</u>	<u>8,504</u>
Net Change in Fund Balances	<u>(23,000)</u>	<u>(23,000)</u>	<u>16,960</u>	<u>39,960</u>
Fund Balances, July 1, 2007	<u>23,000</u>	<u>23,000</u>	<u>75,240</u>	<u>52,240</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 92,200</u>	<u>\$ 92,200</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
 SENIOR CITIZENS ADVISORY BOARD FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Charges for Services	\$ 66,300	\$ 66,300	\$ 100,308	\$ 34,008
Investment Earnings	500	500	1,271	771
Contributions and Donations	500	9,800	7,046	(2,754)
Total Revenues	<u>67,300</u>	<u>76,600</u>	<u>108,625</u>	<u>32,025</u>
EXPENDITURES:				
Culture and Recreation	67,300	103,135	95,818	7,317
Total Expenditures	<u>67,300</u>	<u>103,135</u>	<u>95,818</u>	<u>7,317</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(26,535)</u>	<u>12,807</u>	<u>39,342</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	(26,535)	12,807	39,342
Fund Balances, July 1, 2007	<u>0</u>	<u>26,535</u>	<u>26,554</u>	<u>19</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,361</u>	<u>\$ 39,361</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
SCHOOL NUTRITION SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Federal Government	\$ 1,194,550	\$ 1,194,550	\$ 1,270,148	\$ 75,598
State Government	28,400	28,400	26,920	(1,480)
Charges for Services	1,471,950	1,471,950	1,410,981	(60,969)
Investment Earnings	9,550	9,550	8,980	(570)
Contributions and Donations	<u>73,550</u>	<u>73,550</u>	<u>130,080</u>	<u>56,530</u>
Total Revenues	<u>2,778,000</u>	<u>2,778,000</u>	<u>2,847,109</u>	<u>69,109</u>
EXPENDITURES:				
School Food Service	<u>2,778,000</u>	<u>2,778,000</u>	<u>2,713,324</u>	<u>64,676</u>
Total Expenditures	<u>2,778,000</u>	<u>2,778,000</u>	<u>2,713,324</u>	<u>64,676</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>133,785</u>	<u>133,785</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	133,785	133,785
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>1,334,586</u>	<u>1,334,586</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,468,371</u>	<u>\$ 1,468,371</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
PALMER CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 500	\$ 500	\$ 2,570	\$ 2,070
Total Revenues	<u>500</u>	<u>500</u>	<u>2,570</u>	<u>2,070</u>
EXPENDITURES:				
Capital Outlay	<u>500</u>	<u>500</u>	<u>0</u>	<u>500</u>
Total Expenditures	<u>500</u>	<u>500</u>	<u>0</u>	<u>500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>2,570</u>	<u>2,570</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	2,570	2,570
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>61,638</u>	<u>61,638</u>
Fund Balances, June 30, 2008	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 64,208</u></u>	<u><u>\$ 64,208</u></u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
 ALLANDALE TRUST FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 6,000	\$ 6,000	\$ 5,658	\$ (342)
Total Revenues	<u>6,000</u>	<u>6,000</u>	<u>5,658</u>	<u>(342)</u>
EXPENDITURES:				
Culture and Recreation	<u>6,000</u>	<u>6,000</u>	<u>0</u>	<u>6,000</u>
Total Expenditures	<u>6,000</u>	<u>6,000</u>	<u>0</u>	<u>6,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>5,658</u>	<u>5,658</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	5,658	5,658
Fund Balances, July 1, 2007	<u>0</u>	<u>0</u>	<u>167,326</u>	<u>167,326</u>
Fund Balances, June 30, 2008	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,984</u>	<u>\$ 172,984</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2008**

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Investments	\$ 1,547,796	\$ 3,134,383	\$ 3,089,167	\$ 7,771,346
Accounts Receivable	1,190	132	4,431	5,753
Accrued Interest Receivable	240,831	73	0	240,904
Due from Other Governments	5,656	0	0	5,656
Due from Other Funds	876,722	0	0	876,722
Inventories	386,923	0	0	386,923
Prepays	0	125,231	0	125,231
Total Current Assets	<u>3,059,118</u>	<u>3,259,819</u>	<u>3,093,598</u>	<u>9,412,535</u>
Capital Assets:				
Land	14,695	0	0	14,695
Machinery and Equipment	21,317,718	0	0	21,317,718
Less: Accumulated Depreciation	<u>(14,132,328)</u>	<u>0</u>	<u>0</u>	<u>(14,132,328)</u>
Total Capital Assets	<u>7,200,085</u>	<u>0</u>	<u>0</u>	<u>7,200,085</u>
Other Assets:				
Deposits	0	30,000	0	30,000
Total Other Assets	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>30,000</u>
Restricted Assets:				
Cash in Bank	446,565	0	0	446,565
Long Term Certificates of Deposit	3,800,000	500,000	0	4,300,000
Investments	120,344	0	0	120,344
Total Restricted Assets	<u>4,366,909</u>	<u>500,000</u>	<u>0</u>	<u>4,866,909</u>
Total Assets	<u>14,626,112</u>	<u>3,789,819</u>	<u>3,093,598</u>	<u>21,509,529</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	109,084	157,257	821	267,162
Benefits Payable	0	341,669	900,000	1,241,669
Compensated Absences Payable	74,213	10,068	4,654	88,935
Total Current Liabilities	<u>183,297</u>	<u>508,994</u>	<u>905,475</u>	<u>1,597,766</u>
Total Liabilities	<u>183,297</u>	<u>508,994</u>	<u>905,475</u>	<u>1,597,766</u>
NET ASSETS:				
Invested in Capital Assets	7,200,085	0	0	7,200,085
Reserved for Encumbrances	824,027	0	0	824,027
Unrestricted	<u>6,418,703</u>	<u>3,280,825</u>	<u>2,188,123</u>	<u>11,887,651</u>
Total Net Assets	<u>\$ 14,442,815</u>	<u>\$ 3,280,825</u>	<u>\$ 2,188,123</u>	<u>\$ 19,911,763</u>

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2008

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
OPERATING REVENUE:				
Charges for Sales and Services	\$ 5,221,503	\$ 1,887,516	\$ 5,694,121	\$ 12,803,140
Miscellaneous	0	9,060	0	9,060
Total Operating Revenue	<u>5,221,503</u>	<u>1,896,576</u>	<u>5,694,121</u>	<u>12,812,200</u>
OPERATING EXPENSES:				
Personnel Services and Benefits	1,083,859	206,896	55,273	1,346,028
Materials and Supplies	2,847,765	6,281	1,643	2,855,689
Contractual Services	86,314	46,931	71,119	204,364
Insurance	2,384	337,406	274,630	614,420
Insurance Claims	0	1,509,106	4,694,110	6,203,216
Depreciation	1,402,053	0	0	1,402,053
Miscellaneous	67,576	0	264,195	331,771
Total Operating Expenses	<u>5,489,951</u>	<u>2,106,620</u>	<u>5,360,970</u>	<u>12,957,541</u>
Operating Income (Loss)	<u>(268,448)</u>	<u>(210,044)</u>	<u>333,151</u>	<u>(145,341)</u>
NONOPERATING REVENUES:				
Gain on Disposal of Fixed Assets	10,750	0	0	10,750
State Revenue	5,656	0	0	5,656
Investment Earnings	357,255	158,010	121,976	637,241
Total Nonoperating Revenues	<u>373,661</u>	<u>158,010</u>	<u>121,976</u>	<u>653,647</u>
Income (Loss) Before Transfers	<u>105,213</u>	<u>(52,034)</u>	<u>455,127</u>	<u>508,306</u>
Transfers In	<u>244,413</u>	<u>0</u>	<u>0</u>	<u>244,413</u>
Change in Net Assets	<u>349,626</u>	<u>(52,034)</u>	<u>455,127</u>	<u>752,719</u>
Net Assets, July 1, 2007	<u>14,093,189</u>	<u>3,332,859</u>	<u>1,732,996</u>	<u>19,159,044</u>
Net Assets, June 30, 2008	<u>\$ 14,442,815</u>	<u>\$ 3,280,825</u>	<u>\$ 2,188,123</u>	<u>\$ 19,911,763</u>

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008**

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Interfund Services Provided	\$ 5,222,537	\$ 1,896,576	\$ 5,695,073	\$ 12,814,186
Payments to Suppliers	(3,084,771)	(1,821,850)	(5,313,725)	(10,220,346)
Payments to Employees	(1,076,543)	(201,804)	(54,214)	(1,332,561)
Net Cash Provided (Used) by Operating Activities	<u>1,061,223</u>	<u>(127,078)</u>	<u>327,134</u>	<u>1,261,279</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advances from Other Funds	149,778	0	0	149,778
Net Cash Provided by Noncapital Financing Activities	<u>149,778</u>	<u>0</u>	<u>0</u>	<u>149,778</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Transfers from Other Funds	244,413	0	0	244,413
Purchase of Capital Assets	(2,131,986)	0	0	(2,131,986)
Proceeds from Sales of Capital Assets	14,550	0	0	14,550
Net Cash Used by Capital and Related Financing Activities	<u>(1,873,023)</u>	<u>0</u>	<u>0</u>	<u>(1,873,023)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from Sales and Maturities of Investments	1,500,000	0	0	1,500,000
Purchase of Investments	(1,508,940)	0	0	(1,508,940)
Interest Received	184,397	158,050	121,976	464,423
Net Cash Provided by Investing Activities	<u>175,457</u>	<u>158,050</u>	<u>121,976</u>	<u>455,483</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>(486,565)</u>	<u>30,972</u>	<u>449,110</u>	<u>(6,483)</u>
Cash and Cash Equivalents, July 1, 2007	<u>2,480,926</u>	<u>3,103,411</u>	<u>2,640,057</u>	<u>8,224,394</u>
Cash and Cash Equivalents, June 30, 2008	<u>\$ 1,994,361</u>	<u>\$ 3,134,383</u>	<u>\$ 3,089,167</u>	<u>\$ 8,217,911</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (268,448)	\$ (210,044)	\$ 333,151	\$ (145,341)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,402,053	0	0	1,402,053
(Increase) Decrease in Assets:				
Accounts Receivable	1,034	0	952	1,986
Inventory	(20,440)	0	0	(20,440)
Prepays	0	(7,287)	0	(7,287)
Increase (Decrease) in Liabilities:				
Accounts Payable	(60,292)	15,785	(8,028)	(52,535)
Benefits Payable	0	69,376	0	69,376
Compensated Absences Payable	7,316	5,092	1,059	13,467
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,061,223</u>	<u>\$ (127,078)</u>	<u>\$ 327,134</u>	<u>\$ 1,261,279</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:				
Equity in Pooled Cash and Investments	\$ 1,547,796	\$ 3,134,383	\$ 3,089,167	\$ 7,771,346
Restricted Assets Cash in Bank	446,565	0	0	446,565
Cash and Cash Equivalents, June 30, 2008	<u>\$ 1,994,361</u>	<u>\$ 3,134,383</u>	<u>\$ 3,089,167</u>	<u>\$ 8,217,911</u>

