



Comprehensive Annual Financial Report

FOR THE YEAR ENDING ON JUNE 30, 2010

**THE KINGSFORT
HIGHER EDUCATION
ACADEMIC VILLAGE**



**REGIONAL CENTER FOR
ADVANCED TECHNOLOGY**



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HEALTH PROFESSIONALS**

City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2010



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, 2010

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CITY OF KINGSPORT, TENNESSEE

December 16, 2010

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, 2010.

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, 2010. 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 49 square miles and serves a population of 47,356. Its established urban growth boundary encompasses 107 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, public transportation 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 31 through 33 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 49 square miles and has an estimated 2009 population of 47,356 with 179,500 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.

Signs of recovery are evident in Kingsport as 2010 draws to a close, with unemployment continuing to move lower, sales tax collections stabilizing and even growing modestly, and at least one major industry recording record profits.

Throughout its history, Kingsport's foundation has always been underpinned by the strength of its manufacturing core. The largest member of that sector, Eastman Chemical Company, continues its Project Reinvest, a \$1.3 billion project to expand production lines, reduce production bottlenecks, improve air quality and modernize base infrastructure. Project Reinvest will add \$10.4 million in property tax revenues to the city over the next 13 years in addition to nearly \$8 million currently paid annually by Eastman.

In the third quarter of 2010, Eastman posted its second straight quarter of record earnings results, reporting higher sales volumes driven by improved end-use demand. The company employs about 6,800 people in Kingsport and has an additional 2,200 contract workers.

At the same time, the local tax base continues to diversify, with Eastman representing 26 percent of all property valuation in the City. In 1989, Eastman represented 40.1 percent of all property value in the City. This reduction is attributed to increased diversification of the City's tax base in commercial, retail, residential and medical office developments that continue to grow within the City.

Although construction levels are at about half of pre-recession levels, major new investments continued in the community. The \$9 million initial phase of Mountain Region Family Medicine project is off to a strong start, while the \$8 million-plus construction of Kingsport's third Food City grocery store location began construction in the fourth quarter of 2010.

Mountain Region will employ at least 17 physicians and 100 full-time staff, generating 70,000 downtown visits a year. The new 48,500 square feet Food City will feature a drive-through pharmacy, sit-down cafe, a Gas-n-Go and create 175 new jobs — half of them full time.

Kingsport also continued to make up ground in the retail sector, announcing three firsts in the Tri-Cities market — Dunkin Donuts, Buffalo Wild Wings and The Children's Place. In particular, The Children's Place is an important key new tenant for the Kingsport Town Centre mall that should draw customers from other parts of the region.

In residential space, Kingsport's Housing and Redevelopment Authority completed an ambitious multi-year neighborhood rejuvenation project, HOPE VI, with the ribbon-cutting late in 2010 on 38 new rental houses and duplexes constructed on the site of the former Riverview Apartments in the Riverview community. The conclusion of HOPE VI has turned what was formerly a crime-ridden area into a peaceful neighbourhood residents are proud to call home with the lowest crime rate in the city. HOPE VI also replaced 29 obsolescent rental homes elsewhere in the City with 24 new units occupied by first-time home owners.

In addition, although residential development has slowed considerably in Kingsport during the national economic downturn, home construction continued in the Rock Springs-Edinburgh area, Old Island, Harmony Ridge in Lynn Garden, Cooks Point, and Cooks Valley, as well as scattered in-fill residential units developed in Allandale and Preston Forest.

Foreclosure rates also continue to be well below regional and national averages according to several metrics, while home prices continue to appreciate in the marketplace, up .32 percent in the third quarter of 2010, according to the Federal Housing Finance Agency.

And, community-wide giving to charitable causes remained strong, with the United Way of Greater Kingsport exceeding its goal by raising \$3.54 million to support 41 programs and United Way initiatives in the community.

Long-term Financial Planning. During the FY2010 budget planning process, the BMA adopted a multi-year capital improvement plan (CIP) for its City operations.

As a part of the budget process, the BMA re-evaluated the previous CIP for utility, general government and school related activities to address needed improvements to existing City facilities, roads and infrastructure. As a result of this review and the availability of the new Build America Bonds program, the City accelerated funding for a number of projects originally planned for future years by issuing approximately \$26,400,000 of new general debt. In addition, approximately \$15,000,000 of new debt was issued to fund a new aquatics facility and water park in the MeadowView area of the City. Even with this significant increase in debt, the total outstanding general obligation debt is well below 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 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 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. 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.

Major Initiatives

Kingsport continued to garner state and national attention in the education arena in 2010, hosting a major Straight to the Top education conference featuring Tennessee Governor Phil Bredesen as well as top education K-12 and higher education theorists from around the country.

And, Kingsport earned a prestigious Gold Award for Municipal Excellence from the National League of Cities, presented for Kingsport's higher education initiative aimed at strengthening the local workforce. The NLC award is the third major national award recognizing the higher education initiative, joining an Innovation in Government Award from Harvard University's Kennedy School of Government as well as the Siemens Sustainability Award from the U.S. Chamber of Commerce.

In the area of tourism development, pre-bookings of the new \$16 million Executive Conference Center at MeadowView Conference, Resort & Convention Center continue to be strong, with a mid-December opening slated for the expanded Center. It appears that despite the economy, 2010 may be the strongest year ever for the MeadowView property, according to MeadowView officials, even before the opening of the conference center expansion space. This public conference center investment follows a private \$15 million investment that added 110 rooms to the hotel earlier in 2010.

In late September 2010, the V.O. Dobbins Sr. Complex opened. The project is an \$8.2 million centerpiece of Kingsport's effort to rejuvenate the Riverview Community. The facility contains meeting rooms for community use, including a dedicated Douglass Alumni Association office as well as a Douglass Community Room that pays tribute to Kingsport's African-American heritage at the site.

The newly expanded and remodeled V.O. Dobbins Complex also added a three story non-profit wing, a new two-story educational wing as well as a new regulation-size gymnasium. Agencies housed within the facility include: Neighborhood Service Center of Upper East Tennessee Human Development Agency, Mountain Region Speech and Hearing, the United Way of Greater Kingsport, the ALS Association Tennessee Chapter, Susan G. Komen for the Cure Tri-Cities, the Palmer Foundation, Kingsport Tomorrow, the American Legion and the Tri-Cities office of Big Brothers/Big Sisters of East Tennessee.

Finally, in December 2009, the City issued bonds to provide funding to develop a new \$15 million aquatics facility and water park in the MeadowView area. Necessary state and federal permits are now secured with construction set to begin in 2011 with a 2012 opening date.

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, 2009. This was the tenth 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.

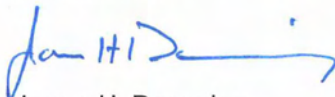
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2009. The annual budget document dated July 1, 2010 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify 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 this 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 all staff members and other personnel from various departments, agencies, and authorities that assisted in its preparation, especially Comptroller Lisa Winkle for all of the hard work and numerous hours she put in to ensure the timely completion of this report. We would also 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, 2009

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.

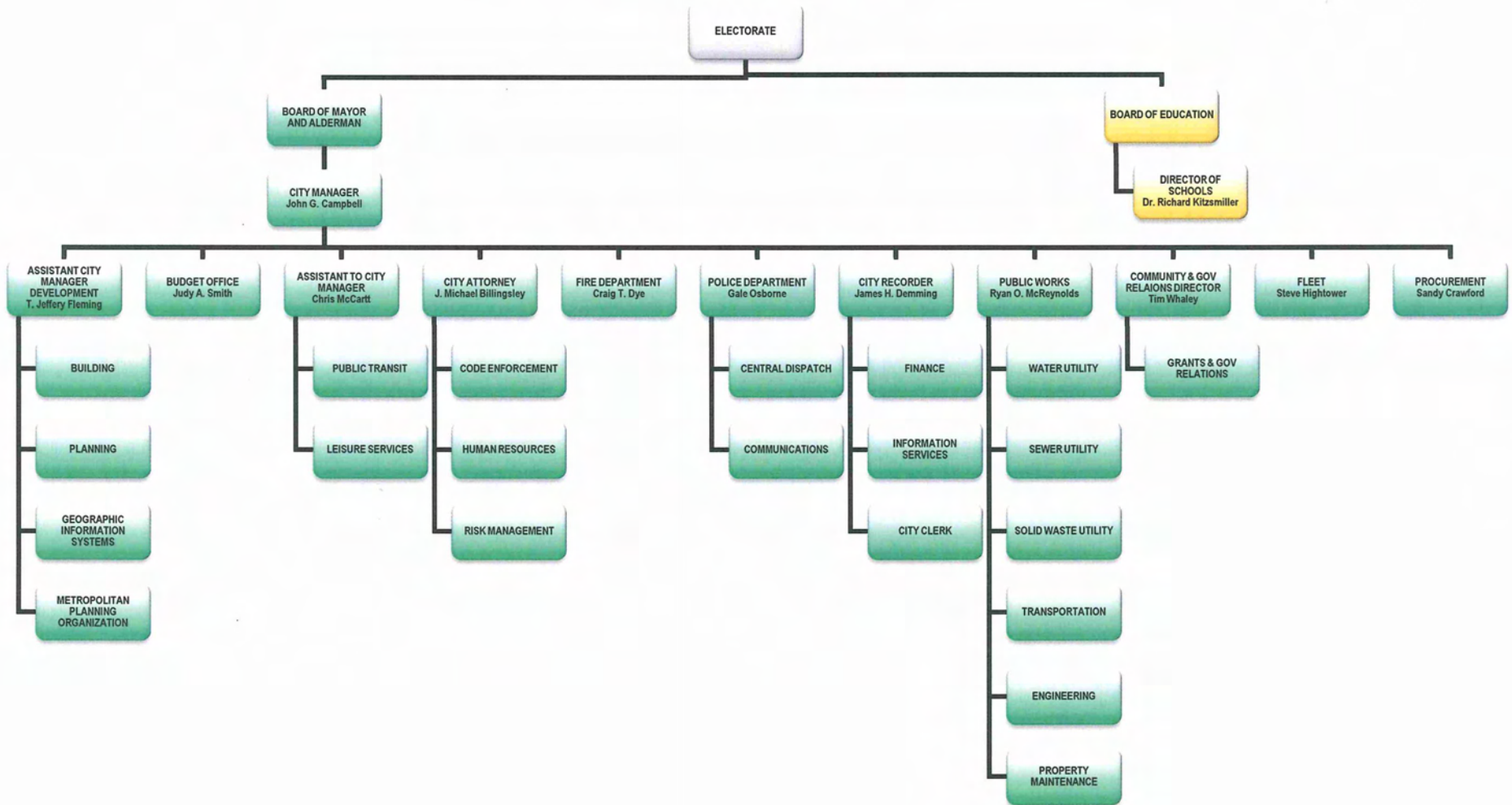


A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director



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, 2010

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
Tom C. Parham	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

Christopher W. McCartt	Assistant to the City Manager
Craig T. Dye	Fire Chief
Ryan O. McReynolds	Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Judy A. Smith	Budget Officer

CITY OF KINGSPORT, TENNESSEE

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2010

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 fiscal year ended June 30, 2010, 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 20 percent, 24 percent, and 30 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 the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and general purpose school fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 12 through 22 and 124 through 125, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual major and nonmajor fund financial statements, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 financial statements. The combining and individual major and nonmajor fund financial statements and the supplemental information, including the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

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

December 14, 2010



A. MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(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, 2010. 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 \$444,651 (net assets). Of this amount, \$23,293 (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 \$278.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$69,039, an increase of \$7,407 in comparison with the prior year. Approximately 85% of this total amount, \$58,446, 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 \$13,155 or approximately 21% of total general fund expenditures including transfers out.
- The City's total gross debt increased by \$38,162 (22%) during the current fiscal year. The \$24,921 governmental activities increase provides funding for several road improvement projects including: Gibson Mill Road, Cleek Road, and the Netherland Inn Roundabout. One of the primary components of this increase includes the construction of an Aquatics Center. Funding was also provided for a variety of other public improvement projects including: storm water management; land acquisition; and various repairs and improvements to City buildings and facilities. The \$13,241 business-type activities increase provided funding for the continuation of improvements to the City's water and sewer systems, including the sewer treatment plant facility, the Rock Springs sewer expansion, and various other utility related infrastructure improvements. Improvements also included additional expansion of the MeadowView Conference Resort and Convention Center.

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, 2010
(amounts expressed in thousands)**

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, highway transportation planning, economic and physical development, culture and recreation, and education. The business-type activities of the City include water, sewer, solid waste, conference center and golf course. The government-wide financial statements can be found on pages 23 and 24 of this report.

Fund financial statements

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

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the city-wide 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 25-35 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, 2010
(amounts expressed in thousands)

Proprietary funds

The City maintains nine (9) different types of proprietary funds, including enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, solid waste, convention center and golf course activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for vehicle maintenance and replacement and self-insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water, sewer, solid waste, convention center and golf course activities, which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 36-40 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 41-123 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 126-152 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 \$444,651 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (95%) 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, 2010
(amounts expressed in thousands)

City of Kingsport's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 145,860	\$ 138,977	\$ 47,753	\$ 44,633	\$ 193,613	\$ 183,610
Capital Assets	323,808	309,577	231,959	212,969	555,767	522,546
Total Assets	469,668	448,554	279,712	257,602	749,380	706,156
Long-term Liabilities Outstanding	134,528	104,900	97,258	83,761	231,786	188,661
Other Liabilities	65,770	66,182	7,173	6,940	72,943	73,122
Total Liabilities	200,298	171,082	104,431	90,701	304,729	261,783
Net Assets:						
Invested in Capital Assets, net of Related Debt	262,313	255,889	157,978	149,317	420,291	405,206
Restricted	185	185	882	939	1,067	1,124
Unrestricted	6,872	21,398	16,421	16,645	23,293	38,043
Total Net Assets	\$ 269,370	\$ 277,472	\$ 175,281	\$ 166,901	\$ 444,651	\$ 444,373

A portion of the City's net assets, \$1,067 (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$23,293 may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year, the government's net assets increased by \$278. Net assets for governmental activities decreased by \$8,102 while net assets for business-type activities increased by \$8,380.

The \$12,882 current year decrease in net assets for governmental activities (before prior period adjustments) was primarily a result of recording the annual OPEB liability of \$4,688 in accordance with GASB 45, as well as recording of \$12,103 in depreciation expense on general fixed assets in accordance with GASB 34. A portion of the current year decrease in net assets for governmental activities was offset by a prior period adjustment to general fixed assets of \$4,780. This prior period adjustment is principally related to the recording of roads which were annexed into the City from July 1, 2002 to June 30, 2009.

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 2% for customers outside the City limits while customers inside the City remained at the same rates. Sewer rates increased 8% for outside customers while customers inside the City remained at the same rates. These rate increases are part of a continuing rate stabilization plan to provide funding for capital improvements and expansion.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2010

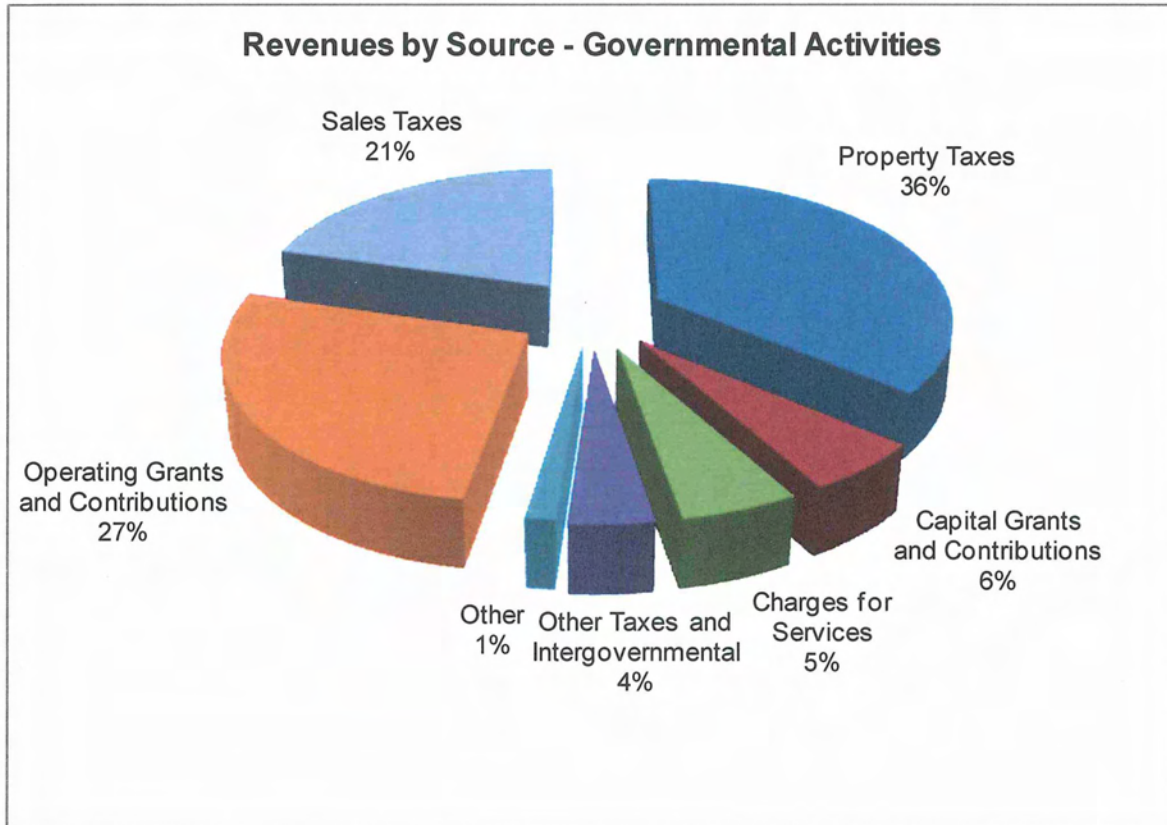
City of Kingsport's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,066	\$ 6,469	\$ 27,138	\$ 28,045	\$ 34,204	\$ 34,514
Operating Grants and Contributions	34,318	32,758	0	0	34,318	32,758
Capital Grants and Contributions	7,349	4,179	1,297	2,123	8,646	6,302
General Revenues						
Property Taxes	45,939	45,003	0	0	45,939	45,003
Sales Taxes	26,305	27,004	0	0	26,305	27,004
Other Taxes and Intergovernmental	5,017	5,448	0	0	5,017	5,448
Unrestricted Investment Earnings	786	1,625	409	600	1,195	2,225
Grants and Contributions Not Restricted to Specific Programs	1,041	970	0	0	1,041	970
Other	(128)	808	0	(12)	(128)	796
Total Revenues	127,693	124,264	28,844	30,756	156,537	155,020
Expenses:						
General Government	11,201	8,346	0	0	11,201	8,346
Public Safety	19,485	19,956	0	0	19,485	19,956
Public Works	14,690	12,872	0	0	14,690	12,872
Highway Transportation Planning	5,768	3,533	0	0	5,768	3,533
Economic and Physical Development	4,235	4,397	0	0	4,235	4,397
Culture and Recreation	6,145	6,535	0	0	6,145	6,535
Education	71,107	69,061	0	0	71,107	69,061
Interest on Long-term Debt	4,069	3,276	0	0	4,069	3,276
Water	0	0	9,068	9,208	9,068	9,208
Sewer	0	0	8,083	8,528	8,083	8,528
Solid Waste Management	0	0	3,615	3,643	3,615	3,643
MeadowView Conference Resort and Convention Center	0	0	1,987	1,462	1,987	1,462
Cattails at MeadowView Golf Course	0	0	1,586	1,361	1,586	1,361
Total Expenses	136,700	127,976	24,339	24,202	161,039	152,178
Increase (Decrease) in Net Assets before Transfers	(9,007)	(3,712)	4,505	6,554	(4,502)	2,842
Transfers	(3,875)	(3,008)	3,875	3,008	0	0
Change in Net Assets	(12,882)	(6,720)	8,380	9,562	(4,502)	2,842
Net Assets, beginning of period	277,472	284,192	166,901	157,339	444,373	441,531
Prior Period Adjustment - Capital Assets	4,780	0	0	0	4,780	0
Net Assets, end of period	\$ 269,370	\$ 277,472	\$ 175,281	\$ 166,901	\$ 444,651	\$ 444,373

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)**

Governmental activities

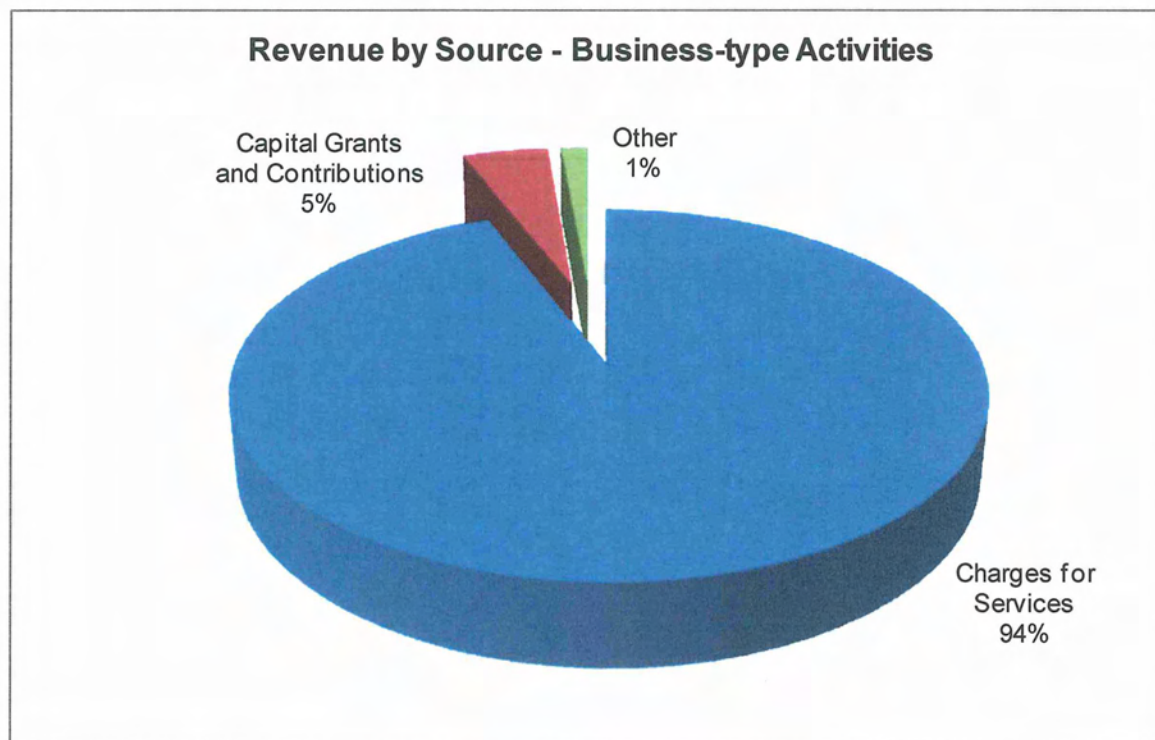
Governmental activities reduced the City's net assets by \$12,882. The City's governmental revenues totaling \$127,693 was more than the prior year by \$3,429.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)**

Business-type activities

Business-type activities increased the City's net assets by \$8,380. The City's business-type revenues totaling \$28,844 was less than the prior year by \$1,912.



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 \$69,039 an increase of \$7,407 in comparison with the prior year. Approximately 85% of this total amount, \$58,446, constitutes unreserved fund balance, which is available for spending at the City's discretion. However, of this unreserved amount \$38,248 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 (\$1,465), 2) liquidate contracts and purchase orders of the prior period (\$8,457) and for 3) a variety of other restricted purposes (\$671).

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$13,155 while total fund balance was \$14,729. 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 approximately 21% of total general fund expenditures and transfers out, while total fund balance represents 23% of that same amount. During fiscal year 2010, the fund balance of the City's General Fund decreased by \$583. This decrease is less than the fund balance appropriations approved by the City's Board of Mayor and Aldermen totaling \$970. The section General Fund Budgetary Highlights on page 20 provides additional information on the use of these funds.

The general purpose school fund has a total fund balance of \$3,382, of which most is unreserved. The net decrease in fund balance during the current year in the general purpose school fund was \$110.

The capital project fund has a total fund balance of \$44,720 of which \$6,472 is encumbered at year-end and \$38,248 is unreserved but designated for approved capital projects. The net increase in this fund balance of \$8,535 was primarily due to the proceeds from project financing received during the year.

The debt service fund has a total fund balance of \$495. This represents a decrease of \$181 as compared to the previous fiscal year. This decrease is primarily a result of budgeted use of prior year's investment earnings to fund current year's interest expense. In addition, the fund experienced a decrease in investment earnings on bond proceeds. Debt service expenditures (principal and interest) totaled \$7,899 for fiscal year 2010. This was \$2,613 less than the debt service expenditures paid in fiscal year 2009. This decrease is primarily attributed to the final payment of the 2002 General Obligation Bonds made during fiscal year 2009.

Nonmajor (other) governmental funds have a fund balance of \$5,714. The net decrease in fund balance during the current year in nonmajor governmental funds was \$253. This decrease is primarily due to the completion of various projects during the year that had been pre-funded in prior years.

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 fiscal year amounted to \$9,146 and \$11,048 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)**

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$2,775 decrease in appropriations and include the following:

\$	(3,058)	Reduce appropriations fund-wide in accordance with available revenues
	(300)	Decrease appropriations to fund KCS network switch upgrade
	460	Provide additional funding for road salt and overtime due to winter snow storms
	67	Provide funding for prior year encumbrances
	56	Other miscellaneous
<hr/>		
\$	<u>(2,775)</u>	

The decrease in appropriations was primarily related to the recognition of expected shortfalls in various local and state shared revenue sources. These included approximately \$1,258 in building permits, fines, and investment earnings; \$1,400 in local sales taxes; and \$400 in state shared revenues.

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, 2010, amounts to \$555,767 (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 lift station renovation projects. The most significant business-type construction projects during fiscal year 2010 were renovations and improvements at the sewer treatment plant and the building expansion project at MeadowView Conference Center. Business-type construction in progress at the close of the fiscal year was \$62,895.
- Construction continued and/or began on a variety of general governmental facilities including the Higher Education Center, John Adams Elementary School, V. O. Dobbins Building renovation, Riverview Community Center, Rock Springs Fire Station and various street and bridge improvement projects. By far, the largest project funded in fiscal year 2010 is the Aquatics Center with an estimated cost of \$15,000. Construction in progress at the close of the fiscal year pertaining to these type facilities is \$67,962.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)

City of Kingsport's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 19,595	\$ 19,579	\$ 5,259	\$ 5,234	\$ 24,854	\$ 24,813
Buildings and Systems	61,864	65,766	158,252	161,422	220,116	227,188
Improvements other than Buildings	6,105	6,018	4,660	4,756	10,765	10,774
Machinery and Equipment	8,992	9,740	841	882	9,833	10,622
Software	107	113	52	65	159	178
Infrastructure	159,183	157,940	0	0	159,183	157,940
Construction in Progress	67,962	50,421	62,895	40,610	130,857	91,031
Total Capital Assets	\$ 323,808	\$ 309,577	\$ 231,959	\$ 212,969	\$ 555,767	\$ 522,546

Additional information on the City's capital assets can be found in Note 4.C on pages 60-64 of this report.

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$212,462. 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	
	2010	2009	2010	2009	2010	2009
Notes Payable	\$ 5,323	\$ 5,872	\$ 0	\$ 0	\$ 5,323	\$ 5,872
General Obligation Bonds	111,819	86,349	73,130	66,500	184,949	152,849
Loans from Other Governments	0	0	22,190	15,579	22,190	15,579
Total Long-term Debt	\$ 117,142	\$ 92,221	\$ 95,320	\$ 82,079	\$ 212,462	\$ 174,300

During the current fiscal year, the City's total gross debt increased by \$38,162 (22%). The \$24,921 governmental activities increase funded various public improvement projects including the construction of an Aquatics Center, major road construction improvements, storm water management, land acquisition, and improvements to City buildings and facilities. The \$13,241 business-type activities increase funded the City's continuing commitment to improvements in water and sewer infrastructure, as well as additional expansion of the MeadowView Conference Resort and Convention Center. The City received a rating of AA- from Standard & Poor's Ratings Services.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2010
(amounts expressed in thousands)**

The City is subject to debt limitations imposed by its Charter. The total bonded indebtedness (excluding general obligation debt supported by utility operations and assessments) shall not exceed 20% of the assessed taxable value of property within the City. The current outstanding general obligation debt is less than the City's debt limitation.