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	<u>Industrial Development Board</u>	<u>Emergency Communications District</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 5,541,127	\$ 628,168
Payments to Suppliers	(4,423,478)	(457,981)
Net Cash Provided (Used) by Operating Activities	<u>1,117,649</u>	<u>170,187</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer from Primary Government	-	-
Net Cash Provided by Noncapital Financing Activities	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	-	(54,392)
Proceeds from Line of Credit	-	-
Grants	-	51
Net Cash Provided (Used) by Capital and Related Financing Activities	-	<u>(54,341)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales and Maturities of Investments	149,887	-
Purchases of Investments	-	-
Loss on Sale of Property	-	-
Interest Received	58,965	55,145
Net Cash Provided by Investing Activities	<u>208,852</u>	<u>55,145</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,326,501	170,991
Cash and Cash Equivalents, July 1, 2007	<u>452,027</u>	<u>1,468,755</u>
Cash and Cash Equivalents, June 30, 2008	<u>\$ 1,778,528</u>	<u>\$ 1,639,746</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (293,893)	\$ 94,850
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,084	86,737
(Increase) Decrease in Assets:		
Accounts Receivable	(461,800)	(2,872)
Due from Joint Venture	19,639	-
Due from Other Governments	-	(6,208)
Due from Primary Government	-	-
Land Held for Sale or Development	1,298,150	-
Prepaid Items	(2,325)	(1,467)
Increase (Decrease) in Liabilities:		
Accounts Payable	266,291	(853)
Other Payables	288,503	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,117,649</u>	<u>\$ 170,187</u>

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 18,774,132	\$ 13,288,906
Buildings	91,008,318	90,885,181
Improvements Other Than Buildings	11,774,469	10,578,656
Equipment	12,900,876	12,481,672
Software	283,042	283,042
Infrastructure	258,598,229	257,689,751
Construction in Progress	<u>51,209,271</u>	<u>38,486,595</u>
Total Governmental Funds Fixed Assets	<u>\$ 444,548,337</u>	<u>\$ 423,693,803</u>
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Obligation Bonds	\$ 320,622,432	\$ 320,622,432
Contributions from Municipalities	576,947	576,947
Federal Grants	5,278,826	4,941,525
State Grants	286,061	286,061
County Grants	63,817	63,817
Federal Revenue Sharing	261,130	261,130
General Fund Revenue	15,778,255	15,725,875
Gifts	16,403,592	9,500,149
Forfeitures	51,873	35,148
Special Revenue Funds	30,222,477	29,400,469
Operating Revenue	3,682,022	3,682,022
Capital Lease Purchase	110,545	110,545
Notes Payable	1,089	1,089
Construction in Progress	<u>51,209,271</u>	<u>38,486,595</u>
Total Governmental Funds Capital Assets	<u>\$ 444,548,337</u>	<u>\$ 423,693,804</u>

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 Auditor's Report.

CITY OF KINGSFORT, TENNESSEE
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 JUNE 30, 2008

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction In Progress	Total
General Government:								
General Government	\$ 9,512,158	\$ 1,788,036	\$ 655,497	\$ 98,704	\$ 26,173	\$ -	\$ 5,360,503	\$ 17,421,071
City Manager	-	-	20,889	-	-	-	-	20,889
Finance	-	-	-	47,577	5,495	-	-	53,072
Information Services	-	-	-	1,562,440	-	-	-	1,562,440
Geographic Information	-	-	-	124,253	9,000	-	-	133,253
Total General Government	9,512,158	1,788,036	676,386	1,832,974	40,668	-	5,360,503	19,190,725
Economic and Physical Development:								
Development Services	-	650,519	45,984	34,575	-	-	-	731,078
Transportation	-	878,853	68,102	1,238,063	64,040	-	-	2,249,058
Engineering	-	-	-	64,361	-	-	-	64,361
Total Economic and Physical Development	-	1,529,372	114,086	1,336,999	64,040	-	-	3,044,497
Public Safety:								
Police	90,887	4,411,217	69,147	854,152	23,053	-	-	5,448,156
Fire	455,230	2,139,315	215,059	775,389	-	-	79,097	3,664,080
Communication	-	66,535	-	66,972	-	-	-	133,507
Central Dispatch	-	-	78,405	2,168,168	-	-	-	2,246,573
Total Public Safety	545,817	6,617,067	362,611	3,864,681	23,053	-	79,097	11,492,326
Public Works:								
General and Administrative	-	315,240	5,370	33,180	-	344,470	-	698,260
Sanitation	-	-	-	13,742	-	-	-	13,742
Streets	-	-	1,123,214	51,453	-	4,019,333	1,300,936	6,494,936
Maintenance	-	-	-	217,964	-	-	-	217,964
Bridges System	-	-	-	-	-	6,206,316	937,234	7,143,550
Highways System	-	-	-	-	-	243,805,639	12,635	243,618,274
Total Public Works	-	315,240	1,128,584	316,339	-	254,175,758	2,250,805	258,186,726

(continued)

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
 JUNE 30, 2008

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction In Progress	Total
Culture and Recreation:								
Senior Citizens	-	3,871,548	-	7,197	-	-	-	3,878,743
Recreation	4,611,227	7,564,956	2,563,970	576,499	-	-	8,608,323	23,924,975
Bays Mountain	980,962	862,042	315,891	48,486	-	-	421,686	2,627,067
Allandale	306,018	344,930	338,886	192,666	-	-	-	1,180,520
Library	133,000	3,620,818	-	130,648	-	4,422,471	-	8,306,737
Total Culture and Recreation	6,031,207	16,284,092	3,216,747	953,516	-	4,422,471	9,030,009	39,918,042
Education	2,684,950	64,514,511	6,276,055	4,596,367	155,281	-	34,488,857	112,716,021
Total Governmental Funds Capital Assets	\$ 18,774,132	\$ 91,008,318	\$ 11,774,469	\$ 12,900,876	\$ 283,042	\$ 258,598,229	\$ 51,209,271	\$ 444,548,337

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Fiscal Year Ended June 30, 2008

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Governmental Funds Capital Assets June 30, 2008</u>
General Government:					
General Government	\$ 7,748,780	\$ 9,720,199	\$ (550,000)	\$ 502,092	\$ 17,421,071
City Manager	20,889	-	-	-	20,889
Finance	53,072	-	-	-	53,072
Information Services	1,365,696	196,744	-	-	1,562,440
Geographic Information	133,253	-	-	-	133,253
Total General Government	9,321,690	9,916,943	(550,000)	502,092	19,190,725
Economic and Physical Development:					
Development Services	738,078	-	-	(7,000)	731,078
Transportation	1,980,474	267,292	-	1,292	2,249,058
Engineering	39,325	25,036	-	-	64,361
Total Economic and Physical Development	2,757,877	292,328	-	(5,708)	3,044,497
Public Safety:					
Police	5,420,931	27,225	-	-	5,448,156
Fire	3,624,993	40,097	-	(1,000)	3,664,090
Communication	133,507	-	-	-	133,507
Central Dispatch	2,246,573	-	-	-	2,246,573
Total Public Safety	11,426,004	67,322	-	(1,000)	11,492,326
Public Works:					
General and Administrative	695,791	-	-	2,469	698,260
Sanitation	13,742	-	-	-	13,742
Streets	5,710,342	1,111,712	-	(327,118)	6,494,936
Maintenance	210,089	18,875	-	(11,000)	217,964
Bridges System	6,978,316	165,234	-	-	7,143,550
Highways System	244,063,639	12,635	-	(458,000)	243,618,274
Total Public Works	257,671,919	1,308,456	-	(793,649)	258,186,726
Culture and Recreation:					
Senior Citizens	3,878,743	-	-	-	3,878,743
Recreation	23,105,135	670,281	-	149,559	23,924,975
Bays Mountain	2,380,080	356,987	(115,000)	5,000	2,627,067
Allandale	1,276,768	176,000	-	(272,248)	1,180,520
Library	8,296,741	9,996	-	-	8,306,737
Total Culture and Recreation	38,937,467	1,213,264	(115,000)	(117,689)	39,918,042
Education	103,578,847	8,805,135	(83,915)	415,954	112,716,021
Total Governmental Funds Capital Assets	\$ 423,693,804	\$ 21,603,448	\$ (748,915)	\$ -	\$ 444,548,337

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 KINGSFORT, TENNESSEE
ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS
For the Fiscal Year Ended June 30, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Management Fund</u>	<u>MeadowView Conference Resort and Convention Center Fund</u>	<u>Cattails at MeadowView Golf Course Fund</u>	<u>Total Enterprise Funds</u>
General and Administrative:						
Personnel Services	\$ 582,090	\$ 222,942	\$ 101,105	\$ 0	\$ 0	\$ 906,137
Contractual Services	180,045	112,452	7,797	48,257	182,786	531,337
Supplies	151,018	4,813	0	119,852	0	275,683
Insurance	111,853	109,400	15,000	6,554	4,250	247,057
Subsidies and Contributions	0	0	0	186,452	0	186,452
Base Management Fee	0	0	0	100,371	31,916	132,287
Other	163,122	89,873	64,417	170,351	52,124	539,887
Total General and Administrative	1,188,128	539,480	188,319	631,837	271,076	2,818,840
Operations:						
Water Plant Operations	1,881,800	0	0	0	0	1,881,800
Sewer Plant Operations	0	1,727,048	0	0	0	1,727,048
Water Distribution System Maintenance	2,644,742	0	0	0	0	2,644,742
Sewer Collection System Maintenance	0	1,696,489	0	0	0	1,696,489
Reading, Service and Maintenance of Meters	900,499	0	0	0	0	900,499
Landfill Operations and Services	0	0	843,018	0	0	843,018
Solid Waste Collection Services	0	0	624,804	0	0	624,804
Organic Refuse Services	0	0	1,616,760	0	0	1,616,760
Recycling Services	0	0	419,446	0	0	419,446
Golf Grounds Maintenance	0	0	0	0	322,503	322,503
Golf Pro Shop	0	0	0	0	427,675	427,675
Golf Shop Food and Beverage	0	0	0	0	59,383	59,383
Total Operations	5,427,041	3,423,537	3,504,028	0	809,561	13,164,167
Total Operating Costs	\$ 6,615,169	\$ 3,963,017	\$ 3,692,347	\$ 631,837	\$ 1,080,637	\$ 15,983,007