During fiscal year 2010, Moody's Investors Service undertook the recalibration of its long-term U.S. municipal ratings to its global rating scale. As a result of this recalibration process, the Moody's ratings on the City's outstanding general obligation debt were adjusted from A1 to Aa2. Moody's has noted that this adjustment should not be viewed as a ratings upgrade, but rather as a recalibration of the ratings to a different rating scale.

Additional information on the City's long-term debt can be found in Note 4.E on pages 67-108 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 8.8%, which is a decrease of .6% from a year ago. This compares to the state's average unemployment rate of 9.8 %.
- Inflationary trends in the region are comparable to national indices.
- 581 building permits with an estimated value of \$56,285 were issued during this fiscal year, compared to 631 building permits with an estimated value of \$123,744 for the previous year.

Short term interest rates on investments for the City's operating funds decreased to approximately 0.24% in fiscal year 2010 as the federal funds target rate continued to be held to approximately .25% by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2011 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$13,155. The City has appropriated \$1,124 of this amount for spending in the fiscal year 2011 budget.

Water and sewer rates were increased for the 2011 budget year. The water rates were increased 2% for customers inside the City limits while customers outside the City remained at the same rates. Sewer rates increased 6% for outside customers while customers inside the City remained at the same rates. 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.



B. BASIC FINANCIAL STATEMENTS

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash	\$ 1,322,110	\$ 0	\$ 1,322,110	\$ 560,350	\$ 2,080,130
Cash with Fiscal Agent	0	36,762	36,762	0	0
Equity in Pooled Cash and Investments	28,102,712	18,697,394	46,800,106	0	0
Long Term Certificates of Deposit	370,389	0	370,389	0	0
Investments	583,824	0	583,824	0	0
Accounts Receivable	34,529,302	3,965,872	38,495,174	10,593	36,338
Accrued Interest Receivable	183,681	13,510	197,191	0	37,529
Due from Other Governments	24,489,051	1,045,130	25,534,181	0	19,284
Due from Primary Government	0	0	0	1,597,721	0
Due from Component Units	127,796	25,511	153,307	0	0
Internal Balances	2,238,448	(2,238,448)	0	0	0
Inventories	665,594	533,284	1,198,878	0	0
Prepays	191,937	39,028	230,965	3,710	16,576
Land Held for Sale or Development	0	0	0	5,619,041	0
Restricted Assets:					
Cash	18,234,808	23,509,709	41,744,517	655,055	0
Long Term Certificates of Deposit	4,300,000	56,000	4,356,000	0	0
Investments	28,905,779	1,138,903	30,044,682	313,272	0
Receivables	0	0	0	650,974	0
Capital Assets:					
Land	19,595,394	5,259,314	24,854,708	0	0
Buildings and Systems	117,312,394	250,506,646	367,819,040	0	0
Improvements Other Than Buildings	14,982,438	8,712,301	23,694,739	75,725	0
Machinery and Equipment	33,297,462	3,687,001	36,984,463	0	718,202
Software	304,032	66,400	370,432	0	0
Infrastructure	268,180,369	0	268,180,369	0	0
Construction in Progress	67,961,891	62,895,282	130,857,173	0	0
Less: Accumulated Depreciation	(197,826,203)	(99,167,997)	(296,994,200)	(68,725)	(575,262)
Other Assets, net	1,614,519	930,905	2,545,424	0	0
Total Assets	469,667,727	279,712,507	749,380,234	9,417,716	2,332,797
LIABILITIES:					
Accounts Payable and Other Current Liabilities	14,609,353	3,972,473	18,581,826	17,443	5,351
Due to Primary Government	0	0	0	36,104	117,203
Due to Other Governments	7,764	96,088	103,852	1,494	0
Due to Component Units	28,215	0	28,215	0	0
Compensated Absences Payable	3,105,055	498,534	3,603,589	0	0
Arbitrage Rebate Payable	0	379,003	379,003	0	0
Matured Bonds and Interest Payable	0	257,351	257,351	0	0
Accrued Interest Payable	1,768,640	612,260	2,380,900	59,560	0
Unearned Revenue	46,251,350	0	46,251,350	717,952	0
Liabilities Payable from Restricted Assets	0	1,357,360	1,357,360	0	0
Noncurrent Liabilities:					
Due Within One Year	5,700,140	7,106,906	12,807,046	506,436	0
Due in More Than One Year	113,343,121	88,912,701	202,255,822	1,076,293	0
OPEB Liability	15,484,688	1,238,645	16,723,333	0	0
Total Liabilities	200,298,326	104,431,321	304,729,647	2,415,282	122,554
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	262,313,208	157,978,008	420,291,216	7,000	142,940
Restricted for Debt Service	0	331,896	331,896	0	0
Restricted for Capital Improvements	31,935	550,525	582,460	55	0
Restricted for Perpetual Care (Nonexpendable)	152,691	0	152,691	0	0
Unrestricted	6,871,567	16,420,757	23,292,324	6,995,379	2,067,303
Total Net Assets	\$ 269,369,401	\$ 175,281,186	\$ 444,650,587	\$ 7,002,434	\$ 2,210,243

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
Primary Government:									
Governmental Activities:									
General Government	\$ 11,201,367	\$ 687,263	\$ 223,451	\$ 4,779,022	\$ (5,511,631)	\$ 0	\$ (5,511,631)		
Public Safety	19,485,392	1,789,496	440,691	0	(17,255,205)	0	(17,255,205)		
Public Works	14,690,010	0	0	0	(14,690,010)	0	(14,690,010)		
Highways and Transportation	5,767,852	103,207	2,191,720	2,569,545	(903,380)	0	(903,380)		
Economic and Physical Development	4,234,673	1,192,238	403,990	0	(2,638,445)	0	(2,638,445)		
Culture and Recreation	6,144,900	818,919	132,650	0	(5,193,331)	0	(5,193,331)		
Education	71,107,497	2,475,034	30,925,161	0	(37,707,302)	0	(37,707,302)		
Interest on Long Term Debt	4,069,104	0	0	0	(4,069,104)	0	(4,069,104)		
Total Governmental Activities	136,700,795	7,066,157	34,317,663	7,348,567	(87,968,408)	0	(87,968,408)		
Business - Type Activities:									
Water	9,068,323	12,513,017	0	350,529	0	3,795,223	3,795,223		
Sewer	8,082,865	12,618,400	0	946,294	0	5,481,829	5,481,829		
Solid Waste Management	3,614,988	772,999	0	0	0	(2,841,989)	(2,841,989)		
MeadowView Conference Resort and Convention Center	1,986,408	251,800	0	0	0	(1,734,608)	(1,734,608)		
Cattails at MeadowView Golf Course	1,586,343	981,837	0	0	0	(604,506)	(604,506)		
Total Business - Type Activities	24,338,927	27,138,053	0	1,296,823	0	4,095,949	4,095,949		
Total Primary Government	\$ 161,039,722	\$ 34,204,210	\$ 34,317,663	\$ 8,645,390	(87,968,408)	4,095,949	(83,872,459)		
Component Units:									
Industrial Development Board	\$ 3,784,990	\$ 809,261	\$ 65,000	\$ 669,205				\$ (2,241,524)	\$ 0
Emergency Communications District	655,616	625,446	0	0				0	(30,170)
Total Component Units	\$ 4,440,606	\$ 1,434,707	\$ 65,000	\$ 669,205				(2,241,524)	(30,170)
General Revenues:									
Property Taxes					45,938,645	0	45,938,645	0	0
Sales Taxes					26,304,997	0	26,304,997	0	0
Alcoholic Beverage Taxes					1,549,521	0	1,549,521	0	0
Occupational Licenses and Business Taxes					1,589,591	0	1,589,591	0	0
Hotel / Motel Taxes					1,300,766	0	1,300,766	0	0
Income Taxes					577,363	0	577,363	0	0
Grants and Contributions Not Restricted to Specific Programs					1,040,878	0	1,040,878	0	34,000
Unrestricted Investment Earnings					786,056	409,331	1,195,387	81,214	47,629
Gain (Loss) on Disposal of Capital Assets					(869,975)	0	(869,975)	0	0
Miscellaneous					742,259	0	742,259	0	0
Transfers					(3,874,687)	3,874,687	0	0	0
Total General Revenues and Transfers					75,085,414	4,284,018	79,369,432	81,214	81,629
Change in Net Assets					(12,882,994)	8,379,967	(4,503,027)	(2,160,310)	51,459
Net Assets - Beginning					277,472,641	166,901,219	444,373,860	9,162,744	2,158,784
Prior Period Adjustment - Capital Assets					4,779,754	0	4,779,754	0	0
Net Assets - Ending					\$ 269,369,401	\$ 175,281,186	\$ 444,650,587	\$ 7,002,434	\$ 2,210,243

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash	\$ 5,800	\$ 0	\$ 0	\$ 15,747	\$ 1,300,563	\$ 1,322,110
Equity in Pooled Cash and Investments	11,459,523	6,146,764	137,041	759,577	2,044,142	20,547,047
Long-Term Certificates of Deposit	0	0	0	0	370,389	370,389
Investments	0	0	0	0	583,824	583,824
Taxes Receivable, net	32,948,378	0	0	0	0	32,948,378
Accounts Receivable, net	1,024,318	71,198	0	480,316	0	1,575,832
Accrued Interest Receivable	0	0	42,760	0	15,213	57,973
Due from Other Governments	4,427,337	16,223,654	0	789,294	3,048,766	24,489,051
Due from Other Funds	1,514,798	682,230	0	0	248,752	2,445,780
Due from Component Units	127,796	0	0	0	0	127,796
Inventories	1,899	11,618	0	0	285,571	299,088
Prepays	35,079	1,370	0	0	0	36,449
Cash - Restricted	0	0	84,809	18,134,175	15,824	18,234,808
Investments - Restricted	0	0	230,467	27,685,586	16,935	27,932,988
Total Assets	\$ 51,544,928	\$ 23,136,834	\$ 495,077	\$ 47,864,695	\$ 7,929,979	\$ 130,971,513
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 542,732	\$ 559,450	\$ 0	\$ 1,954,645	\$ 1,428,729	\$ 4,485,556
Compensated Absences Payable	14,530	30,894	0	0	0	45,424
Other Liabilities	2,710,669	4,889,453	0	0	17,040	7,617,162
Due to Other Governments	7,764	0	0	0	0	7,764
Due to Other Funds	419,287	0	0	0	731,881	1,151,168
Due to Component Units	0	0	0	28,215	0	28,215
Contracts Payable	0	0	0	980,800	277	981,077
Deferred Revenue	33,120,795	14,275,220	0	181,351	38,486	47,615,852
Total Liabilities	36,815,777	19,755,017	0	3,145,011	2,216,413	61,932,218

(continued)

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	<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	50,961	307,140	83,154	6,471,924	1,543,565	8,456,744
Cattails at MeadowView	1,465,147	0	0	0	0	1,465,147
Industrial Park	20,927	0	0	0	0	20,927
Career Ladder	0	108,311	0	0	0	108,311
Safe Schools	0	0	0	0	23,004	23,004
Inventories	1,899	11,618	0	0	285,571	299,088
Prepays	35,079	0	0	0	0	35,079
Perpetual Care	0	0	0	0	152,691	152,691
Projects	0	15,000	0	0	16,935	31,935
Unreserved, Reported in:						
General Fund	13,155,138	0	0	0	0	13,155,138
Debt Service Fund	0	0	411,923	0	0	411,923
Special Revenue Funds	0	2,939,748	0	0	3,691,800	6,631,548
Capital Projects Fund	0	0	0	38,247,760	0	38,247,760
Total Fund Balances	<u>14,729,151</u>	<u>3,381,817</u>	<u>495,077</u>	<u>44,719,684</u>	<u>5,713,566</u>	<u>69,039,295</u>
Total Liabilities and Fund Balances	<u>\$ 51,544,928</u>	<u>\$ 23,136,834</u>	<u>\$ 495,077</u>	<u>\$ 47,864,695</u>	<u>\$ 7,929,979</u>	<u>\$ 130,971,513</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2010

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

Total Fund Balance of Governmental Funds	\$ 69,039,295
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	316,701,223
Property tax assessments are reported as revenue in the government - wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue until paid by property owners.	1,364,502
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,584,519
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree's 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.	19,937,567
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(139,257,705)</u>
Net Assets of Governmental Activities	<u><u>\$ 269,369,401</u></u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 35,687,142	\$ 20,900,192	\$ 0	\$ 0	\$ 3,057,435	\$ 59,644,769
Licenses and Permits	354,400	0	0	0	0	354,400
Intergovernmental	19,642,492	22,763,423	0	1,582,448	13,027,814	57,016,177
Charges for Services	2,201,664	1,016,621	0	0	1,685,710	4,903,995
Fines and Forfeitures	1,205,281	0	0	0	198,845	1,404,126
Investment Earnings	105,839	0	409,850	843	18,125	534,657
Contributions and Donations	2,154	0	0	120,893	294,212	417,259
Miscellaneous	303,931	314,134	2,885	0	0	620,950
Total Revenues	59,502,903	44,994,370	412,735	1,704,184	18,282,141	124,896,333
EXPENDITURES:						
Current:						
General Government	8,159,252	0	0	0	1,334,421	9,493,673
Public Safety	17,935,335	0	0	0	247,867	18,183,202
Public Works	6,297,624	0	0	0	0	6,297,624
Economic & Physical Development	3,419,325	0	0	0	404,557	3,823,882
Transportation	0	0	0	0	5,767,852	5,767,852
Culture and Recreation	4,680,818	0	0	0	203,017	4,883,835
Education	0	53,670,438	0	0	8,546,397	62,216,835
Miscellaneous	1,164,299	0	0	0	0	1,164,299
Debt Service:						
Principal	0	0	4,286,390	0	0	4,286,390
Interest	0	0	3,612,987	0	0	3,612,987
Bond Issuance Costs	0	0	0	459,043	0	459,043
Other Costs	0	0	9,744	0	0	9,744
Capital Outlay	41,930	56,246	0	22,379,086	664,454	23,141,716
Total Expenditures	41,698,583	53,726,684	7,909,121	22,838,129	17,168,565	143,341,082