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2008

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
SCHOOL NUTRITION SERVICES FUND:						
Pass Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ -	\$ 960,940	\$ 960,940	\$ -
10.553	School Breakfast Program	U.S. Department of Agriculture	-	309,209	309,209	-
Pass Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	74,744	122,516	104,043	93,217 ***
Total School Nutrition Services Fund						
			74,744	1,392,665	1,374,192	93,217
PUBLIC LAW 93-380 FUND:						
Pass Through Tennessee Department of Education:						
84.010	Title I, Project 07-01, 07-21	U.S. Department of Education	(253,685)	293,093	39,508	-
84.010	Title I, Project 08-01	U.S. Department of Education	-	1,137,033	1,429,865	(292,832) *
84.027	IDEA Part B, 07-01, 07-21	U.S. Department of Education	(145,027)	509,280	364,253	-
84.027	IDEA Part B, 08-01	U.S. Department of Education	-	717,428	870,289	(152,841) *
84.048	Carl Perkins, 2007	U.S. Department of Education	(25,976)	25,979	-	-
84.048	Carl Perkins, 2008	U.S. Department of Education	-	55,158	129,301	(74,142) *
84.173	Pre School 07-01, 07-21	U.S. Department of Education	(7,320)	7,320	-	-
84.173	Pre School 08-01	U.S. Department of Education	-	22,202	37,137	(14,935) *
84.298	Title V, 2006-01, 2006-21	U.S. Department of Education	(6,726)	7,722	996	-
84.298	Title V, 2007-01, 2007-21	U.S. Department of Education	(4,145)	8,208	6,562	(2,489) *
84.298	Title V, 2008-01	U.S. Department of Education	-	-	3,270	(3,270) *
84.365	Title III, 2007, 2007-01, 2007-21	U.S. Department of Education	(12,226)	13,843	1,617	-
84.367	Title II, 2007, 2007-01, 2007-21	U.S. Department of Education	(112,098)	117,974	13,142	(7,659) *
84.367	Title II, 2008, 2008-01	U.S. Department of Education	-	180,203	222,663	(42,450) *
84.367	Title II D, 2006, 2006-01, 2006-21	U.S. Department of Education	(8,030)	8,030	-	-
84.367	Title II D, 2007, 2007-01, 2007-21	U.S. Department of Education	(3,692)	3,692	12,628	(12,628) *
84.367	Title II D, 2008, 2008-01	U.S. Department of Education	-	-	9,204	(9,204) *
84.368	Title IV, 2007, 2007-01	U.S. Department of Education	(10,793)	10,793	-	-
84.368	Title IV, 2008, 2008-01	U.S. Department of Education	-	21,462	32,194	(10,732) *
Total Public Law 93-380 Fund			(589,619)	3,144,704	3,178,477	(623,392)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2008

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
SPECIAL SCHOOL PROJECTS FUND:						
Direct Programs:						
84.287	Community of Learners	U.S. Department of Education	(86,109)	118,640	50,519	(17,988) *
Pass-Through Tennessee Department of Education:						
83.318	Education for Tennessee Grant	U.S. Department of Education	(3,717)	63,480	71,729	(11,966) *
84.196	Homeless Assistance Grant	U.S. Department of Education	(9,774)	29,629	36,875	(17,020) *
	Total Special School Projects Fund		(99,600)	211,749	159,123	(46,974)
SPECIAL REVENUE GENERAL PROJECTS FUND:						
Pass-through Community Capacity Development Office:						
16.595	Weed and Seed Program	U.S. Department of Justice	-	25,103	33,954	(8,851) *
16.595	Weed and Seed Program	U.S. Department of Justice	(8,253)	12,731	4,478	-
Pass-through Tennessee Department of Agriculture:						
10.664	Tree Inventory Plan / Z-07-033312-00	U.S. Department of Agriculture	(2,822)	3,000	178	-
Pass-through Tennessee Department of Transportation:						
20.600	Next Step Traf Enforcement / Z-07-035676-00	U. S. Department of Transportation	(10,576)	19,735	9,156	-
20.600	Multiple Approach to Reduce Crash Hazards / Z-08-023694-00	U. S. Department of Transportation	-	8,231	11,508	(3,277) *
	Total Special Revenue General Projects Fund		(21,854)	68,800	59,274	(12,128)
COMMUNITY DEVELOPMENT FUND:						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of Housing and Urban Development	(34,352)	279,324	368,936	(123,964) *
	Total Community Development Fund		(34,352)	279,324	368,936	(123,964)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
FEDERAL TRANSIT ADMINISTRATION FUND:						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-80-X218	U.S. Department of Transportation	-	23,054	45,083	(22,029) *
20.507	FTA Capital/Operating/Planning TN-80-X235	U.S. Department of Transportation	(28,773)	28,773	108,000	(108,000) *
20.507	FTA Capital/Operating/Planning TN-80-X250	U.S. Department of Transportation	(112,186)	284,549	215,532	(93,171) *
20.507	FTA Capital/Operating/Planning TN-80-X263	U.S. Department of Transportation	-	169,639	310,693	(141,054) *
Total Federal Transit Administration Fund			(140,961)	486,015	679,308	(334,254)
CAPITAL PROJECTS FUND:						
Pass-Through Tennessee Department of Transportation						
20.219	Surface Transportation Program	U.S. Department of Transportation	(88,917)	78,507	9,590	-
20.219	STP-EN-9108(29)	U.S. Department of Transportation	-	-	93,138	(93,138) *
Total Capital Projects Fund			(88,917)	78,507	102,728	(93,138)
GENERAL PURPOSE SCHOOL FUND:						
Pass-Through Tennessee Department of Education						
84.002	Adult Basic Education	U.S. Department of Education	-	130,289	138,800	(8,511) *
Total General Purpose School Fund			-	130,289	138,800	(8,511)
GENERAL FUND:						
Pass-Through First Tennessee Development District:						
93.044	Title III-B & III-D KINGS-2007-HOOT-07	U.S. Dept of Hlth & Human Srv	(818)	818	-	-
93.044	Title III-B & III-D KINGS-2008-HOOT-08	U.S. Dept of Hlth & Human Srv	-	14,900	14,900	-
Total General Fund			(818)	15,718	14,900	-
JUSTICE ASSISTANCE GRANT FUND:						
Direct Programs:						
16.579	Justice Assistance Grant / 2005-DJ-BX-0359	U.S. Department of Justice	3,701	-	3,548	153 **
Total Justice Assistance Grant Fund			3,701	-	3,548	153

(continued)

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
METROPOLITAN PLANNING OFFICE FUND:						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1(210)	Federal Highway Administration	(70,865)	119,136	48,271	-
20.205	FHWA Project No. SPR-PL-1(221)	Federal Highway Administration	-	69,736	137,910	(68,174) *
20.207	FTA Capital / Operating / Planning Section 5303	U.S. Department of Transportation	(22,980)	31,587	32,162	(23,555) *
Pass-Through Virginia Department of Transportation:						
20.205	FHWA Project VA PL Funds	Federal Highway Administration	(4,000)	4,000	4,000	(4,000) *
20.207	FTA Capital / Operating / Planning VA	U.S. Department of Transportation	(2,786)	2,786	2,988	(2,988) *
Total Metropolitan Planning Office Fund			(100,631)	227,245	225,331	(98,717)
Total Federal Awards			\$ (978,107)	\$ 6,035,016	\$ 6,304,617	\$ (1,247,708)

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.

NOTE C: PAYMENTS TO SUB-RECIPIENTS

Payments were made from the Community Development Block Grant to the South Central Kingsport CDC, CASA of Sullivan County, and Learning Centers of KHRA in the amounts of \$81,308; \$15,879; and \$45,465; respectively.

* Receivable ** Unused Revenue *** Inventory on Hand
See Independent's Auditor's Report.

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Fiscal Year Ended June 30, 2008

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
GENERAL FUND:						
Z-08-22003-00	TOUR Program Senders Family Christmas	Tennessee Arts Commission	\$ -	\$ 2,500	\$ 2,500	\$ -
Z-08-22028-00	TOUR Program Blue Highway Concert	Tennessee Arts Commission	-	2,500	2,500	-
Z-08-21715-00	Travelling Arts Exhibits	Tennessee Arts Commission	-	-	2,950	(2,950) *
Z-08-22012	Artist Registry/Inventor and Symposium	Tennessee Arts Commission	-	-	3,500	(3,500) *
Pass-Through First Tennessee Development District:						
N/A	State Senior Center Operations Grant	TN Department of Health & Human Services	(1,667)	20,001	20,000	(1,668) *
Total General Fund						
			(1,667)	25,001	31,450	(8,116)
SPECIAL REVENUE GENERAL PROJECTS FUND:						
N/A	Library Services And Technology Grant	Tennessee Department of State	-	7,000	7,000	-
RC0507SL	Kingsport Art and Sculpture Walk / VIN 0789-2373	Tennessee Arts Commission	-	1,115	2,075	(960) *
N/A	LSTA Direct Service Grant	Tennessee Department of State	-	12,765	12,765	-
Z-07-20485-00	Gates Foundation Hardware Upgrade Program	Tennessee State Library and Archives	-	6,414	6,414	-
Z-08-0201322-00	Farmers Market Promotion and Retail Grant	Tennessee Department of Agriculture	-	-	3,200	(3,200) *
Total Special Revenue General Projects Fund						
			-	27,294	31,454	(4,160)
METROPOLITAN PLANNING ORGANIZATION FUND:						
GG-07-20627-00	TN-80-0001-01 Operating 82-5303-F3-005	Tennessee Department of Transportation	(2,873)	3,949	1,078	-
GG-08-11508-00	TN-80-0002-01 Operating 82-5303-S3-008	Tennessee Department of Transportation	-	-	2,844	(2,844) *
Total Metropolitan Planning Organization Fund						
			(2,873)	3,949	4,020	(2,844)
FEDERAL TRANSIT ADMINISTRATION FUND:						
82-901-8680-04	TN-90-X-218 Capital	Tennessee Department of Transportation	-	2,882	2,882	-
82-5307-S-002	TN-90-X-235 Capital	Tennessee Department of Transportation	-	-	13,500	(13,500) *
82-5307-S2-003	TN-90-X-250 Capital	Tennessee Department of Transportation	(3,024)	5,498	10,369	(7,897) *
82-UROP-S2-007	TN-90-X-250 Operating	Tennessee Department of Transportation	(37,866)	118,488	80,622	-
82-UROP-S2-004	TN-90-X-283 Capital	Tennessee Department of Transportation	-	3,754	7,608	(3,855) *
82-UROP-S2-007	TN-90-X-283 Operating	Tennessee Department of Transportation	-	52,919	108,028	(55,107) *
Total Federal Transit Administration Fund						
			(40,890)	183,539	223,008	(80,359)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Fiscal Year Ended June 30, 2008