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	<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>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>17,804,320</u>	<u>(8,732,314)</u>	<u>(7,496,386)</u>	<u>(21,133,945)</u>	<u>1,113,576</u>	<u>(18,444,749)</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	3,759,855	11,991,959	7,315,381	1,791,168	4,047,029	28,905,392
Transfers Out	(22,146,855)	(3,370,108)	0	(1,849,422)	(5,413,694)	(32,780,079)
Issuance of Debt	0	0	0	29,207,043	0	29,207,043
Premiums on Debt Issued	<u>0</u>	<u>0</u>	<u>0</u>	<u>520,024</u>	<u>0</u>	<u>520,024</u>
Total Other Financing Sources (Uses)	<u>(18,387,000)</u>	<u>8,621,851</u>	<u>7,315,381</u>	<u>29,668,813</u>	<u>(1,366,665)</u>	<u>25,852,380</u>
Net Change in Fund Balances	(582,680)	(110,463)	(181,005)	8,534,868	(253,089)	7,407,631
Fund Balances, July 1, 2009	<u>15,311,831</u>	<u>3,492,280</u>	<u>676,082</u>	<u>36,184,816</u>	<u>5,966,655</u>	<u>61,631,664</u>
Fund Balances, June 30, 2010	<u>\$ 14,729,151</u>	<u>\$ 3,381,817</u>	<u>\$ 495,077</u>	<u>\$ 44,719,684</u>	<u>\$ 5,713,566</u>	<u>\$ 69,039,295</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 OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

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

Net Change in Fund Balance of Governmental Funds	\$ 7,407,631
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of general fixed assets.	11,038,396
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is a decrease to net assets.	(1,205,545)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	192,764
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Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(854,043)
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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:	
Decrease in Compensated Absences	252,484
Increase in OPEB Liability	(4,687,937)
Increase in Accrued Interest	(456,942)

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>(24,569,802)</u>
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Change in Net Assets of Governmental Activities	<u>\$ (12,882,994)</u>
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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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes:				
General Property	\$ 31,891,500	\$ 31,231,102	\$ 31,253,417	\$ 22,315
Gross Receipts	4,396,500	4,336,430	4,433,725	97,295
Licenses and Permits	629,100	353,100	354,400	1,300
Intergovernmental:				
Federal	0	7,405	13,489	6,084
State	4,957,500	4,608,550	4,608,558	8
County	15,709,300	14,614,298	14,622,267	7,969
Local	394,700	396,700	398,178	1,478
Charges for Services	1,530,300	2,041,547	2,201,664	160,117
Fines and Forfeitures	1,932,000	1,194,900	1,205,281	10,381
Investment Earnings	375,000	104,600	105,839	1,239
Contributions and Donations	50,000	2,042	2,154	112
Miscellaneous	202,000	140,300	303,931	163,631
Total Revenues	<u>62,067,900</u>	<u>59,030,974</u>	<u>59,502,903</u>	<u>471,929</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	167,600	165,301	165,008	293
Judicial	30,900	26,200	26,154	46
City Attorney	466,300	389,685	387,875	1,810
City Manager	448,600	397,204	395,775	1,429
Deputy City Manager	129,500	0	0	0
Assistant to City Manager	96,600	94,688	93,937	751
Budget Office	173,700	138,792	137,611	1,181
Special Programs	2,266,700	2,509,179	2,509,135	44
Public Information Office	183,200	166,348	165,498	850
Personnel	1,117,900	1,021,098	1,019,825	1,273
Purchasing	242,400	218,103	217,445	658
Finance Administration	1,704,900	1,610,308	1,610,113	195
Records Administration	98,100	80,895	80,497	398
Information Services	994,450	983,713	983,035	678
Geographic Information	315,400	298,177	297,612	565
Grant Office	73,200	70,330	69,732	598
Total General Government	<u>8,509,450</u>	<u>8,170,021</u>	<u>8,159,252</u>	<u>10,769</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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public Safety:				
Police Administration	1,914,300	1,614,702	1,613,764	938
Jail Operations	369,900	306,818	306,218	600
Training	282,600	254,373	254,113	260
Traffic School	13,200	7,052	6,488	564
Investigations	1,585,600	1,651,660	1,650,610	1,050
Patrol Division	5,362,300	5,329,918	5,327,331	2,587
Animal Control	129,800	136,155	134,735	1,420
Central Dispatch	983,200	975,267	973,790	1,477
Communications	254,400	252,190	250,554	1,636
Fire Control and Prevention	7,501,700	7,422,976	7,417,732	5,244
Total Public Safety	18,397,000	17,951,111	17,935,335	15,776
Public Works:				
Administration	153,800	150,749	150,294	455
Streets and Sanitation Administration	288,800	244,829	244,101	728
Street Cleaning	452,000	401,577	400,094	1,483
Street Maintenance	1,768,100	1,953,517	1,953,273	244
Building Maintenance	1,656,800	1,605,420	1,604,781	639
Grounds Maintenance	1,093,900	1,037,691	1,036,747	944
Park Maintenance	459,700	463,563	462,136	1,427
Landscaping	499,400	446,988	446,198	790
Total Public Works	6,372,500	6,304,334	6,297,624	6,710
Economic and Physical Development:				
Administration	369,000	360,180	359,138	1,042
Planning	432,000	424,297	423,358	939
Transportation	1,070,300	1,026,118	1,025,601	517
Charter Bus Service	36,700	9,387	8,714	673
Engineering	1,156,400	1,061,793	1,060,855	938
Code Enforcement	544,700	542,002	541,659	343
Total Economic and Physical Development	3,609,100	3,423,777	3,419,325	4,452

(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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Culture and Recreation:				
Administration	362,400	328,287	327,644	643
Adult Education	0	3,189	3,186	3
Parks and Recreation Centers	471,500	522,251	521,782	469
Swimming Pools	138,700	122,691	122,286	405
Athletics	626,900	607,030	606,779	251
Cultural Arts	278,900	272,356	271,806	550
Allandale	211,800	197,841	197,383	458
K - Play	113,700	111,107	111,105	2
Senior Citizens Center	547,300	462,511	461,695	816
Bays Mountain Park	1,084,600	964,195	963,145	1,050
Library	1,178,600	1,094,978	1,094,007	971
Total Culture and Recreation	<u>5,014,400</u>	<u>4,686,436</u>	<u>4,680,818</u>	<u>5,618</u>
Miscellaneous	<u>983,355</u>	<u>1,164,304</u>	<u>1,164,299</u>	<u>5</u>
Capital Outlay	<u>177,200</u>	<u>42,009</u>	<u>41,930</u>	<u>79</u>
Total Expenditures	<u>43,063,005</u>	<u>41,741,992</u>	<u>41,698,583</u>	<u>43,409</u>
Excess of Revenues Over Expenditures	<u>19,004,895</u>	<u>17,288,982</u>	<u>17,804,320</u>	<u>515,338</u>
Other Financing Sources (Uses):				
Transfers In	3,985,900	3,917,811	3,759,855	(157,956)
Transfers Out	<u>(23,630,795)</u>	<u>(22,176,729)</u>	<u>(22,146,855)</u>	<u>29,874</u>
Net Other Financing Sources (Uses)	<u>(19,644,895)</u>	<u>(18,258,918)</u>	<u>(18,387,000)</u>	<u>(128,082)</u>
Net Change in Fund Balances	(640,000)	(969,936)	(582,680)	387,256
Fund Balances, July 1, 2009	<u>640,000</u>	<u>969,936</u>	<u>15,311,831</u>	<u>14,341,895</u>
Fund Balances, June 30, 2010	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,729,151</u>	<u>\$ 14,729,151</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	<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	\$ 14,615,000	\$ 14,462,800	\$ 14,492,463	\$ 29,663
Gross Receipts Taxes	6,858,000	6,249,400	6,336,530	87,130
Other Taxes	62,000	62,000	71,199	9,199
Intergovernmental:				
Federal	241,800	241,800	220,316	(21,484)
State	22,066,300	20,782,844	21,115,153	332,309
ARRA Funded	0	1,436,156	1,427,954	(8,202)
Charges for Services	1,093,150	1,138,150	1,016,621	(121,529)
Miscellaneous	145,000	291,919	314,134	22,215
Total Revenues	<u>45,081,250</u>	<u>44,665,069</u>	<u>44,994,370</u>	<u>329,301</u>
EXPENDITURES:				
Instruction:				
Regular	27,875,803	28,181,103	28,181,099	4
Special Education	4,172,000	4,257,095	4,257,093	2
Vocational	1,376,000	1,393,695	1,393,690	5
Adult Education	148,950	87,638	80,571	7,067
Total Instruction	<u>33,572,753</u>	<u>33,919,531</u>	<u>33,912,453</u>	<u>7,078</u>
Student Support Services:				
Attendance	51,700	50,800	49,594	1,206
Health Services	540,066	530,796	526,106	4,690
Other	1,964,200	2,014,965	2,001,159	13,806
Total Student Support Services	<u>2,555,966</u>	<u>2,596,561</u>	<u>2,576,859</u>	<u>19,702</u>
Instructional Staff Support Services:				
Regular	2,625,818	2,998,823	2,971,458	27,365
Special Education	361,250	364,924	364,916	8
Vocational	150,750	146,157	146,151	6
Adult Education	99,850	99,900	96,533	3,367
Total Instructional Staff Support Services	<u>3,237,668</u>	<u>3,609,804</u>	<u>3,579,058</u>	<u>30,746</u>
General Administrative Support Services:				
Board of Education	1,089,600	1,070,134	1,046,746	23,388
Office of Superintendent	1,079,700	1,046,109	1,038,875	7,234
Total General Administrative Support Services	<u>2,169,300</u>	<u>2,116,243</u>	<u>2,085,621</u>	<u>30,622</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
School Administrative Support Services	2,630,422	2,680,079	2,680,078	1
Business Administrative Support Services	292,650	301,376	300,174	1,202
Operations and Maintenance Support Services:				
Operations	4,267,245	4,163,941	4,150,583	13,358
Plant Maintenance	1,841,894	2,279,938	2,277,429	2,509
Total Operations and Maintenance Support Services	6,109,139	6,443,879	6,428,012	15,867
Student Transportation Support Services	1,435,150	1,356,464	1,355,889	575
Noninstructional Services:				
After School Programs	188,750	238,566	235,497	3,069
Community Service	542,550	545,100	516,797	28,303
Total Noninstructional Services	731,300	783,666	752,294	31,372
Capital Outlay	1,348,602	66,314	56,246	10,068
Total Expenditures	54,082,950	53,873,917	53,726,684	147,233
Deficiency of Revenues Under Expenditures	(9,001,700)	(9,208,848)	(8,732,314)	476,534
OTHER FINANCING SOURCES (USES):				
Transfers In	12,858,900	12,558,900	11,991,959	(566,941)
Transfers Out	(3,857,200)	(4,159,071)	(3,370,108)	788,963
Total Other Financing Sources (Uses)	9,001,700	8,399,829	8,621,851	222,022
Net Change in Fund Balances	0	(809,019)	(110,463)	698,556
Fund Balances, July 1, 2009	0	809,019	3,492,280	2,683,261
Fund Balances, June 30, 2010	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,381,817</u>	<u>\$ 3,381,817</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	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	8,579,354	9,926,661	191,379	0	0	18,697,394	7,555,665
Accounts Receivable	1,964,144	1,758,954	56,316	35,256	151,202	3,965,872	5,092
Accrued Interest Receivable	5,580	0	0	7,930	0	13,510	125,708
Due from Other Governments	57,220	987,910	0	0	0	1,045,130	0
Due from Other Funds	0	0	0	0	0	0	943,836
Due from Component Units	10,715	14,796	0	0	0	25,511	0
Inventories	416,264	0	0	0	117,020	533,284	366,506
Prepays	39,028	0	0	0	0	39,028	155,488
Total Current Assets	11,109,067	12,688,321	247,695	43,186	268,222	24,356,491	9,152,295
Noncurrent Assets:							
Restricted Assets:							
Cash	5,498	1,057,314	0	408,229	0	1,471,041	0
Cash from Unspent Bonds	5,068,798	7,686,959	38,781	9,244,130	0	22,038,668	0
Long Term Certificates of Deposit	56,000	0	0	0	0	56,000	4,300,000
Investments	466,039	136,329	231	518,239	18,065	1,138,903	972,791
Total Restricted Assets	5,596,335	8,880,602	39,012	10,170,598	18,065	24,704,612	5,272,791
Capital Assets:							
Land	639,744	814,352	1,308,121	1,515,497	981,600	5,259,314	14,695
Buildings and Systems	83,444,733	144,250,290	162,135	21,838,887	810,601	250,506,646	0
Improvements Other Than Buildings	0	0	2,200,702	395,506	6,116,093	8,712,301	0
Software	66,400	0	0	0	0	66,400	0
Machinery and Equipment	1,094,216	705,833	503,873	947,541	435,538	3,687,001	23,032,128
Construction in Progress	18,210,715	34,663,347	408,188	9,613,032	0	62,895,282	0
Less: Accumulated Depreciation	(34,582,237)	(52,126,251)	(1,303,797)	(7,833,850)	(3,321,862)	(99,167,997)	(15,940,269)
Total Capital Assets	68,873,571	128,307,571	3,279,222	26,476,613	5,021,970	231,958,947	7,106,554
Other Assets:							
Deposits	0	0	0	0	0	0	30,000
Unamortized Bond Costs	229,166	346,580	7,368	339,722	8,069	930,905	0
Total Other Assets	229,166	346,580	7,368	339,722	8,069	930,905	30,000
Total Noncurrent Assets	74,699,072	137,534,753	3,325,602	36,986,933	5,048,104	257,594,464	12,409,345
Total Assets	85,808,139	150,223,074	3,573,297	37,030,119	5,316,326	281,950,955	21,561,640

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	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	978,425	725,712	197,322	1,610,163	28,882	3,540,504	221,707
Due to Other Governments	96,088	0	0	0	0	96,088	0
Due to Other Funds	0	0	552,930	89,830	1,595,688	2,238,448	0
Compensated Absences Payable	253,187	147,983	97,364	0	0	498,534	98,515
Retainages Payable	5,498	1,028,633	0	323,229	0	1,357,360	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	5,000	0	0	217,089	0	222,089	0
Accrued Interest Payable	195,291	406,590	10,379	0	0	612,260	0
General Obligation Bonds - Current	1,992,244	3,467,756	23,750	585,000	568,500	6,637,250	0
State Revolving Loan Current	131,304	338,352	0	0	0	469,656	0
Other Payables	355,134	76,835	0	0	0	431,969	1,303,851
Total Current Liabilities	4,123,749	6,487,745	888,548	2,825,311	2,193,070	16,518,423	1,624,073
Noncurrent Liabilities:							
General Obligation Bonds Payable (Net of Deferred Refunding Costs, Discounts and Premiums)	22,007,279	28,094,407	599,449	15,768,959	722,000	67,192,094	0
State Revolving Loan Payable	953,452	20,767,155	0	0	0	21,720,607	0
OPEB Liability	629,376	362,668	246,601	0	0	1,238,645	0
Total Noncurrent Liabilities	23,590,107	49,224,230	846,050	15,768,959	722,000	90,151,346	0
Total Liabilities	27,713,856	55,711,975	1,734,598	18,594,270	2,915,070	106,669,769	1,624,073
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	48,858,090	83,326,860	2,694,804	19,366,784	3,731,470	157,978,008	7,106,554
Restricted for Debt Service	89,753	136,329	231	105,583	0	331,896	0
Restricted for Capital Improvements	0	0	0	525,470	25,055	550,525	0
Unrestricted	9,146,440	11,047,910	(856,336)	(1,561,988)	(1,355,269)	16,420,757	12,831,013
Total Net Assets	\$ 58,094,283	\$ 94,511,099	\$ 1,838,699	\$ 18,435,849	\$ 2,401,256	\$ 175,281,186	\$ 19,937,567

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

	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
OPERATING REVENUES:							
Charges and Fees	\$ 12,094,143	\$ 12,451,016	\$ 763,379	\$ 251,701	\$ 968,166	\$ 26,528,405	\$ 13,613,128
Penalties and Fines	399,670	156,448	0	0	0	556,118	0
Miscellaneous	19,204	10,536	9,620	99	13,671	53,130	374,332
Total Operating Revenue	12,513,017	12,618,000	772,999	251,800	981,837	27,137,653	13,987,460
OPERATING EXPENSES:							
Operating Costs	6,849,105	3,923,701	3,517,584	907,776	1,048,214	16,246,380	13,530,045
Depreciation	1,939,559	3,372,721	85,643	597,271	269,185	6,264,379	1,568,785
Total Operating Expenses	8,788,664	7,296,422	3,603,227	1,505,047	1,317,399	22,510,759	15,098,830
Operating Income (Loss)	3,724,353	5,321,578	(2,830,228)	(1,253,247)	(335,562)	4,626,894	(1,111,370)
NONOPERATING REVENUES (EXPENSES):							
Investment Earnings	98,471	125,070	2,313	183,352	125	409,331	251,400
Interest Expense	(258,739)	(748,985)	(11,306)	(463,460)	(12,801)	(1,495,291)	0
Gain (Loss) on Disposal of Fixed Assets	0	400	0	0	(251,504)	(251,104)	5,927
Amortization Expense	(20,920)	(37,458)	(455)	(17,901)	(4,639)	(81,373)	0
Total Nonoperating Revenues (Expenses)	(181,188)	(660,973)	(9,448)	(298,009)	(268,819)	(1,418,437)	257,327
Income (Loss) Before Capital Contributions and Transfers	3,543,165	4,660,605	(2,839,676)	(1,551,256)	(604,381)	3,208,457	(854,043)
Capital Contributions	350,529	946,294	0	0	0	1,296,823	0
Transfers In	125,786	0	2,902,800	1,695,134	1,605,968	6,329,688	300,000
Transfers Out	(1,229,294)	(1,225,707)	0	0	0	(2,455,001)	(300,000)
Change in Net Assets	2,790,186	4,381,192	63,124	143,878	1,001,587	8,379,967	(854,043)
Net Assets, July 1, 2009	55,304,097	90,129,907	1,775,575	18,291,971	1,399,669	166,901,219	20,791,610
Net Assets, June 30, 2010	\$ 58,094,283	\$ 94,511,099	\$ 1,838,699	\$ 18,435,849	\$ 2,401,256	\$ 175,281,186	\$ 19,937,567

See accompanying notes to the basic financial statements.

CITY OF KINGSFORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

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
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers and Users	\$ 12,290,957	\$ 12,340,908	\$ 757,523	\$ 216,544	\$ 878,396	\$ 26,484,328	\$ 13,989,962
Receipts from Interfund Services Provided	94,710	236,309	0	0	0	331,019	0
Payments to Suppliers	(2,756,315)	(3,300,393)	(1,915,758)	716,521	(1,078,048)	(8,333,993)	(12,133,656)
Payments to Employees	(3,888,220)	(2,236,264)	(1,413,069)	0	0	(7,537,553)	(1,475,779)
Net Cash Provided (Used) by Operating Activities	5,741,132	7,040,560	(2,571,304)	933,065	(199,652)	10,943,801	380,527
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers from Other Funds	125,786	0	2,902,800	1,695,134	1,605,968	6,329,688	300,000
Transfers to Other Funds	(1,229,294)	(1,225,707)	0	0	0	(2,455,001)	(300,000)
Advances (To) From Other Funds	0	0	(166,075)	89,830	(715,590)	(791,835)	226,282
Net Cash Provided (Used) by Noncapital Financing Activities	(1,103,508)	(1,225,707)	2,736,725	1,784,964	890,378	3,082,852	226,282
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from Capital Debt	5,109,340	13,877,140	300,000	1,004,686	0	20,291,166	0
County Revenue for Capital Projects	0	568,170	0	0	0	568,170	0
Acquisition and Construction of Capital Assets	(3,997,664)	(11,480,850)	(414,814)	(8,862,024)	(160,508)	(24,915,860)	(1,186,640)
Principal Paid on Capital Debt	(2,008,820)	(3,634,333)	(22,500)	0	(539,000)	(6,204,653)	0
Interest Paid on Capital Debt	(216,560)	(727,350)	(6,549)	(501,852)	(12,801)	(1,465,112)	0
Proceeds from Sales of Capital Assets	0	400	0	0	0	400	5,927
Net Cash Used by Capital and Related Financing Activities	(1,113,704)	(1,396,823)	(143,863)	(8,359,190)	(712,309)	(11,725,889)	(1,180,713)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from Sales and Maturities of Investments	0	88,768	0	0	21,458	110,226	0
Purchase of Investments	(371,181)	0	(96)	(111,175)	0	(482,452)	(827,580)
Interest Received	95,333	125,070	2,313	212,724	125	435,565	271,425
Net Cash Provided (Used) by Investing Activities	(275,848)	213,838	2,217	101,549	21,583	63,339	(556,155)
Net Increase (Decrease) In Cash and Cash Equivalents	3,248,072	4,631,868	23,775	(5,539,612)	0	2,364,103	(1,130,059)
Cash and Cash Equivalents, July 1, 2009	10,442,340	14,039,066	206,385	15,191,971	0	39,879,762	8,685,724
Cash and Cash Equivalents, June 30, 2010	\$ 13,690,412	\$ 18,670,934	\$ 230,160	\$ 9,652,359	\$ 0	\$ 42,243,865	\$ 7,555,665

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

	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	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	\$ 3,724,353	\$ 5,321,578	\$ (2,830,228)	\$ (1,253,247)	\$ (335,562)	\$ 4,626,894	\$ (1,111,370)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation	1,939,559	3,372,721	85,643	597,271	269,185	6,264,379	1,568,785
(Increase) Decrease in Assets:							
Accounts Receivable	(129,434)	(40,783)	(15,476)	(35,256)	(103,441)	(324,390)	2,502
Inventory	(6,884)	0	0	0	(12,525)	(19,409)	220
Prepays	914	0	0	0	0	914	(9,553)
Increase (Decrease) in Liabilities:							
Accounts Payable	161,896	(2,014,682)	134,790	1,301,068	(17,309)	(434,237)	(298,997)
Benefits Payable	0	0	0	0	0	0	228,916
Compensated Absences	(5,904)	(5,966)	8,471	0	0	(3,399)	24
OPEB Liability	126,104	73,777	45,496	0	0	245,377	0
Other Payables	(24,067)	(66,193)	0	0	0	(90,260)	0
Retainages Payable	(45,405)	400,108	0	323,229	0	677,932	0
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,741,132</u>	<u>\$ 7,040,560</u>	<u>\$ (2,571,304)</u>	<u>\$ 933,065</u>	<u>\$ (199,652)</u>	<u>\$ 10,943,801</u>	<u>\$ 380,527</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:							
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	8,579,354	9,926,661	191,379	0	0	18,697,394	7,555,665
Restricted Cash from Unspent Bonds	5,068,798	7,686,959	38,781	9,244,130	0	22,038,668	0
Restricted Cash	5,498	1,057,314	0	408,229	0	1,471,041	0
Cash and Cash Equivalents, June 30, 2010	<u>\$ 13,690,412</u>	<u>\$ 18,670,934</u>	<u>\$ 230,160</u>	<u>\$ 9,652,359</u>	<u>\$ 0</u>	<u>\$ 42,243,865</u>	<u>\$ 7,555,665</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Capital Assets Contributed by Developers	<u>\$ 350,529</u>	<u>\$ 239,552</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 590,081</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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, 2010

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. Due to the close relationship between the City and the IDBK, it seems likely the City could impose their will on the IDBK, and therefore IDBK is considered a component unit of the City of Kingsport. 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. Due to the close relationship between the City and the ECD, it seems likely the City could impose their will on the ECD, and therefore ECD is considered a component unit of the City of Kingsport. 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, 2010

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. 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, 2010

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 projects 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, 2010

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 including the Cattails Golf Course and future Aquatic Center.

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, 2010

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, retiree's 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, 2010

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, 2010

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, 2010

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. Debt service interest for business-type activities totaled \$3,065,516, with \$1,495,291 being expensed and \$1,570,225 being capitalized related to capital assets under construction as detailed in the respective funds as follows:

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Business - Type Activities
Interest Expensed	\$ 258,739	\$ 748,985	\$ 11,306	\$ 463,460	\$ 12,801	\$ 1,495,291
Capitalized Interest	394,584	1,025,668	6,627	143,346	0	1,570,225
Debt Service Interest	<u>\$ 653,323</u>	<u>\$ 1,774,653</u>	<u>\$ 17,933</u>	<u>\$ 606,806</u>	<u>\$ 12,801</u>	<u>\$ 3,065,516</u>

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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.

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, 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.

Because of the City's policy limits on the amount of accumulated compensated absences an employee can carry forward and the fact that this benefit is available to be taken as soon as it is earned, the entire outstanding balance is considered a current liability and recorded as compensated absences payable on the statement of net assets rather than as long term debt. Compensated absences accrued in proprietary or internal service funds are liquidated from the individual fund where they are accrued. Compensated absences accrued on the statement of net assets as governmental activities will primarily be liquidated from the general fund.

Changes in compensated absences for the fiscal year ending June 30, 2010 are as follows:

Compensated Absences, Beginning of Year	\$ 3,834,382
Compensated Absences Earned in FY2010	3,096,959
Compensated Absences Used in FY2010	<u>(3,327,752)</u>
Compensated Absences, End of Year	<u><u>\$ 3,603,589</u></u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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 KINGSFORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$316,701,223 difference are as follows:

Governmental funds capital assets	\$ 498,587,157
Less: accumulated depreciation	<u>(181,885,934)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 316,701,223</u></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 \$1,584,519 difference are as follows:

Deferred bond issuance costs	\$ 1,993,884
Less: accumulated amortization	<u>(409,365)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 1,584,519</u></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 \$(139,257,705) difference are as follows:

Bonds payable, net of deferred refunding, premiums, and discounts	\$(112,219,869)
Notes payable	(3,967,392)
Interlocal cooperative agreement	(1,500,000)
Capital outlay notes payable	(1,356,000)
Compensated absences	(2,961,116)
OPEB liability	(15,484,688)
Accrued interest payable	<u>(1,768,640)</u>
Net adjustment to decrease <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$(139,257,705)</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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 in the current period exceeded depreciation of general fixed assets.” The details of this \$11,038,396 difference are as follows:

Capital outlays	\$ 23,141,714
Depreciation expense	<u>(12,103,318)</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><u>\$ 11,038,396</u></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 a decrease to net assets.” The details of this \$(1,205,545) difference are as follows:

Capital asset donations reported in statement of activities	\$ 2,472,689
Capital asset roads annexed reported in statement of activities	602,991
Capital project expenditures not meeting capitalization requirements	(3,177,272)
Asset disposals	<u>(1,103,953)</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><u>\$ (1,205,545)</u></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 \$192,764 difference are as follows:

Deferred property taxes as of June 30, 2010	\$ 1,364,502
Prior years' property taxes collected during current year	<u>(1,171,738)</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><u>\$ 192,764</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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 \$(854,043) difference are as follows:

Investment earnings	\$ 251,400
Gain on disposal of capital assets	5,927
Operating loss	<u>(1,111,370)</u>
Net adjustment to decrease <i>net changes in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net</i> <i>assets of governmental activities</i>	<u><u>\$ (854,043)</u></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 \$(24,569,802) difference are as follows:

Principal payments	\$ 4,286,391
Interlocal cooperative agreement payments	500,000
Issuance of general obligation bonds	(29,207,043)
Premium on issuance of general obligation bonds	(520,024)
Amortization of premiums, discounts and refunding costs	826
Bond issue costs	459,043
Amortization of deferred bond issue costs	<u>(88,995)</u>
Net adjustment to decrease <i>net changes in fund balances</i> – <i>total governmental</i> <i>funds</i> to arrive at <i>changes in net assets</i> of <i>governmental activities</i>	<u><u>\$ (24,569,802)</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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 fund, 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, fleet maintenance, federal transit administration, special school projects, public law 93-380, state street aid, justice assistance grant, and visitor's enhancement funds.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2010, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

For the fiscal year ended June 30 2010, 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, 2010

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 \$89,845,087 and the bank balance was \$93,207,071. Of the bank balance, \$1,000,000 was covered by federal depository insurance with the remaining balance of \$92,207,071 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 \$1,215,405 and the bank balance was \$1,215,405. Of the bank balance, \$526,738 was covered by federal depository insurance. Of the remaining balance, \$688,667 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the IDBK's name.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$2,080,130 and the bank balance was \$2,151,111. Of the bank balance, \$1,187,742 was covered by federal depository insurance, with the remaining balance of \$963,369 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, 2010

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 placed at local banks or money market deposits 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	\$ 4,726,389	0.84
Tennessee Local Government Investment Pool	<u>30,628,506</u>	0.21
Total	<u>\$ 35,354,895</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, 2010.