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expend- itures	Balance June 30, 2008
COMMUNITY DEVELOPMENT FUND:						
Z-07-031499	Emergency Shelter Grant	TN Department of Health & Human Services	(837)	1,849	1,012	-
Z-08-022828	Emergency Shelter Grant	TN Department of Health & Human Services	-	37,105	44,849	(7,744) *
Total Community Development Fund			(837)	38,954	45,861	(7,744)
SPECIAL SCHOOL PROJECTS FUND:						
GD7-ABX	One Room Drop in School 07	Tennessee Department of Education	(27,274)	27,281	17	-
GD8/ABX	One Room Drop in School 08	Tennessee Department of Education	-	48,608	83,183	(34,577) *
GG-07-12871-00	Truancy Intervention Program 2007	Tennessee Department of Children's Services	(14,380)	15,222	862	-
GG-08-21843	Truancy Intervention Program 2008	Tennessee Department of Children's Services	-	54,936	69,715	(14,779) *
019-08-3-054 to 057	LEAPS Program	Tennessee Department of Education	(50,866)	219,954	208,820	(39,792) *
GP-46590	Safe Schools	Tennessee Department of Education	(3,635)	46,923	46,982	(3,994) *
MWB-ACX	Pre-Kindergarten - Lottery	Tennessee Department of Education	(88,052)	318,591	282,527	(33,988) *
MXB-AXX	Early Childhood Program	Tennessee Department of Education	(43,600)	185,135	166,135	(24,600) *
MTE-AXX	Family Resource	Tennessee Department of Education	-	32,531	33,300	(769) *
GZB-AXX	Coordinated School Health	TN Department of Health & Human Services	-	50,489	108,288	(57,797) *
Total Special School Projects Fund			(207,787)	997,378	999,827	(210,236)
CAPITAL PROJECTS FUND:						
GG-05-11850-00	Bays Mountain Land Acquisition	Tennessee Dept of Environment & Conservation	3,468	(3,468)	-	-
DG-07-01997-00	Local Park and Recreation Fund (LPRF)	Tennessee Dept of Environment & Conservation	-	192,819	250,000	(57,181) *
Total Capital Projects Fund			3,468	189,351	250,000	(57,181)
FLEET FUND:						
Z-07-038475-00	Alternative Fuels Grant	Tennessee Dept of Environment & Conservation	-	-	5,656	(5,656) *
Total Fleet Fund			-	-	5,656	(5,656)
Total State Awards			\$ (250,586)	\$ 1,465,466	\$ 1,591,276	\$ (376,396)

* Receivable ** Unused Revenue *** Inventory on Hand
 See Independent's Auditor's Report.

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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:	<u>Page</u>
<u>Financial Trends</u> <i>Tables 1 - 6 contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	150
<u>Revenue Capacity</u> <i>Tables 7 -10 contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	158
<u>Debt Capacity</u> <i>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.</i>	162
<u>Demographic and Economic Information</u> <i>Tables 16 - 17 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	167
<u>Operating Information</u> <i>Tables 18 - 27 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.</i>	169

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

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Table 1

CITY OF KINGSFORT, TENNESSEE
NET ASSETS BY COMPONENT
For the Fiscal Years Noted
(accrual basis of accounting)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental Activities							
Invested in Capital Assets, Net of Related Debt	\$ 234,544,000	\$ 235,345,000	\$ 236,295,000	\$ 236,125,000	\$ 245,201,000	\$ 244,856,000	\$ 251,706,778
Restricted	8,981,000	6,876,000	6,694,000	1,081,000	4,099,000	33,768,000	30,399,946
Unrestricted	37,305,000	39,600,000	38,668,000	50,500,000	38,707,000	9,145,000	2,085,078
Total Governmental Activities Net Assets	\$ 280,830,000	\$ 281,821,000	\$ 281,657,000	\$ 287,706,000	\$ 288,007,000	\$ 287,769,000	\$ 284,191,802
Business-Type Activities							
Invested in Capital Assets, Net of Related Debt	\$ 98,946,000	\$ 103,253,000	\$ 113,859,000	\$ 119,477,000	\$ 126,885,000	\$ 133,869,000	\$ 142,403,592
Restricted	1,046,000	1,068,000	562,000	897,000	838,000	952,000	1,119,119
Unrestricted	2,627,000	3,939,000	43,000	3,174,000	6,059,000	10,225,000	13,816,505
Total Business-Type Activities Net Assets	\$ 102,619,000	\$ 108,260,000	\$ 114,464,000	\$ 123,548,000	\$ 133,792,000	\$ 145,046,000	\$ 157,339,216
Primary Government							
Invested in Capital Assets, Net of Related Debt	\$ 333,490,000	\$ 338,598,000	\$ 350,154,000	\$ 355,602,000	\$ 372,086,000	\$ 378,725,000	\$ 394,110,370
Restricted	10,027,000	7,944,000	7,256,000	1,978,000	4,937,000	34,720,000	31,519,065
Unrestricted	39,932,000	43,539,000	38,711,000	53,674,000	44,776,000	19,370,000	15,901,583
Total Primary Government Net Assets	\$ 383,449,000	\$ 390,081,000	\$ 396,121,000	\$ 411,254,000	\$ 421,799,000	\$ 432,815,000	\$ 441,531,018

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34. Financial statements prior to June 30, 2008 were rounded to thousands.

CITY OF KINGSPORT, TENNESSEE
CHANGES IN NET ASSETS
For the Fiscal Years Noted
(accrual basis of accounting)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental Activities:							
General Government	\$ 5,530,000	\$ 5,295,000	\$ 5,571,000	\$ 4,637,000	\$ 5,603,000	\$ 10,185,000	\$ 10,448,110
Public Safety	12,631,000	13,395,000	13,918,000	14,787,000	16,076,000	16,994,000	19,844,589
Public Works	9,278,000	9,225,000	10,151,000	6,737,000	11,638,000	11,388,000	13,370,957
Highway Transportation Planning	2,034,000	2,366,000	2,693,000	2,679,000	2,884,000	2,820,000	3,121,178
Economic and Physical Development	3,128,000	3,066,000	2,829,000	3,065,000	3,280,000	3,418,000	4,097,955
Culture and Recreation	4,096,000	4,469,000	4,294,000	4,456,000	5,253,000	5,097,000	6,802,922
Education	47,840,000	50,950,000	52,939,000	54,274,000	57,985,000	60,306,000	66,063,108
Interest on Long-Term Debt	2,713,000	2,329,000	2,228,000	2,002,000	1,737,000	1,470,000	3,244,491
Other	234,000	314,000	476,000	-	-	-	-
Total Governmental Activities Expenses	\$ 87,465,000	\$ 91,409,000	\$ 98,098,000	\$ 94,667,000	\$ 104,488,000	\$ 111,678,000	\$ 128,993,208
Business-Type Activities:							
Water	8,216,000	7,503,000	7,483,000	7,618,000	6,051,000	7,910,000	8,971,314
Sewer	6,015,000	6,824,000	7,631,000	7,945,000	7,700,000	7,582,000	7,941,556
Solid Waste Management	2,784,000	2,915,000	3,078,000	3,304,000	3,188,000	4,432,000	3,798,686
MeadowView Conference Center	2,117,000	1,701,000	2,321,000	1,740,000	1,392,000	1,230,000	1,246,702
Cattails at MeadowView Golf Course	1,351,000	1,246,000	1,259,000	1,323,000	1,355,000	1,432,000	1,447,591
Total Business-Type Activities Expenses	\$ 22,483,000	\$ 20,189,000	\$ 21,788,000	\$ 21,630,000	\$ 21,666,000	\$ 22,566,000	\$ 23,405,829
Total Primary Government Expenses	\$ 109,978,000	\$ 111,698,000	\$ 117,886,000	\$ 116,197,000	\$ 126,154,000	\$ 134,294,000	\$ 150,399,037
Program Revenues							
Governmental Activities:							
Charges for Services:	\$ 1,564,000	\$ 406,000	\$ 322,000	\$ 368,000	\$ 507,000	\$ 821,000	\$ 138,937
General Government	140,000	274,000	216,000	287,000	288,000	314,000	2,478,198
Public Safety	51,000	49,000	88,000	96,000	88,000	97,000	97,070
Highway Transportation Planning	247,000	241,000	321,000	308,000	435,000	519,000	513,595
Economic and Physical Development	563,000	519,000	495,000	571,000	679,000	678,000	748,935
Culture and Recreation	2,584,000	2,600,000	2,571,000	2,648,000	2,639,000	2,726,000	2,472,281
Education	22,877,000	24,430,000	25,195,000	27,005,000	26,957,000	29,036,000	31,846,530
Operating Grants and Contributions	821,000	1,629,000	940,000	2,739,000	1,627,000	706,000	6,982,702
Capital Grants and Contributions	28,847,000	30,138,000	30,158,000	34,020,000	33,220,000	34,898,000	45,280,248
Total Governmental Activities Program Revenues	\$ 10,157,000	\$ 10,708,000	\$ 10,946,000	\$ 11,603,000	\$ 12,227,000	\$ 12,797,000	\$ 13,073,516
Business-Type Activities:							
Charges for Services:	10,349,000	10,429,000	10,751,000	11,792,000	12,468,000	12,373,000	12,740,996
Water	391,000	383,000	441,000	580,000	489,000	680,000	783,960
Sewer	239,000	248,000	248,000	267,000	253,000	287,000	283,188
Solid Waste Management	1,132,000	973,000	968,000	960,000	982,000	1,025,000	1,095,861
MeadowView Conference Center	201,000	22,741,000	23,965,000	26,410,000	27,112,000	1,832,000	2,660,735
Cattails at MeadowView Golf Course	22,469,000	22,741,000	23,965,000	26,410,000	27,112,000	28,694,000	30,639,256
Capital Grants and Contributions	201,000	22,741,000	23,965,000	26,410,000	27,112,000	1,832,000	2,660,735
Total Business-Type Activities Program Revenues	\$ 51,316,000	\$ 52,679,000	\$ 54,123,000	\$ 60,430,000	\$ 60,332,000	\$ 63,590,000	\$ 75,918,504