Concentration of Credit Risk

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2010 for the City's individual major funds, nonmajor funds, and internal service funds in the aggregate, and for the component units in total, including the applicable allowances for uncollectible accounts, are as follows:

	General	General Purpose School	Capital Projects	Water	Sewer	Solid Waste Management	Meadow View Resort and Convention Center	Cattails at Meadow View Golf Course	Internal Service	NonMajor and Other Funds	Total Primary Government	Component Units
Receivables:												
Taxes	\$ 33,828,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 33,828,460	\$ 0
Accounts	1,088,330	116,921	480,316	2,037,389	2,011,890	78,426	35,256	151,202	5,092	0	6,004,822	46,931
Intergovernmental	4,427,337	16,223,654	789,294	57,220	987,910	0	0	0	0	3,048,766	25,534,181	19,284
Gross receivables	39,344,127	16,340,575	1,269,610	2,094,609	2,999,800	78,426	35,256	151,202	5,092	3,048,766	65,367,463	66,215
Less: Allowances for uncollectibles	(944,094)	(45,723)	0	(73,245)	(252,936)	(22,110)	0	0	0	0	(1,338,108)	0
Net total receivables	<u>\$ 38,400,033</u>	<u>\$ 16,294,852</u>	<u>\$ 1,269,610</u>	<u>\$ 2,021,364</u>	<u>\$ 2,746,864</u>	<u>\$ 56,316</u>	<u>\$ 35,256</u>	<u>\$ 151,202</u>	<u>\$ 5,092</u>	<u>\$ 3,048,766</u>	<u>\$ 64,029,355</u>	<u>\$ 66,215</u>

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

Uncollectibles related to property taxes	\$ 33,437
Uncollectibles related to school activities	2,901
Uncollectibles related to water sales	(4,446)
Uncollectibles related to sewer charges	(21,937)
Uncollectibles related to solid waste charges	7,167
Total uncollectibles of the current fiscal year	<u>\$ 17,122</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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)	\$ 0	\$ 31,456,293
Delinquent property taxes receivable (general fund)	1,364,502	0
Other taxes receivable (general fund)	0	300,000
Property taxes receivable (general purpose school fund)	0	14,266,000
Grant drawdowns receivable (general purpose school fund)	0	9,220
Grant drawdowns receivable (special school project fund)	0	5,005
Grant drawdowns receivable (public law 93-380 fund)	0	68
Receipts for meals not yet served (school nutrition services)	0	33,413
Grant drawdowns receivable (general project fund)	0	181,351
	<u>0</u>	<u>181,351</u>
Total deferred / unearned revenue for governmental funds	<u>\$ 1,364,502</u>	<u>\$ 46,251,350</u>

Property taxes which are delinquent at year end are earned but not available. The tax year 2010 property taxes are unearned and unavailable, but are recorded as receivable on the lien 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, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2010, was as follows:

Primary government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 19,579,034	\$ 897,440	\$ (881,080)	\$ 0	\$ 19,595,394
Construction in Progress	50,421,336	19,441,239	(1,900,684)	0	67,961,891
Total capital assets, not being depreciated	70,000,370	20,338,679	(2,781,764)	0	87,557,285
Capital assets, being depreciated:					
Buildings	116,254,878	1,068,286	(10,770)	0	117,312,394
Improvements other than buildings	13,926,395	1,222,770	(166,727)	0	14,982,438
Equipment	35,281,275	1,632,366	(3,616,179)	0	33,297,462
Software	355,647	35,661	(87,276)	0	304,032
Infrastructure	266,343,933	1,836,436	0	0	268,180,369
Total capital assets, being depreciated	432,162,128	5,795,519	(3,880,952)	0	434,076,695
Less accumulated depreciation for:					
Buildings	(50,489,442)	(4,970,059)	10,770	0	(55,448,731)
Improvements other than buildings	(7,908,185)	(1,136,186)	166,725	0	(8,877,646)
Equipment	(25,540,984)	(2,150,767)	3,386,556	0	(24,305,195)
Software	(242,703)	(41,839)	87,276	0	(197,266)
Infrastructure	(103,624,113)	(5,373,252)	0	0	(108,997,365)
Total accumulated depreciation	(187,805,427)	(13,672,103)	3,651,327	0	(197,826,203)
Total capital assets, being depreciated, net	244,356,701	(7,876,584)	(229,625)	0	236,250,492
Governmental activities capital assets, net	\$ 314,357,071	\$ 12,462,095	\$ (3,011,389)	\$ 0	\$ 323,807,777

A prior period adjustment was recorded in fiscal year 2010 that increased governmental capital assets by \$5,597,199. This amount is the net effect of adding annexed roads of \$9,543,053 and reducing the library collection by \$(3,945,854). In addition, the prior period adjustment increased accumulated depreciation by \$817,445. The beginning balance above includes these prior period adjustments. The balance of governmental activities capital assets, net before these adjustments, was \$309,577,317.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
<u>Water</u>					
Land	\$ 639,744	\$ 0	\$ 0	\$ 0	\$ 639,744
Construction in Progress	15,167,010	3,123,832	(80,127)	0	18,210,715
<u>Sewer</u>					
Land	789,352	25,000	0	0	814,352
Construction in Progress	24,466,865	10,275,393	(78,911)	0	34,663,347
<u>Solid Waste Management</u>					
Land	1,308,121	0	0	0	1,308,121
Construction in Progress	0	408,188	0	0	408,188
<u>MeadowView Conference Resort and Convention Center</u>					
Land	1,515,497	0	0	0	1,515,497
Construction in Progress	976,181	8,636,851	0	0	9,613,032
<u>Cattails at MeadowView Golf Course</u>					
Land	981,600	0	0	0	981,600
Total capital assets, not being depreciated	45,844,370	22,469,264	(159,038)	0	68,154,596
Capital assets, being depreciated:					
<u>Water</u>					
Buildings and system	82,197,952	1,998,779	(751,998)	0	83,444,733
Equipment and machinery	1,047,075	57,708	(10,567)	0	1,094,216
Software	66,400	0	0	0	66,400
<u>Sewer</u>					
Buildings and system	142,767,752	3,075,244	(1,592,706)	0	144,250,290
Equipment and machinery	701,274	16,382	(11,823)	0	705,833
<u>Solid Waste Management</u>					
Buildings and system	155,508	6,627	0	0	162,135
Improvements other than Buildings	2,200,702	0	0	0	2,200,702
Equipment and machinery	503,873	0	0	0	503,873
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	21,695,541	143,346	0	0	21,838,887
Improvements other than Buildings	338,344	57,162	0	0	395,506
Equipment	922,876	24,665	0	0	947,541
<u>Cattails at MeadowView Golf Course</u>					
Buildings	1,158,156	0	(347,555)	0	810,601
Improvements other than Buildings	5,971,427	144,666	0	0	6,116,093
Equipment	434,196	15,842	(14,500)	0	435,538
Total capital assets, being depreciated	260,161,076	5,540,421	(2,729,149)	0	262,972,348

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type activities (continued):					
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(31,874,965)	(1,879,400)	0	0	(33,754,365)
Equipment and machinery	(777,172)	(46,880)	10,567	0	(813,485)
Software	(1,107)	(13,280)	0	0	(14,387)
<u>Sewer</u>					
Buildings and system	(48,122,799)	(3,353,077)	0	0	(51,475,876)
Equipment and machinery	(642,553)	(19,642)	11,820	0	(650,375)
<u>Solid Waste Management</u>					
Buildings and system	(76,333)	(4,833)	0	0	(81,166)
Improvements other than Buildings	(1,058,036)	(23,845)	0	0	(1,081,881)
Equipment and machinery	(83,784)	(56,966)	0	0	(140,750)
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	(6,157,867)	(539,635)	0	0	(6,697,502)
Improvements other than Buildings	(207,477)	(42,868)	0	0	(250,345)
Equipment	(871,235)	(14,768)	0	0	(886,003)
<u>Cattails at MeadowView Golf Course</u>					
Buildings	(320,944)	(21,334)	96,301	0	(245,977)
Improvements other than Buildings	(2,489,298)	(230,791)	0	0	(2,720,089)
Equipment	(352,986)	(17,060)	14,250	0	(355,796)
Total accumulated depreciation	(93,036,556)	(6,264,379)	132,938	0	(99,167,997)
Total capital assets, being depreciated, net	167,124,520	(723,958)	(2,596,211)	0	163,804,351
Business-type activities capital assets, net	\$ 212,968,890	\$ 21,745,306	\$ (2,755,249)	\$ 0	\$ 231,958,947

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

Governmental activities:	
General government	\$ 539,376
Economic and physical development	244,449
Public safety	890,189
Public works	6,139,087
Culture and recreation	1,046,331
Education	<u>4,812,671</u>
Total depreciation expense – governmental activities	\$ <u>13,672,103</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

Business-type activities:	
Water	\$ 1,939,559
Sewer	3,372,721
Solid waste management	85,643
MeadowView Conference Resort and Convention Center	597,271
Cattails at MeadowView Golf Course	<u>269,185</u>
 Total depreciation expense – business-type activities	 <u>\$ 6,264,379</u>

Construction commitments

The City has active construction projects as of June 30, 2010. 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 \$44,075,707 and \$15,824 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 \$20,038,668. 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, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, not being depreciated:					
Construction in Progress	\$ 2,061,745	\$ 669,205	\$(2,730,950)	\$ 0	\$ 0
Total capital assets, not being depreciated	<u>2,061,745</u>	<u>669,205</u>	<u>(2,730,950)</u>	<u>0</u>	<u>0</u>
Capital assets, being depreciated:					
Signs	55,422	0	0	0	55,422
Improvements other than buildings	20,303	0	0	0	20,303
Total capital assets, being depreciated	<u>75,725</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75,725</u>
Less accumulated depreciation for:					
Signs	(45,338)	(3,084)	0	0	(48,422)
Improvements other than buildings	(20,303)	0	0	0	(20,303)
Total accumulated depreciation	<u>(65,641)</u>	<u>(3,084)</u>	<u>0</u>	<u>0</u>	<u>(68,725)</u>
Total capital assets, being depreciated, net	<u>10,084</u>	<u>(3,084)</u>	<u>0</u>	<u>0</u>	<u>7,000</u>
IDBK capital assets, net	<u>\$ 2,071,829</u>	<u>\$ 666,121</u>	<u>\$(2,730,950)</u>	<u>\$ 0</u>	<u>\$ 7,000</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Discretely presented component units (continued)

Activity for the ECD for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, being depreciated:					
Equipment	\$ 695,540	\$ 22,662	\$ 0	\$ 0	\$ 718,202
Total capital assets, being depreciated	695,540	22,662	0	0	718,202
Less accumulated depreciation for:					
Equipment	(469,917)	(105,345)	0	0	(575,262)
Total accumulated depreciation	(469,917)	(105,345)	0	0	(575,262)
Total capital assets, being depreciated, net	225,623	(82,683)	0	0	142,940
ECD capital assets, net	\$ 225,623	\$ (82,683)	\$ 0	\$ 0	\$ 142,940

D. Interfund receivables, payables, and transfers

Interfund receivables and payables

The composition of interfund balances as of June 30, 2010, 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)	\$ 1,465,147
	Metropolitan Planning Office (nonmajor)	34,425
	Federal Transit Administration (nonmajor)	204
	Community Development (nonmajor)	10,329
	Justice Assistance Grant Fund (nonmajor)	4,693
General Purpose School (major)	Public Law 93-380 (nonmajor)	494,260
	Special School Projects (nonmajor)	187,970
Regional Sales Tax (nonmajor)	Cattails at MeadowView Golf Course (major)	130,541
	Meadowview Conference Center Fund (major)	89,830
Visitors Enhancement (nonmajor)	General Fund (major)	28,381
Fleet Maintenance (major)	General (major)	390,906
	Solid Waste Management (major)	552,930
Total		<u>\$ 3,389,616</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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	\$ 10,593
Primary government-Sewer Fund	Component unit - IDBK	14,796
Primary government-Water Fund	Component unit - IDBK	10,715
Primary government-General Fund	Component unit - ECD	117,203
Component unit - IDBK	Primary government-Capital Project Fund	<u>28,215</u>
Total		<u><u>\$ 181,522</u></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, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Interfund transfers (continued)

Transfers out:	Transfers in:													
	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Water	Solid Waste Management	MeadowView Conference Resort and Convention Center	Cattails at MeadowView Golf Course	Total Proprietary	Retirees Health Insurance	Total Internal Service	Total
General	\$ 0	\$ 11,246,842	\$ 3,447,589	\$ 950,672	\$ 3,598,952	\$ 19,244,055	\$ 0	\$ 2,902,800	\$ 0	\$ 0	\$ 2,902,800	\$ 0	\$ 0	\$ 22,146,855
General Purpose School	205,972	0	2,551,439	479,648	133,049	3,370,108	0	0	0	0	0	0	0	3,370,108
Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Projects	1,000,000	0	849,422	0	0	1,849,422	0	0	0	0	0	0	0	1,849,422
Nonmajor Governmental	224,668	745,117	466,931	360,848	315,028	2,112,592	0	0	1,695,134	1,605,968	3,301,102	0	0	5,413,694
Total Governmental	1,430,640	11,991,959	7,315,381	1,791,168	4,047,029	26,576,177	0	2,902,800	1,695,134	1,605,968	6,203,902	0	0	32,780,079
Water	1,229,294	0	0	0	0	1,229,294	0	0	0	0	0	0	0	1,229,294
Sewer	1,099,921	0	0	0	0	1,099,921	125,786	0	0	0	125,786	0	0	1,225,707
Total Proprietary	2,329,215	0	0	0	0	2,329,215	125,786	0	0	0	125,786	0	0	2,455,001
Health Insurance	0	0	0	0	0	0	0	0	0	0	0	300,000	300,000	300,000
Total Internal Service	0	0	0	0	0	0	0	0	0	0	0	300,000	300,000	300,000
Total	\$ 3,759,855	\$ 11,991,959	\$ 7,315,381	\$ 1,791,168	\$ 4,047,029	\$ 28,905,392	\$ 125,786	\$ 2,902,800	\$ 1,695,134	\$ 1,605,968	\$ 6,329,688	\$ 300,000	\$ 300,000	\$ 35,535,080

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt

The City of Kingsport routinely issues and retires a variety of debt each year. By far the City's most significant long term debt transaction for the year ended June 30, 2010 was the issuance of federally taxable Build American Bonds (BABS). These Build America Bonds were authorized by the American Recovery and Reinvestment Act (ARRA). The City issued \$26,415,000 General Obligation Public Improvement Bonds Series 2009-D BABS on December 8, 2009. These bonds carry an interest rate from 2.000% to 5.625%. However, 35% of all BABS interest expense will be paid directly by the federal government. Therefore interest expense listed as debt service requirements in these footnotes are shown net of the 35% federal interest subsidy. As interest payments are made on the Build America Bonds, the City will record expense at the gross interest amount and record income for the amount of interest paid by the federal government. The first interest payment was made on September 1, 2010. Of the \$901,318 total interest due, the City paid \$585,857 and the federal government paid \$315,461. Interest is payable semi-annually through the maturity date of March 1, 2030. Over the life of the BABS, the City will receive interest subsidy totaling \$5,763,365.

The breakdown of the Series 2009-D BABS is as follows:

General Governmental Activities	\$ 14,982,043
Solid Waste Business Activities	303,404
MeadowView Conference Business Activities	1,016,085
Water Business Activities	4,045,387
Sewer Business Activities	<u>6,068,081</u>
Total Issue	<u><u>\$ 26,415,000</u></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, 2010, \$68,957 is outstanding.

The City issued a loan with the State of Tennessee 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, 2010, \$2,423,218 is outstanding.

The City issued a loan with the State of Tennessee 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, 2010, \$1,135,931 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. As of June 30, 2010, \$1,356,000 is outstanding.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Notes Payable (continued)

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. As of June 30, 2010, \$339,286 is outstanding.

In December 2009, the City issued a loan with the State of Tennessee for Qualified School Construction Bonds in the amount of \$1,240,000 with a maturity date of September 2026. The interest rate is variable. As of June 30, 2010, no principal had been drawn.

Payments to maturity on the notes payable are as follows:

Fiscal Year Ending June 30	1999 QZAB	2004 QZAB	2005 QZAB	Capital Outlay Note	Energy Efficiency Loan
2011	\$ 34,475	\$ 220,292	\$ 103,266	\$ 128,000	\$ 67,857
2012	34,482	220,293	103,267	133,000	67,857
2013	0	220,292	103,266	139,000	67,857
2014	0	220,293	103,267	144,000	67,857
2015	0	220,292	103,266	150,000	67,858
2016	0	220,293	103,267	156,000	0
2017	0	220,292	103,266	162,000	0
2018	0	220,293	103,267	169,000	0
2019	0	220,292	103,266	175,000	0
2020	0	220,293	103,267	0	0
2021	0	220,293	103,266	0	0
	<u>\$ 68,957</u>	<u>\$ 2,423,218</u>	<u>\$ 1,135,931</u>	<u>\$ 1,356,000</u>	<u>\$ 339,286</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. As of June 30, 2010, \$1,500,000 is outstanding.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable

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

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

Debt Service Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2010
2003 General Obligation	04/01, 10/01	12/01/03	\$ 7,900,000	2.000%-4.200%	\$ 4,935,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	5,825,000	2.200%-5.000%	4,850,000
2004 General Obligation School	05/01, 11/01	12/06/04	2,850,000	3.000%-4.000%	1,970,000
2005 General Obligation	02/01, 08/01	12/06/05	2,826,250	3.750%-5.000%	2,226,875
2006 General Obligation	02/01, 08/01	12/20/06	13,320,000	3.625%-4.100%	12,795,000
2007 General Obligation	08/01, 02/01	06/08/07	19,360,000	4.000%-5.000%	18,615,000
2008-A General Obligation	03/01, 09/01	06/12/08	7,480,000	3.500%-4.375%	7,205,000
2008-B General Obligation	03/01, 09/01	06/12/08	11,165,000	3.500%-4.375%	10,755,000
2009-A General Obligation	03/01, 09/01	01/22/09	12,160,000	2.000%-5.000%	12,160,000
2009-B General Obligation	03/01, 09/01	01/22/09	7,100,000	2.000%-5.000%	7,100,000
2009-D BABS General Obligation	03/01, 09/01	12/08/09	14,982,043	2.000%-5.000%	14,982,043
2009-E General Obligation	03/01, 09/01	12/08/09	14,225,000	2.000%-5.000%	14,225,000
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of (\$400,951)					<u>\$ 111,818,918</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
2011	\$ 550,000	\$ 187,363	\$ 737,363
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>\$ 4,935,000</u>	<u>\$ 912,559</u>	<u>\$ 5,847,559</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
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>\$ 4,850,000</u>	<u>\$ 678,300</u>	<u>\$ 5,528,300</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
2011	\$ 200,000	\$ 73,502	\$ 273,502
2012	200,000	67,003	267,003
2013	200,000	60,002	260,002
2014	200,000	53,003	253,003
2015	220,000	45,802	265,802
2016	225,000	37,663	262,663
2017	225,000	29,000	254,000
2018	250,000	20,000	270,000
2019	250,000	10,000	260,000
	<u>\$ 1,970,000</u>	<u>\$ 395,975</u>	<u>\$ 2,365,975</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
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	48,153	249,403
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>\$ 2,226,875</u>	<u>\$ 534,713</u>	<u>\$ 2,761,588</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
2011	\$ 545,000	\$ 504,221	\$ 1,049,221
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>\$ 12,795,000</u>	<u>\$ 5,065,305</u>	<u>\$ 17,860,305</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2007, issued June 8, 2007 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 775,000	\$ 784,525	\$ 1,559,525
2012	810,000	751,587	1,561,587
2013	840,000	719,188	1,559,188
2014	875,000	685,587	1,560,587
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	387,738	1,547,738
2022	1,210,000	339,887	1,549,887
2023	1,260,000	289,975	1,549,975
2024	1,315,000	238,000	1,553,000
2025	1,370,000	182,113	1,552,113
2026	1,425,000	123,888	1,548,888
2027	1,490,000	63,325	1,553,325
	<u>\$ 18,615,000</u>	<u>\$ 7,822,138</u>	<u>\$ 26,437,138</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
2011	\$ 285,000	\$ 291,112	\$ 576,112
2012	295,000	281,138	576,138
2013	305,000	270,812	575,812
2014	315,000	258,613	573,613
2015	330,000	246,012	576,012
2016	340,000	232,813	572,813
2017	355,000	219,212	574,212
2018	370,000	206,788	576,788
2019	380,000	191,987	571,987
2020	400,000	176,788	576,788
2021	415,000	160,787	575,787
2022	430,000	144,188	574,188
2023	450,000	126,987	576,987
2024	465,000	108,425	573,425
2025	485,000	88,663	573,663
2026	505,000	68,050	573,050
2027	530,000	46,587	576,587
2028	550,000	24,063	574,063
	<u>\$ 7,205,000</u>	<u>\$ 3,143,025</u>	<u>\$ 10,348,025</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
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	161,887	856,887
2025	725,000	132,350	857,350
2026	755,000	101,538	856,538
2027	790,000	69,450	859,450
2028	820,000	35,875	855,875
	<u>\$ 10,755,000</u>	<u>\$ 4,692,250</u>	<u>\$ 15,447,250</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009A, issued January 22, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 475,000	\$ 476,906	\$ 951,906
2012	480,000	467,406	947,406
2013	495,000	455,406	950,406
2014	505,000	443,032	948,032
2015	520,000	427,881	947,881
2016	540,000	412,281	952,281
2017	555,000	396,081	951,081
2018	570,000	379,432	949,432
2019	590,000	362,331	952,331
2020	610,000	338,731	948,731
2021	635,000	314,331	949,331
2022	660,000	288,932	948,932
2023	685,000	262,531	947,531
2024	720,000	231,706	951,706
2025	750,000	199,306	949,306
2026	785,000	165,557	950,557
2027	820,000	129,250	949,250
2028	860,000	88,250	948,250
2029	905,000	45,250	950,250
	<u>\$ 12,160,000</u>	<u>\$ 5,884,600</u>	<u>\$ 18,044,600</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009B, issued January 22, 2009 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 275,000	\$ 278,281	\$ 553,281
2012	280,000	272,781	552,781
2013	290,000	265,781	555,781
2014	295,000	258,532	553,532
2015	305,000	249,681	554,681
2016	315,000	240,531	555,531
2017	325,000	231,081	556,081
2018	335,000	221,332	556,332
2019	345,000	210,443	555,443
2020	355,000	196,644	551,644
2021	370,000	182,444	552,444
2022	385,000	167,644	552,644
2023	400,000	152,244	552,244
2024	420,000	135,244	555,244
2025	440,000	116,344	556,344
2026	455,000	96,544	551,544
2027	480,000	75,500	555,500
2028	500,000	51,500	551,500
2029	530,000	26,500	556,500
	<u>\$ 7,100,000</u>	<u>\$ 3,429,051</u>	<u>\$ 10,529,051</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 0	\$ 559,726	\$ 559,726
2012	0	454,857	454,857
2013	689,123	454,857	1,143,980
2014	694,795	444,778	1,139,573
2015	706,138	431,229	1,137,367
2016	720,318	415,738	1,136,056
2017	740,169	398,179	1,138,348
2018	760,020	379,535	1,139,555
2019	757,185	357,304	1,114,489
2020	779,871	335,156	1,115,027
2021	805,395	311,710	1,117,105
2022	825,246	286,842	1,112,088
2023	850,769	260,691	1,111,460
2024	884,799	233,040	1,117,839
2025	884,800	204,283	1,089,083
2026	910,323	174,807	1,085,130
2027	941,518	143,741	1,085,259
2028	972,713	110,846	1,083,559
2029	1,009,579	75,280	1,084,859
2030	1,049,282	38,366	1,087,648
	<u>\$ 14,982,043</u>	<u>\$ 6,070,965</u>	<u>\$ 21,053,008</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009E, issued December 08, 2009 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 0	\$ 657,947	\$ 657,947
2012	0	534,675	534,675
2013	585,000	534,675	1,119,675
2014	600,000	520,020	1,120,020
2015	620,000	503,550	1,123,550
2016	635,000	484,950	1,119,950
2017	655,000	465,900	1,120,900
2018	675,000	446,250	1,121,250
2019	695,000	424,312	1,119,312
2020	720,000	399,988	1,119,988
2021	760,000	363,987	1,123,987
2022	790,000	333,588	1,123,588
2023	815,000	305,937	1,120,937
2024	845,000	277,413	1,122,413
2025	875,000	243,612	1,118,612
2026	915,000	208,613	1,123,613
2027	950,000	172,012	1,122,012
2028	985,000	134,013	1,119,013
2029	1,030,000	92,150	1,122,150
2030	1,075,000	48,375	1,123,375
	<u>\$ 14,225,000</u>	<u>\$ 7,151,967</u>	<u>\$ 21,376,967</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,646,250	\$ 4,554,232	\$ 9,200,482
2012	4,790,000	4,162,897	8,952,897
2013	6,239,123	3,990,608	10,229,731
2014	6,433,545	3,774,453	10,207,998
2015	6,113,638	3,538,017	9,651,655
Next Five Years	29,290,688	14,400,197	43,690,885
Next Five Years	30,277,259	8,827,909	39,105,168
Next Five Years	24,028,415	2,532,535	26,560,950
	<u>\$ 111,818,918</u>	<u>\$ 45,780,848</u>	<u>\$ 157,599,766</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities:

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

Notes Payable

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

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2010</u>
<u>Water Fund:</u>				
State Revolving Loan - DWF#98-009	03/25/98	\$ 1,937,015	3.675%	<u>\$ 1,084,756</u>
<u>Sewer Fund:</u>				
State Revolving Loan - SRF#98-119	02/28/99	\$ 2,364,929	3.550%	\$ 1,370,112
State Revolving Loan - SRF#99-123	06/28/99	2,731,550	3.550%	1,655,560
State Revolving Loan - SRF#07-197	11/29/07	19,366,647	3.140%	16,497,099
State Revolving Loan - SRF#07-200	07/15/07	2,850,000	3.200%	1,384,279
State Revolving Loan - SRF#09-240	07/20/09	2,200,000	2.880%	<u>198,457</u>
Total				<u>\$ 21,105,507</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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 20 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.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 131,304	\$ 37,668	\$ 168,972
2012	136,212	32,760	168,972
2013	141,300	27,672	168,972
2014	146,592	22,392	168,984
2015	152,064	16,908	168,972
2016	157,752	11,220	168,972
2017	163,644	5,328	168,972
2018	55,888	428	56,316
	<u>\$ 1,084,756</u>	<u>\$ 154,376</u>	<u>\$ 1,239,132</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.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 158,316	\$ 46,080	\$ 204,396
2012	164,028	40,368	204,396
2013	169,944	34,452	204,396
2014	176,076	28,320	204,396
2015	182,436	21,960	204,396
2016	189,012	15,384	204,396
2017	195,840	8,556	204,396
2018	134,460	1,800	136,260
	<u>\$ 1,370,112</u>	<u>\$ 196,920</u>	<u>\$ 1,567,032</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 180,036	\$ 55,860	\$ 235,896
2012	186,540	49,368	235,908
2013	193,272	42,636	235,908
2014	200,244	35,664	235,908
2015	207,468	28,440	235,908
2016	214,956	20,952	235,908
2017	222,708	13,188	235,896
2018	230,748	5,160	235,908
2019	19,588	58	19,646
	<u>\$ 1,655,560</u>	<u>\$ 251,326</u>	<u>\$ 1,906,886</u>

In addition to the above loans, the City has three 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. \$16,497,099 had been drawn as of June 30, 2010.

A \$2,850,000 credit line is available for sewer system replacement projects in the West Kingsport area. Upon completion of the project, the loan will be paid over 20 years. \$1,384,279 had been drawn as of June 30, 2010.