(continued)

CITY OF KINGSFORT, TENNESSEE
CHANGES IN NET ASSETS
For the Fiscal Years Noted
(accrual basis of accounting)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Net (Expense)/Revenue							
Governmental Activities	\$ (58,638,000)	\$ (61,271,000)	\$ (65,940,000)	\$ (60,647,000)	\$ (71,248,000)	\$ (76,782,000)	\$ (81,712,960)
Business-Type Activities	(24,000)	2,552,000	2,197,000	4,890,000	5,448,000	6,108,000	7,232,427
Total Primary Government Net (Expense)	\$ (58,662,000)	\$ (58,719,000)	\$ (63,743,000)	\$ (55,757,000)	\$ (65,802,000)	\$ (70,674,000)	\$ (74,480,533)
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Taxes:							
Property Taxes	\$ 35,254,000	\$ 36,399,000	\$ 36,532,000	\$ 39,122,000	\$ 41,609,000	\$ 42,857,000	\$ 43,181,138
Sales Taxes	23,674,000	24,133,000	24,394,000	25,174,000	26,154,000	27,570,000	27,531,437
Other Taxes	4,115,000	4,013,000	3,828,000	3,743,000	4,460,000	5,069,000	6,117,575
Grants and Contributions Not Restricted	986,000	565,000	581,000	524,000	589,000	713,000	641,999
Unrestricted Investment Earnings	1,118,000	673,000	598,000	1,015,000	1,662,000	2,801,000	3,392,236
Gain (Loss) on Disposal of Capital Assets	20,000	4,000	13,000	30,000	2,000	4,000	269,917
Miscellaneous	621,000	4,000	1,589,000	944,000	972,000	1,340,000	1,036,779
Transfers	(5,087,000)	(2,987)	(3,757,000)	(3,899,000)	(3,899,000)	(3,810,000)	(4,035,319)
Total Governmental Activities	\$ 60,921,000	\$ 66,717,013	\$ 65,776,000	\$ 65,696,000	\$ 71,549,000	\$ 76,544,000	\$ 78,135,762
Business-Type Activities:							
Unrestricted Investment Earnings	442,000	295,000	239,000	351,000	677,000	1,334,000	1,024,862
Gain (Loss) on Disposal of Capital Assets	(6,000)	6,000	4,000	(8,000)	-	2,000	50
Miscellaneous	5,067,000	2,987,000	7,000	5,000	22,000	-	-
Transfers	5,603,000	3,286,000	4,007,000	3,856,000	3,899,000	3,610,000	4,035,319
Total Business-Type Activities	\$ 6,006,000	\$ 6,274,000	\$ 6,040,000	\$ 6,000,000	\$ 6,000,000	\$ 5,146,000	\$ 5,060,231
Total Primary Government	\$ 66,424,000	\$ 70,005,013	\$ 69,783,000	\$ 70,900,000	\$ 76,347,000	\$ 81,690,000	\$ 83,195,993
Change in Net Assets							
Governmental Activities	\$ 2,283,000	\$ 5,446,013	\$ (164,000)	\$ 6,049,000	\$ 301,000	\$ (238,000)	\$ (3,577,198)
Business-Type Activities	5,479,000	6,840,000	6,204,000	9,084,000	10,244,000	11,254,000	12,292,658
Total Primary Government	\$ 7,762,000	\$ 11,286,013	\$ 6,040,000	\$ 15,133,000	\$ 10,545,000	\$ 11,016,000	\$ 8,715,460

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.

Financial statements prior to June 30, 2008 were rounded to thousands.

Table 3

CITY OF KINGSPORT, TENNESSEE
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 For the Fiscal Years Noted
 (accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax		Hotel / Motel Tax	Total
2002	\$ 35,254,000	\$ 23,874,000	\$ 664,000	\$ 1,427,000	\$ 1,307,000	\$ 717,000	\$ 63,243,000	
2003	36,399,000	24,133,000	659,000	1,272,000	1,318,000	764,000	64,545,000	
2004	38,532,000	24,394,000	379,000	1,416,000	1,296,000	735,000	66,752,000	
2005	39,122,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,039,000	
2006	41,609,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,223,000	
2007	42,857,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,496,000	
2008	43,181,138	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,830,150	

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34. Financial statements prior to June 30, 2008 were rounded to thousands.

Table 4

CITY OF KINGSFORT, TENNESSEE
FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 4,042,000	\$ 4,180,000	\$ 2,916,000	\$ 2,910,000	\$ 3,378,000	\$ 3,950,000	\$ 3,607,000	\$ 3,232,000	\$ 3,510,000	\$ 3,391,331
Unreserved	8,869,000	11,147,000	13,836,000	14,827,000	14,920,000	12,720,000	12,076,000	16,420,000	17,409,000	14,848,415
Total General Fund	\$ 12,911,000	\$ 15,327,000	\$ 16,752,000	\$ 17,537,000	\$ 18,298,000	\$ 16,670,000	\$ 15,683,000	\$ 19,652,000	\$ 20,919,000	\$ 18,239,746
All Other Governmental Funds										
Reserved	\$ 797,000	\$ 852,000	\$ 583,000	\$ 753,000	\$ 5,602,000	\$ 4,713,000	\$ 7,797,000	\$ 4,747,000	\$ 5,895,000	\$ 14,981,015
Unreserved, reported in:										
Debt Service	5,511,000	113,000	-	15,000	-	71,000	33,000	69,000	1,022,000	1,140,765
Special Revenue Funds	3,931,000	4,815,000	4,991,000	6,447,000	5,732,000	5,956,000	5,385,000	5,050,000	7,566,000	6,895,192
Capital Project Funds	12,035,000	16,977,000	9,641,000	8,777,000	6,689,000	6,532,000	898,000	3,757,000	33,434,000	30,073,398
Permanent Fund										
Total all Other Governmental Funds	\$ 22,274,000	\$ 22,757,000	\$ 15,195,000	\$ 15,992,000	\$ 18,023,000	\$ 17,272,000	\$ 13,903,000	\$ 13,623,000	\$ 47,707,000	\$ 53,090,653

Source: City of Kingsport Finance Department

Note: Financial statements prior to June 30, 2008 were rounded to thousands.

CITY OF KINGSPORT, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:										
Taxes	\$ 42,899,000	\$ 40,843,000	\$ 42,587,000	\$ 43,844,000	\$ 45,088,000	\$ 48,524,000	\$ 48,415,000	\$ 51,532,000	\$ 53,341,000	\$ 57,472,894
Licenses and Permits	267,000	209,000	207,000	401,000	264,000	324,000	350,000	350,000	526,000	778,788
Intergovernmental	40,124,000	40,435,000	43,518,000	44,025,000	46,018,000	48,457,000	49,907,000	50,004,000	52,686,000	52,217,860
Charges for Services	5,136,000	5,508,000	4,800,000	4,843,000	3,503,000	3,561,000	3,668,000	3,900,000	4,162,000	3,940,109
Fines and Forfeitures	431,000	394,000	542,000	508,000	421,000	287,000	443,000	560,000	787,000	2,233,348
Contributions	256,000	132,000	28,000	73,000	319,000	272,000	578,000	459,000	316,000	385,508
Investment Earnings	1,030,000	2,202,000	1,997,000	761,000	488,000	395,000	731,000	1,188,000	2,123,000	2,754,986
Miscellaneous	285,000	542,000	368,000	274,000	276,000	327,000	332,000	360,000	555,000	714,898
Total Revenues	90,428,000	90,263,000	94,025,000	94,327,000	96,387,000	98,157,000	104,428,000	108,353,000	114,486,000	120,498,500
Expenditures:										
General Government	4,801,000	5,110,000	5,200,000	5,328,000	5,526,000	5,657,000	5,888,000	6,240,000	7,698,000	8,228,820
Public Safety	11,061,000	11,079,000	11,331,000	12,198,000	12,634,000	13,085,000	13,890,000	14,556,000	15,568,000	16,963,599
Public Works	6,029,000	7,074,000	6,841,000	4,448,000	4,289,000	5,207,000	4,814,000	5,018,000	5,178,000	5,639,582
Transportation	1,942,000	2,091,000	2,108,000	2,034,000	2,368,000	2,893,000	2,879,000	2,894,000	2,820,000	3,121,178
Development	2,181,000	2,243,000	3,597,000	2,977,000	2,816,000	2,558,000	2,948,000	3,068,000	3,219,000	3,881,462
Recreation	2,885,000	2,962,000	3,197,000	3,190,000	3,274,000	3,022,000	3,726,000	4,011,000	3,933,000	4,594,675
Education	39,193,000	40,859,000	42,788,000	44,589,000	46,818,000	48,581,000	51,437,000	53,181,000	55,800,000	57,968,972
Miscellaneous	-	-	249,000	220,000	309,000	348,000	516,000	722,000	878,000	1,019,288
Capital Outlay	5,572,000	6,888,000	14,951,000	7,368,000	7,502,000	10,048,000	11,983,000	10,562,000	4,954,000	21,263,050
Debt Service:										
Principal	5,824,000	5,219,000	6,081,000	6,628,000	19,770,000	11,080,000	7,847,000	8,525,000	8,488,000	12,191,783
Interest	3,333,000	2,839,000	2,898,000	2,713,000	2,289,000	2,170,000	1,962,000	1,735,000	1,470,000	2,449,765
Bond Issuance Costs	-	-	18,000	34,000	123,000	211,000	43,000	100,000	300,000	388,566
Arbitrage Rebate	-	257,000	-	-	-	-	-	-	-	-
Other Charges	5,000	37,000	8,000	14,000	5,000	30,000	15,000	20,000	11,000	7,590
Total Expenditures	83,238,000	86,738,000	99,235,000	91,737,000	107,741,000	104,868,000	107,729,000	110,832,000	110,317,000	137,540,308
Excess of revenues over (under) expenditures	7,192,000	3,525,000	(5,210,000)	2,590,000	(11,354,000)	(6,511,000)	(3,302,000)	(2,279,000)	4,178,000	(17,041,808)

(Continued)

CITY OF KINGSFORT, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Other Financing Sources (Uses):										
Transfers In	\$ 16,255,000	\$ 23,161,000	\$ 25,305,000	\$ 24,826,000	\$ 29,658,000	\$ 28,792,000	\$ 30,484,000	\$ 32,824,000	\$ 36,504,000	\$ 38,400,986
Transfers Out	(18,568,000)	(26,360,000)	(28,149,000)	(29,997,000)	(32,681,000)	(32,606,000)	(34,396,000)	(36,723,000)	(40,314,000)	(40,890,728)
Issuance of Debt	10,349,000	2,035,000	1,909,000	2,620,000	17,155,000	13,725,000	2,850,000	6,771,000	35,441,000	23,120,000
State Loan Proceeds	380,000	414,000	-	-	-	-	-	-	-	-
Bond Anticipation Notes	400,000	-	-	-	-	-	-	-	-	-
Bond Premiums	-	-	-	-	-	561,000	-	-	-	112,398
Sale of Building	-	-	-	-	-	-	-	-	-	800,000
Refunding Bond Proceeds	28,002,000	-	-	-	-	-	-	-	-	-
Payments to Refunded Bond Escrow Agent	(28,152,000)	-	-	-	-	(6,340,000)	-	-	-	-
Bond Proceeds From Other Governments	-	181,000	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	8,669,000	(599,000)	(935,000)	(2,551,000)	14,132,000	4,132,000	(1,052,000)	2,872,000	31,631,000	19,752,868
Net Change in Fund Balances	\$ 15,861,000	\$ 2,856,000	\$ (6,145,000)	\$ 39,000	\$ 2,778,000	\$ (2,379,000)	\$ (4,354,000)	\$ 593,000	\$ 35,810,000	\$ 2,710,858
Debt Service as a Percentage of Noncapital Expenditures	11.5%	10.5%	10.7%	11.1%	22.1%	14.2%	10.3%	10.4%	9.7%	12.9%

Source: City of Kingsport Finance Department

Note: All net changes in fund balances are exclusive of any prior period adjustments. Financial statements prior to June 30, 2008 were rounded to thousands.

Table 6

CITY OF KINGSPORT, TENNESSEE
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
 For the Fiscal Years Noted
 (modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2002	\$ 34,911,000	\$ 23,874,000	\$ 664,000	\$ 1,427,000	\$ 1,307,000	\$ 717,000	\$ 62,900,000
2003	36,117,000	24,133,000	659,000	1,272,000	1,318,000	764,000	64,263,000
2004	37,775,000	24,394,000	379,000	1,416,000	1,296,000	735,000	65,995,000
2005	39,290,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,207,000
2006	41,770,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,384,000
2007	42,929,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,568,000
2008	43,322,288	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,971,300

Source: City of Kingsport Finance Department

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

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.

Financial statements prior to June 30, 2008 were rounded to thousands.

Table 7

**CITY OF KINGSFORT, TENNESSEE
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	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						
1999	1998	\$ 320,281,642	\$ 291,535,254	\$ 308,429,782	\$ 37,273,648	\$ 957,520,326	2.39	\$ 3,105,281,345	30.84%
2000	1999	328,273,815	291,537,209	289,111,759	33,216,706	942,139,489	2.39	3,155,975,910	29.85%
2001	2000	335,408,356	299,653,106	280,452,313	35,562,788	951,076,563	2.39	3,177,912,163	29.93%
2002	2001	378,890,929	350,414,588	307,946,010	39,512,083	1,076,763,610	2.22	3,489,323,774	30.86%
2003	2002	381,837,990	353,943,783	306,104,121	44,088,034	1,085,973,928	2.29	3,512,115,287	30.92%
2004	2003	386,620,196	381,988,450	337,980,179	43,108,340	1,149,697,165	2.29	3,705,828,043	31.02%
2005	2004	392,197,892	390,447,568	332,088,376	46,710,193	1,161,444,029	2.29	3,736,183,711	31.09%
2006	2005	416,736,199	438,583,408	360,312,126	48,475,652	1,264,107,385	2.26	4,053,938,000	31.18%
2007	2006	432,446,370	451,842,280	382,898,959	46,401,525	1,313,589,134	2.26	4,194,699,000	31.32%
2008	2007	443,963,472	459,872,279	341,168,271	40,991,606	1,285,995,628	2.30	4,137,292,349	31.08%

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
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
2008	2.30	2.53	2.61

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**

Taxpayer	2008			1999		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 349,026,433	1	27.1%	\$ 303,308,828	1	31.7%
Wellmont Health System/ Holston Valley Health Care	19,615,786	2	1.5%	4,479,372	9	0.5%
Domtar, Inc (Weyerhaeuser Co/ Willamette Industries)	17,696,589	3	1.4%	15,492,729	3	1.6%
Kingsport Power Company	14,382,508	4	1.1%	13,789,133	5	1.4%
Fort Henry Mall	13,278,122	5	1.0%	10,212,289	7	1.1%
Mountain States Health / HCA	9,747,838	6	0.8%	17,116,247	2	1.8%
Wal Mart Properties/Real Estate	9,388,720	7	0.7%			0.0%
Sprint/United Inter-Mountain Telephone Southeast	9,049,673	8	0.7%	14,319,098	4	1.5%
Eastman Credit Union	8,653,328	9	0.7%			0.0%
AGC America, Inc	6,652,163	10	0.5%	5,253,902	8	0.5%
Quebecor			0.0%	12,805,409	6	1.3%
Crosscreek			0.0%	3,455,240	10	0.4%
Totals	\$ 457,491,160		35.5%	\$ 400,232,247		41.8%

Total Taxable Assessed Value:
 FYE 2008 (Tax Year 2007) 1,285,995,628
 FYE 1999 (Tax Year 1998) 957,520,326

Source: City of Kingsport Finance Department

Table 10

**CITY OF KINGSFORT, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Tax Levy for Fiscal Year	Subsequent Adjustments to Levy	Adjusted Tax Levy	Collected within the Fiscal		Total Collections to Date		Percentage of Adjusted Levy	Uncollected Delinquent Taxes
				Amount	Percentage of Adjusted Levy	Amount	Percentage of Adjusted Levy		
1999	\$ 22,914,214	\$ (17,384)	\$ 22,896,850	\$ 22,326,536	97.51%	\$ 554,483	99.93%	\$ 15,831	
2000	22,522,659	17,832	22,540,491	21,896,993	97.15%	617,865	99.89%	25,633	
2001	22,824,429	6,779	22,831,208	22,121,322	96.89%	648,785	99.73%	61,101	
2002	23,911,170	(13,233)	23,897,937	23,042,569	96.42%	748,952	99.55%	106,416	
2003	24,868,827	63,260	24,932,087	24,104,536	96.68%	757,682	99.72%	69,869	
2004	26,332,293	894	26,333,187	25,315,529	96.14%	918,503	99.62%	99,155	
2005	26,616,925	(18,158)	26,598,767	25,793,768	96.97%	682,514	99.54%	122,485	
2006	28,738,644	(456)	28,738,188	27,985,510	97.38%	579,451	99.40%	173,227	
2007	29,564,326	(771)	29,563,555	28,769,796	97.32%	453,466	98.85%	340,293	
2008	29,582,951	-	29,582,951	28,616,818	96.73%	-	96.73%	966,133	

Source: City of Kingsport Finance Department

Table 11

CITY OF KINGSPORT, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Notes Payable	General Obligation Bonds	Revenue Bonds	Notes Payable				
1999	65,891,000	380,000	61,263,000	378,000	7,351,000	135,263,000	13.76%	\$ 3,263	
2000	62,770,000	730,000	71,014,000	354,000	7,709,000	142,577,000	12.64%	\$ 3,439	
2001	58,416,000	911,000	64,017,000	330,000	8,625,000	132,299,000	11.53%	\$ 3,191	
2002	54,766,000	554,000	61,743,000	300,000	11,419,000	128,782,000	11.04%	\$ 3,107	
2003	48,434,000	4,450,000	61,394,000	270,000	13,046,000	127,594,000	11.37%	\$ 3,078	
2004	49,288,000	346,000	63,890,000	240,000	7,920,000	121,684,000	11.01%	\$ 2,935	
2005	44,395,000	241,000	63,045,000	225,000	6,293,000	114,199,000	9.85%	\$ 2,755	
2006	38,931,000	3,932,000	60,303,000	210,000	5,829,000	109,205,000	9.11%	\$ 2,634	
2007	63,481,000	6,302,000	53,665,000	195,000	5,423,000	129,066,000	10.23%	\$ 3,113	
2008	74,292,500	6,419,174	47,477,500	180,000	5,591,065	133,960,239	10.68%	\$ 3,232	

Source: City of Kingsport Finance Department

Note:

- Details regarding the City's outstanding debt can be found in the notes to the financial statements.
- See the Schedule of Demographic and Economic Statistics for personal income and population data.
- Financial statements prior to June 30, 2008 were rounded to thousands.

**CITY OF KINGSFORT, TENNESSEE
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years**

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts		Net General Obligation Bonds	Percentage of	
		Available in Debt Service Fund			Estimated Actual Taxable Value of	Per Capita
1999	65,891,000	5,511,000		60,380,000	1.94%	\$ 1,457
2000	62,770,000	113,000		62,657,000	1.99%	1,511
2001	58,416,000	-		58,416,000	1.84%	1,409
2002	54,766,000	15,000		54,751,000	1.57%	1,321
2003	48,434,000	-		48,434,000	1.38%	1,168
2004	49,288,000	71,000		49,217,000	1.33%	1,187
2005	44,395,000	33,000		44,362,000	1.19%	1,070
2006	38,931,000	92,000		38,839,000	0.96%	937
2007	63,481,000	422,000		63,059,000	1.50%	1,521
2008	74,292,500	392,348		73,900,152	1.79%	1,783

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. Financial statements prior to June 30, 2008 were rounded to thousands.

CITY OF KINGSPORT, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
For the Fiscal Year Ended June 30, 2008

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid with Property Taxes:			
Net Direct Debt:			
City of Kingsport	\$ 74,655,000	100.00%	\$ 74,655,000
Total Direct Debt	74,655,000	100.00%	74,655,000
Overlapping Debt:			
Sullivan County	36,610,000	41.33%	15,130,913
Hawkins County	52,398,000	6.30%	3,301,074
Subtotal, Overlapping Debt	89,008,000	47.63%	18,431,987
Total Direct and Overlapping Debt	\$ 163,663,000		\$ 93,086,987

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.

Table 14

**CITY OF KINGSFORT, TENNESSEE
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt Limit	\$ 191,504,065	\$ 188,427,898	\$ 190,215,313	\$ 215,352,722	\$ 217,184,786	\$ 229,939,433	\$ 232,288,806	\$ 252,821,477	\$ 262,717,827	\$ 257,199,126
Total Net Debt Applicable to Limit	65,891,000	62,770,000	58,416,000	65,906,000	62,796,000	56,976,000	50,275,000	43,335,000	65,810,000	74,655,000
Legal Debt Margin	\$ 125,613,065	\$ 125,657,898	\$ 131,799,313	\$ 149,446,722	\$ 154,388,786	\$ 172,961,433	\$ 182,013,806	\$ 209,486,477	\$ 196,807,827	\$ 182,544,126
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	34.41%	33.31%	30.71%	30.60%	28.91%	24.76%	21.64%	17.14%	25.09%	29.03%

Legal Debt Margin Calculation for Fiscal Year 2008

Total Taxable Assessed Value	\$ 1,285,995,628
Debt Limit (20% of Taxable Assessed Value)	257,199,126
Debt Applicable to Limit:	
General Obligation Debt	74,292,500
Add: Solid Waste General Obligation Debt	362,500
Total Net Debt Applicable to Limit	74,655,000
Legal Debt Margin	\$ 182,544,126

Limitation on Borrowing Power

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

Bond Rating: "Moody's" A-1

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE
PLEGGED-REVENUE COVERAGE
Last Ten Fiscal Years**

Fiscal Year	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service			Total	Coverage
				Principal	Interest	Total		
(1)								
Less:								
		Operating Expenses	Net Available Revenue	Principal	Interest	Total	Coverage	
Water and Sewer Revenue Bonds:								
1999	18,204,000	8,759,000	9,445,000	4,801,000	2,038,000	6,839,000	1.38	
2000	18,162,000	8,832,000	9,330,000	5,068,000	2,407,000	7,475,000	1.25	
2001	19,500,000	9,803,000	9,697,000	5,996,000	2,867,000	8,863,000	1.09	
2002	20,506,000	9,674,000	10,832,000	5,754,000	1,954,000	7,708,000	1.41	
2003	21,137,000	8,770,000	12,367,000	6,669,000	1,588,000	8,257,000	1.50	
2004	22,318,000	9,321,000	12,997,000	6,851,000	1,775,000	8,626,000	1.51	
2005	24,613,000	9,144,000	15,469,000	8,173,000	1,732,000	9,905,000	1.56	
2006	25,388,000	9,601,000	15,787,000	6,334,000	1,734,000	8,068,000	1.96	
2007	26,802,000	9,341,000	17,461,000	6,327,000	1,608,000	7,935,000	2.20	
2008	25,814,512	10,578,186	15,236,326	5,271,846	1,606,431	6,878,277	2.22	

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

Note: Financial statements prior to June 30, 2008 were rounded to thousands.

Table 16

**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 Formal Schooling	School Enrollment	Unemployment Rate
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%
2008	44,435	1,254,044,570	28,222	*	*	6,396	6.2%

* Information was not available.

Source: City of Kingsport Finance Department

Table 17

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

Employer	2008			2000*		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	8,000	1	11.4%	8,630	1	12.2%
Wellmont Health Systems	2,000	2	2.9%	1,922	3	2.7%
Kingsport City Schools	1,037	3	1.5%	962	5	1.4%
Wal-Mart	900	4	1.3%	N/A	-	-
Holston Medical Group	890	5	1.3%	N/A	-	-
Mountain States Health	845	6	1.2%	N/A	-	-
City of Kingsport	745	7	1.1%	700	6	1.0%
AGC America, Inc.	600	8	0.9%	1,230	4	1.7%
BAE SYSTEMS Ordnance Systems, Inc.	428	9	0.6%	N/A	-	-
Domtar	370	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%
	<u>15,815</u>		<u>22.6%</u>	<u>16,960</u>		<u>24.0%</u>

Total Sullivan County Employment:

FYE 2008	70,080
FYE 2000	70,530

*Principal Employer information is not available prior to FY 2000

Sources:

- Kingsport Economic Development Board
- Tennessee Department of Economic Security

Table 18

**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	2008	
General Government	80	81	79	80	81	80	92	
Public Safety	234	233	235	237	237	243	254	
Public Works	103	105	105	109	106	113	119	
Development	49	49	46	47	47	36	25	
Recreation	53	53	54	56	57	57	58	
Education	913	924	945	961	970	978	982	
Water	78	78	78	80	80	80	78	
Sewer	46	46	45	40	40	40	40	
Solid Waste	37	36	36	36	35	31	30	
	<u>1,593</u>	<u>1,605</u>	<u>1,623</u>	<u>1,646</u>	<u>1,653</u>	<u>1,658</u>	<u>1,678</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	
	2007	2008
Education:		
Student Transportation:		
Miles	368,869	377,916
Average Daily Ridership	1,949	1,943
Public Safety:		
Police:		
Physical Arrests	3,206	3,348
Parking Citations	3,722	3,016
Traffic Citations	12,895	12,957
Calls for Service	47,934	48,981
Fire:		
Calls for Service	5,987	6,445
Inspections	3,403	2,899
Fire Loss	\$ 1,471,657	\$ 1,565,342
Public Works:		
Potholes Repaired	538	924
Streets Swept (linear miles)	7,853	6,339
Traffic Signal Maintenance Calls	650	547
Leaves Collected (Tons)	1,716	1,595
Parks and Recreation:		
Civic Auditorium Rentals	1,127	899
Civic Auditorium Attendance	54,219	70,197
Pool Attendance	27,552	25,231
Participation in athletic events	180,766	187,561
Renaissance Center Rentals	1,908	1,870
Renaissance Center Attendance	181,650	198,575
Allandale Rentals	297	293
Allandale Visitors	29,808	23,591
K - Play Games Played	1,350	1,428
K - Play Attendance	91,145	97,320
Senior Center:		
Active Members	1,842	2,365
Average Daily Attendance	188	226
Bays Mountain Park:		
Total Programs	1,667	1,259
Total Attendance	148,041	173,063
Library:		
Total Circulation	206,586	210,476
Building Attendance	176,854	193,344
Water:		
Average Daily Consumption in Gallons	14.5 mgd	14.6 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd
Water Taps	339	442
Sewer:		
Average Daily Treatment in Gallons	8.8 mgd	8.8 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	12.4 mgd
Sewer Taps	187	206
Solid Waste:		
Landfill Material Accepted (Tons)	24,434	32,574
Household Refuse Collected (Tons)	16,046	16,244
Recyclables Collected (Tons)	2,587	2,613
Golf Course:		
Rounds of Golf	26,175	27,338

Source: Various City Departments

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

Function	Fiscal Year	
	2007	2008
Education:		
Student Transportation:		
Buses	35	37
Public Safety:		
Police:		
Stations	1	1
Patrol Units	104	109
Motorcycle Units	1	1
Fire:		
Stations	6	6
Fire Trucks/Rescue Units	14	14
Public Works:		
Streets (Miles)	429	434
Street Lights	8,921	9,031
Traffic Signals	103	102
Leisure Services:		
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	3,550	3,550
Hunter Wright Baseball Stadium - Acreage	54	54
School System:		
Elementary Schools	7	7
Middle Schools	2	2
High Schools	1	1
Water and Sewer:		
Water Mains (Miles)	750	817
Fire Hydrants	1,691	1,740
Sanitary Sewers (Miles)	515	515
Storm Sewers (Miles)	209	209
Solid Waste:		
Collection Trucks	14	15
Golf Courses	1	1

Source: Various City Departments

CITY OF KINGSPORT, TENNESSEE
UTILITY RATE STRUCTURE & NUMBER OF CUSTOMERS
June 30, 2008

Water Rates:

		Inside City	
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
		Outside City	
First	1,000 gallons	\$ 14.82	per 1000 gal
Next	9,000 gallons	\$ 6.43	per 1000 gal
Next	10,000 gallons	\$ 5.82	per 1000 gal
Next	70,000 gallons	\$ 5.40	per 1000 gal
Next	100,000 gallons	\$ 4.42	per 1000 gal
Over	190,000 gallons	\$ 4.15	per 1000 gal

Sewer Rates:

		Inside City	
Minimum charge		\$ 13.26	2,000 gal
Additional gallons		\$ 6.63	per 1000 gal
		Outside City	
Minimum charge		\$ 16.24	2,000 gal
Additional gallons		\$ 8.12	per 1000 gal

Number of Customers:

	Inside City	Outside City
Water	19,473	14,534
Sewer	18,731	1,795

CITY OF KINGSPORT, TENNESSEE
 SCHEDULE OF UNACCOUNTED FOR WATER
 June 30, 2008
 (All amounts in gallons)

Table 22

Water Treated and Purchased:		
Water Pumped (potable)	5,328,439,000	
Water Purchased	<u>3,623,000</u>	
Total Water Treated and Purchased		5,332,062,000
Accounted for Water:		
Water Sold	3,353,195,600	
Metered for Consumption	169,701,100	
Fire Department(s) Usage	2,338,600	
Flushing	18,027,100	
Tank Cleaning/Filling	9,106,800	
Street Cleaning	3,464,900	
Bulk Sales	-	
Water Bill Adjustments	-	
Other	-	
Total Accounted for Water		<u>3,555,834,100</u>
Unaccounted for Water		<u>1,776,227,900</u>
Percent Unaccounted for Water		<u>33.31%</u>
Cost per 1,000 gallons of Water		<u>\$1.24</u>
Cost of Unaccounted for Water		<u>\$2,202,523</u>

Table 23

**CITY OF KINGSFORT, TENNESSEE
TOP TEN WATER CUSTOMERS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY08 Water Sales</u>
Eastman Chemical Company	703,357,100	\$ 1,033,993	8.51%
Domtar Paper Company, LLC	65,867,000	108,998	0.90%
Wellmont Health System	61,517,200	90,500	0.74%
Royal Ordnance of North America, Inc.	47,477,800	68,940	0.57%
Pet Dairy, Inc.	42,578,600	62,055	0.51%
Kingsport Housing Authority	29,166,200	49,906	0.41%
AGC	21,533,800	43,646	0.36%
Indian Path Hospital	17,604,300	25,697	0.21%
Allandale Falls Apt, LLC	15,550,500	22,747	0.19%
MeadowView Conference Resort	12,518,100	19,298	0.16%
	<u>1,017,170,600</u>	<u>\$ 1,525,780</u>	<u>12.56%</u>

Source: City of Kingsport Finance Department

Table 24

**CITY OF KINGSPORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY08 Sewer User Fees</u>
Eastman Chemical Company	206,803,500	\$ 1,371,541	11.20%
Wellmont Health Systems	43,653,400	289,508	2.36%
Pet Dairy, Inc.	30,353,100	201,293	1.64%
Kingsport Housing Authority	29,166,200	194,906	1.59%
Domtar Paper Company, LLC	15,998,000	106,122	0.87%
Allandale Falls Apt, LLC	15,550,500	103,100	0.84%
Model City Apts	12,024,500	79,732	0.65%
Cross Creek Apartments, LLC	10,982,800	72,822	0.59%
Indian Path Hospital	10,626,600	70,454	0.58%
Cabana Apartments, Inc.	10,081,500	66,840	0.55%
	<u>385,240,100</u>	<u>\$ 2,556,318</u>	<u>20.87%</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, 2008

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
John Campbell	City Manager	\$ 146,197	\$ 5,000
J. Michael Billingsley	City Attorney	108,175	-
James H. Demming	City Recorder/Chief Financial Officer	99,961	385,000
Keith E. Smith	City Treasurer	76,679	200,000
Richard Kitzmiller	Director of Schools	142,450	-
Gale Osborne	Chief of Police	84,900	-
Dennis R. Phillips	Mayor	3,000	-
Larry Munsey	Vice-Mayor	2,400	-
Patrick W. Shull	Alderman	2,400	-
C. Ken Marsh, Jr.	Alderman	2,400	-
Benjamin K. Mallicote	Alderman	2,400	-
Valerie Joh	Alderman	2,400	-
Jantry Shupe	Alderman	2,400	-

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2008**

Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
<u>Comprehensive General Liability/ TML Risk Management Pool</u>	TML-21300	7/1/07-7/1/10 Annual Renewal 7/1/08-7/1/09	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000,000 3,000,000 Replacement 3,000,000	\$ 110,113
Midwest Employers Reinsurance Corp.	EWC 005902 (reinsurance agreement)	1/1/08-12/31/08	Worker's Compensation	Statutory	78,133
<u>Government/Crime/ St. Paul / U.S. Fidelity & Guarantee Co.</u>	104703171	1/1/07-1/1/08	Employee Blanket Dishonesty (City)	250,000	1,224
Travelers Insurance Co.	105012751	07/01/07-07/01/08	Employee Blanket Dishonesty (Schools)	510,000	6,484
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty Continental Casualty Company</u>	RMP2071010211	12/31/07-12/31/08	Buildings and Contents	194,607,453	120,878
Travelers Insurance Co.	I-660-710X3600-660	2/13/08-2/13/09	Justice Center Commercial/ Gen Property	5,928,000	9,874
Hartford Insurance Co.	20MSCYQ7488	5/28/08-5/28/09	Grand Piano - Allandale		534
<u>Boiler and Machinery The Cincinnati Insurance Co.</u>	BEP2846328	1/1/08-1/1/09	Boilers and Machinery	100,000	4,348
<u>Public Officials Bond St. Paul / U.S. Fidelity & Guarantee Co. RLI</u>	400MQ3028 RSB2003698	8/1/07-8/1/08 4/30/08-4/30/09	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee Schools)	200,000 1,277,000	1,250 5,331
Travelers Insurance Company	400NS5672	3/15/08-3/15/09	Bond - Recorder (J. Demming)	385,000	1,537
Travelers Insurance Company	104224291	10/1/07-10/1/08	Bond - City Manager (J. Campbell)	5,000	100
St. Paul / U.S. Fidelity & Guarantee Co.	104476426	12/31/07-12/31/08	Bond - City Judge (J.R. Boatwright)	1,000	100
Western Surety Company	58366775	4/4/08-4/4/09	Blanket Notary Errors and Omissions	25,000	858
<u>Other Stadium General Liability/ Hunter Wright Property - D.B. High School Indiana Insurance Company</u>	CBP9566738	3/8/08-3/8/09	General Liability/ Scoreboard/ Public Address system	2,000,000	1,329
Total Premium					\$ 342,093

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 of the City of Kingsport, Tennessee (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2008. We did not audit the financial statements of the Emergency Communications District (the ECD), a discretely presented component unit, which represents 16 percent, 22 percent, and 13 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, 2008. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's basic 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 opinions on the basic 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: 08-01, 08-02 and 08-03.

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. Of the significant deficiencies listed above and described in the accompanying schedule of findings and questioned costs, we consider the following deficiency to be a material weakness in internal control over financial reporting: 08-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 17, 2008.

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 17, 2008



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, 2008. 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, 2008.

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, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 17, 2008

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

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, 22 percent, and 13 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. Three significant deficiencies relating to the audit of the statements are reported in the Schedule of Findings and Questioned Costs. Of these significant deficiencies, one is considered to be a material weakness.
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>
Special Education Preschool Grants	84.173
Individuals with Disabilities Education (IDEA)	84.027
National School Breakfast Program	10.553
National School Lunch Program	10.555
Federal Transit Administration	20.205
Federal Transit Administration	20.207
Federal Transit Administration	20.507

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, 2008

Section II - Findings – Financial Statement Audit

Current Year Findings

08-01 Material Weakness: Industrial Development Board of Kingsport, Tennessee (IDBK)

Condition: During the fiscal year 2008 audit, it was noted that the client's practice was to net revenue and expense accounts and not record revenue or expenses related to the sale of property.

Criteria: In accordance with generally accepted accounting principles (GAAP), revenues and expenses should be reported at gross. In addition, the accounting records should reflect the complete effects of all transactions.

Effect: Multiple material audit adjustments were necessary in order to present the IDBK's financial statements on the full accrual basis and in accordance with GAAP.

Recommendation: Due to the increased volume and complexity of transactions encountered during the current fiscal year and their effects on financial reporting within the IDBK's books, we recommend that the IDBK expand their internal controls for financial reporting surrounding the entity's monitoring function. Specifically, we recommend that the IDBK send monthly financials and the supporting general ledger to the City Recorder for review and approval. This compensating control should aid in preventing the accumulation of improper adjustments.

Management's Comments: The Board concurs with and agrees to implement the above recommendation to send monthly financials and the supporting general ledger to the City Recorder for review and approval. Due to the increased volume of financial activity and relating accounting transactions to our ledger and the City's ledgers, increased communications, documentation and oversight is welcomed.

08-02 Significant Deficiency: Capital Assets Management

Condition: During the fiscal year 2008 audit, we observed that there appears to be a significant lack of communication between management and accounting staff regarding policies and procedures surrounding the accounting for capital assets. In addition, it appears that there are no controls in place which are designed to verify that disposals are removed, that all additions are recorded, or that asset impairments are considered and calculated.

Criteria: Communication between management and accounting staff should be such that staff understand their responsibilities and assigned duties and are adequately trained to perform their job functions without significant errors or difficulty. In addition, communication between the Finance Department and various other City departments should be adequate to allow for the timely recording of asset disposals, additions and impairments.

Effect: It was noted that internal controls and review procedures were ineffective to the extent that categories of asset additions were sometimes recorded in the wrong general ledger accounts, such as software being recorded as equipment. This control deficiency increases the likelihood that capital assets could be significantly misstated if assets are inaccurately categorized or if disposals, additions or impairments are not recorded.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

08-02 Significant Deficiency: Capital Assets Management (Continued)

Recommendation: We recommend that management coordinate with accounting staff to obtain additional training for their assigned duties in order to understand all aspects of their specific accounting area. Management should clearly communicate the expectations for each function's processes and verify these expectations with the responsible accounting staff periodically. In order to promote the timely recording of asset additions, disposals and impairments, management should circulate asset listings to the responsible department heads for verification that all assets listed therein are still in service. The department heads should also communicate any new assets not included in the listing to the Finance Department to be added. The City should consider having department heads sign or initial these listings and return them to the Finance Department whether or not changes are required in order to indicate that they have, indeed, reviewed them. Citywide assets should be reviewed periodically for impairment and adjusted accordingly.

Management's Comments: We are aware that capital asset management has been given a lower priority over the last few years. This was a result of staff changes, duty reassignments, and concentrating efforts on areas that needed more immediate attention. Although we have relied on City departments to communicate asset disposals to us, we have procedures in place to review checks over \$5,000 to try and capture asset purchases monthly. The Finance Department already has a project planned to use the new internal auditor to assist the accountant in an inventory of fixed assets. This inventory will be used as the starting point for better controls. This joint project will be completed before next fiscal year end.

08-03 Significant Deficiency: Payroll Processing

Condition: It appears that payroll processing duties are not sufficiently delegated among available personnel and that payroll personnel have electronic access to both payroll and human resources data.

Criteria: Payroll processing duties should be segregated to the greatest extent possible among available personnel and access to electronic payroll and human resources data should be regulated through the use of electronic system controls.

Effect: Segregation of duties within the payroll function is insufficient as evidenced by the fact that both City and school payroll personnel appear to have access to and are able to edit electronic data related to both the payroll and human resources functions. This control deficiency increases the likelihood that the electronic system could be manipulated either from the human resources or from the payroll aspect.

Recommendation: In order to implement effective segregation of duties and communicate individual roles and responsibilities, the City should finalize and approve an accounting policies and procedures manual. We understand that the City has made significant progress in the compilation of accounting duties and processes, though a formal approved manual has yet to be completed. In addition, the City's accounting personnel should collaborate with information services to develop electronic system controls which should aid in the implementation of proper segregation of duties.

Management's Comments: Management will work with the Finance Department, Payroll, Human Resources and Information Services to determine the most effective and efficient controls to implement. These controls will be documented in the accounting policies and procedures manual before it is finalized. A project is already being worked on that will increase segregation of duties at the school level. This project will have individual schools completing their own time entry similar to how City departments currently enter their own time.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Prior Year Findings Implemented

The following prior year findings have been corrected to our satisfaction:

Finding 07-01 – Post-Closure Client Adjusting Journal Entries

Finding 07-02 – Preparation of Government-Wide Adjustments and Financial Statements

Finding 07-03 – Proper Review and Documentation of Client Adjusting Journal Entries

Finding 07-04 – Tracking of Capital and Non-Capital Expenditures

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

Current Year Findings

There were no findings.

Prior Year Findings Implemented

There were no prior year findings.