A \$2,200,000 credit line is available for upgrades to the waste water treatment facility. Upon completion of the project, the loan will be paid over 20 years. \$330,761 had been drawn as of June 30, 2010. The funding of this credit line is 50% state money and 50% federal ARRA money. 40% of each draw is "forgiven". The principal forgiven has been included in income. Income from principal forgiveness for fiscal year 2010 was \$132,304 leaving an outstanding balance at June 30, 2010 of \$198,457.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
2011	\$ 469,656	\$ 139,608	\$ 609,264
2012	486,780	122,496	609,276
2013	504,516	104,760	609,276
2014	522,912	86,376	609,288
2015	541,968	67,308	609,276
Next Five Years	1,584,596	82,074	1,666,670
Thereafter	18,079,835	0	18,079,835
	<u>\$ 22,190,263</u>	<u>\$ 602,622</u>	<u>\$ 22,792,885</u>

The interest calculations for the State Revolving Loans are based on the outstanding balances at year end for the completed loans. It is unknown at this time when the City will begin principal payments on the construction loans in process; therefore, the entire \$16,497,099, \$1,384,279 and \$198,457 is included as "thereafter" information in the totals above.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable

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, 2010
<u>Solid Waste Management Fund</u>					
2005 General Obligation	02/01, 08/01	12/06/05	\$ 403,750	3.000%-5.000%	\$ 318,125
2009-D BABS General Obligation	03/01, 09/01	12/08/09	303,404	2.250%-5.625%	<u>303,404</u>
Total Solid Waste Management Fund (before bond premiums of (\$1,670))					<u>\$ 621,529</u>
<u>MeadowView Conference Resort and Convention Center Fund</u>					
2009-C Local Option Sales Tax Revenue and Tax Bonds	03/01, 09/01	01/22/09	\$ 15,180,000	2.000%-5.000%	\$ 15,180,000
2009-D BABS General Obligation	03/01, 09/01	12/08/09	1,016,085	2.250%-5.625%	<u>1,016,085</u>
Total MeadowView Conference Resort and Convention Center Fund (before bond premiums of (\$157,874))					<u>\$ 16,196,085</u>
<u>Cattails at MeadowView Golf Course Fund</u>					
1995 Golf Course-TMBF	Monthly	05/22/95	\$ 4,750,000	Variable	\$ 469,500
1998 Golf Course-TMBF	Monthly	1998	1,450,000	Variable	<u>821,000</u>
Total Cattails at MeadowView Golf Course Fund					<u>\$ 1,290,500</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Water Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2010</u>
1978 Waterworks	01/01, 07/01	04/06/78	\$ 450,000	5.000%	\$ 140,000
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	1,315,000	2.000%-4.200%	820,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	4,126,955	2.050%-5.000%	2,855,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	2,200,000	3.500%-5.000%	1,985,000
2004 Water and Sewer Revenue and Tax	05/01, 11/01	12/06/04	1,625,000	2.750%-4.125%	1,125,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	870,000	3.000%-5.000%	685,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	316,463	3.750%-5.000%	283,498
2008 Water and Sewer Revenue and Tax	03/01, 09/01	06/12/08	1,200,000	3.500%-4.250%	1,135,000
2008 Tennessee Municipal Bond Fund	Monthly	10/15/08	9,800,000	Variable	9,298,196
2009-D BABS General Obligation	03/01, 09/01	12/08/09	4,045,387	2.250%-5.625%	4,045,387
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	1,515,000	2.000%-3.000%	1,515,000
Total Water Fund (before deferred debt refunding costs of \$265,823 and net premiums and discounts of (\$378,265))					<u>\$ 23,887,081</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Sewer Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2010</u>
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	\$ 4,585,000	2.000%-4.200%	\$ 2,865,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	12,473,045	2.000%-5.000%	7,805,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	3,010,000	2.200%-5.000%	2,685,000
2004 Water and Sewer Revenue and Tax	11/01, 05/01	12/06/04	6,275,000	2.750%-4.125%	4,325,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	4,100,000	2.750%-4.125%	3,225,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	1,363,537	3.750%-5.000%	1,221,502
2009-D BABS General Obligation	03/01, 09/01	12/08/09	6,068,081	2.250%-5.625%	6,068,081
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	2,940,000	2.000%-3.000%	2,940,000
Total Sewer Fund (before deferred debt refunding costs of \$439,853 and net premiums and discounts of (\$867,433))					<u>\$ 31,134,583</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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	2,592	35,717
2021	33,750	1,308	35,058
	<u>\$ 318,125</u>	<u>\$ 76,387</u>	<u>\$ 394,512</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009-D BABS, issued December 08, 2009 debt service requirements to maturity are as follows for the Solid Waste portion:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 0	\$ 11,349	\$ 11,349
2012	0	9,222	9,222
2013	13,956	9,222	23,178
2014	14,071	9,018	23,089
2015	14,300	8,743	23,043
2016	14,587	8,429	23,016
2017	14,989	8,073	23,062
2018	15,391	7,695	23,086
2019	15,334	7,244	22,578
2020	15,794	6,795	22,589
2021	16,310	6,320	22,630
2022	16,712	5,816	22,528
2023	17,229	5,286	22,515
2024	17,918	4,725	22,643
2025	17,918	4,142	22,060
2026	18,435	3,544	21,979
2027	19,067	2,914	21,981
2028	19,699	2,248	21,947
2029	20,445	1,526	21,971
2030	21,249	778	22,027
	<u>\$ 303,404</u>	<u>\$ 123,089</u>	<u>\$ 426,493</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Local Option Sales Tax Revenue and Tax Bonds issued January 22, 2009 for MeadowView Conference Resort and Convention Center Fund, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 585,000	\$ 598,637	\$ 1,183,637
2012	600,000	586,938	1,186,938
2013	615,000	571,937	1,186,937
2014	630,000	556,563	1,186,563
2015	645,000	537,662	1,182,662
2016	665,000	518,313	1,183,313
2017	685,000	498,363	1,183,363
2018	710,000	476,100	1,186,100
2019	735,000	447,700	1,182,700
2020	765,000	418,300	1,183,300
2021	800,000	387,700	1,187,700
2022	830,000	355,700	1,185,700
2023	865,000	322,500	1,187,500
2024	900,000	284,656	1,184,656
2025	940,000	245,281	1,185,281
2026	980,000	202,981	1,182,981
2027	1,025,000	157,656	1,182,656
2028	1,075,000	110,250	1,185,250
2029	1,130,000	56,500	1,186,500
	<u>\$ 15,180,000</u>	<u>\$ 7,333,737</u>	<u>\$ 22,513,737</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009-D BABS, issued December 08, 2009 debt service requirements to maturity are as follows for the Meadowview portion:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 0	\$ 37,993	\$ 37,993
2012	0	30,874	30,874
2013	46,737	30,874	77,611
2014	47,121	30,190	77,311
2015	47,891	29,271	77,162
2016	48,852	28,219	77,071
2017	50,198	27,027	77,225
2018	51,545	25,762	77,307
2019	51,352	24,253	75,605
2020	52,891	22,750	75,641
2021	54,622	21,158	75,780
2022	55,968	19,470	75,438
2023	57,699	17,695	75,394
2024	60,007	15,818	75,825
2025	60,007	13,866	73,873
2026	61,738	11,866	73,604
2027	63,854	9,757	73,611
2028	65,960	7,524	73,484
2029	68,470	5,110	73,580
2030	71,173	2,604	73,777
	<u>\$ 1,016,085</u>	<u>\$ 412,081</u>	<u>\$ 1,428,166</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
	1995	1998	
2011	\$ 469,500	\$ 99,000	\$ 568,500
2012	0	105,000	105,000
2013	0	110,000	110,000
2014	0	117,000	117,000
2015	0	123,000	123,000
2016	0	130,000	130,000
2017	0	137,000	137,000
	<u>\$ 469,500</u>	<u>\$ 821,000</u>	<u>\$ 1,290,500</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
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>\$ 140,000</u>	<u>\$ 26,250</u>	<u>\$ 166,250</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 90,000	\$ 31,133	\$ 121,133
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>\$ 820,000</u>	<u>\$ 151,504</u>	<u>\$ 971,504</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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>\$ 2,855,000</u>	<u>\$ 416,250</u>	<u>\$ 3,271,250</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
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>\$ 1,985,000</u>	<u>\$ 278,650</u>	<u>\$ 2,263,650</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
2011	\$ 110,000	\$ 42,261	\$ 152,261
2012	110,000	38,686	148,686
2013	115,000	34,946	149,946
2014	120,000	30,922	150,922
2015	125,000	26,601	151,601
2016	130,000	21,851	151,851
2017	135,000	16,781	151,781
2018	135,000	11,382	146,382
2019	145,000	5,981	150,981
	<u>\$ 1,125,000</u>	<u>\$ 229,411</u>	<u>\$ 1,354,411</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
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	5,618	75,618
2021	75,000	2,906	77,906
	<u>\$ 685,000</u>	<u>\$ 165,256</u>	<u>\$ 850,256</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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>\$ 283,498</u>	<u>\$ 110,918</u>	<u>\$ 394,416</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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>\$ 1,135,000</u>	<u>\$ 342,500</u>	<u>\$ 1,477,500</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

On October 15, 2008, the City issued Tennessee Municipal Bond Fund bonds not to exceed \$9,800,000. These bond funds are being drawn as needed to cover the acquisition and installation of an automated meter reading and leak detection system. The project was not complete at June 30, 2010 and only \$9,298,196 had been drawn against the available funds.

The interest rate on the TMBF Water 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 is as follows:

Fiscal Year Ending June 30	Principal	Total
2011	\$ 430,000	\$ 430,000
2012	430,000	430,000
2013	455,000	455,000
2014	455,000	455,000
2015	505,000	505,000
2016	530,000	530,000
2017	555,000	555,000
2018	555,000	555,000
2019	605,000	605,000
2020	630,000	630,000
2021	655,000	655,000
2022	655,000	655,000
2023	710,000	710,000
2024	735,000	735,000
2025	735,000	735,000
2026	658,196	658,196
	<u>\$ 9,298,196</u>	<u>\$ 9,298,196</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity are as follows for the Water portion:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 0	\$ 151,083	\$ 151,083
2012	0	122,776	122,776
2013	186,074	122,776	308,850
2014	187,606	120,056	307,662
2015	190,668	116,398	307,066
2016	194,497	112,217	306,714
2017	199,857	107,477	307,334
2018	205,217	102,445	307,662
2019	204,452	96,444	300,896
2020	210,578	90,466	301,044
2021	217,469	84,137	301,606
2022	222,829	77,425	300,254
2023	229,721	70,366	300,087
2024	238,910	62,903	301,813
2025	238,910	55,141	294,051
2026	245,801	47,184	292,985
2027	254,225	38,799	293,024
2028	262,648	29,920	292,568
2029	272,602	20,320	292,922
2030	283,323	10,356	293,679
	<u>\$ 4,045,387</u>	<u>\$ 1,638,689</u>	<u>\$ 5,684,076</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water and Sewer Revenue & Tax Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity are as follows for the Water portion:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 210,000	\$ 36,199	\$ 246,199
2012	210,000	31,700	241,700
2013	210,000	27,500	237,500
2014	215,000	23,300	238,300
2015	215,000	19,000	234,000
2016	225,000	13,088	238,088
2017	230,000	6,900	236,900
	<u>\$ 1,515,000</u>	<u>\$ 157,687</u>	<u>\$ 1,672,687</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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>\$ 2,865,000</u>	<u>\$ 533,190</u>	<u>\$ 3,398,190</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
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>\$ 7,805,000</u>	<u>\$ 1,192,500</u>	<u>\$ 8,997,500</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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>\$ 2,685,000</u>	<u>\$ 384,900</u>	<u>\$ 3,069,900</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
2011	\$ 415,000	\$ 162,491	\$ 577,491
2012	430,000	149,004	579,004
2013	445,000	134,383	579,383
2014	460,000	118,809	578,809
2015	475,000	102,248	577,248
2016	495,000	84,199	579,199
2017	515,000	64,894	579,894
2018	535,000	44,294	579,294
2019	555,000	22,894	577,894
	<u>\$ 4,325,000</u>	<u>\$ 883,216</u>	<u>\$ 5,208,216</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,225,000</u>	<u>\$ 777,325</u>	<u>\$ 4,002,325</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
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	40,236	101,108
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>\$ 1,221,502</u>	<u>\$ 477,928</u>	<u>\$ 1,699,430</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity are as follows for the Sewer portion:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 0	\$ 226,673	\$ 226,673
2012	0	184,204	184,204
2013	279,111	184,204	463,315
2014	281,408	180,122	461,530
2015	286,003	174,636	460,639
2016	291,746	168,362	460,108
2017	299,786	161,251	461,037
2018	307,826	153,701	461,527
2019	306,678	144,698	451,376
2020	315,866	135,729	451,595
2021	326,204	126,234	452,438
2022	334,244	116,163	450,407
2023	344,581	105,573	450,154
2024	358,365	94,375	452,740
2025	358,365	82,729	441,094
2026	368,702	70,792	439,494
2027	381,337	58,211	439,548
2028	393,972	44,889	438,861
2029	408,903	30,486	439,389
2030	424,984	15,537	440,521
	<u>\$ 6,068,081</u>	<u>\$ 2,458,569</u>	<u>\$ 8,526,650</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water and Sewer Revenue & Tax Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity are as follows for the Sewer portion:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 400,000	\$ 70,281	\$ 470,281
2012	410,000	61,700	471,700
2013	410,000	53,500	463,500
2014	415,000	45,300	460,300
2015	420,000	37,000	457,000
2016	440,000	25,450	465,450
2017	445,000	13,350	458,350
	<u>\$ 2,940,000</u>	<u>\$ 306,581</u>	<u>\$ 3,246,581</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Total annual debt service requirements for enterprise fund bonds, excluding the estimated principal requirements on the TMBF bonds totaling \$10,588,696 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 5,638,750	\$ 2,490,992	\$ 8,129,742
2012	5,845,000	2,194,014	8,039,014
2013	6,015,878	1,964,815	7,980,693
2014	6,246,456	1,737,115	7,983,571
2015	5,906,362	1,487,682	7,394,044
Next Five Years	15,899,311	4,917,030	20,816,341
Next Five Years	8,852,738	2,730,868	11,583,606
Next Five Years	8,136,587	954,102	9,090,689
	<u>\$ 62,541,082</u>	<u>\$ 18,476,618</u>	<u>\$ 81,017,700</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$705,676 and the net premiums and discounts of (\$1,405,242).

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
General Obligation Debt	\$ 86,349,375	\$ 29,207,043	\$ 3,737,500	\$ 111,818,918	\$ 4,646,250
Less: Deferred amounts for refunding	(684,000)	0	(65,000)	(619,000)	0
Plus: Premiums and discounts	565,753	520,024	65,826	1,019,951	0
Total Bonds Payable	86,231,128	29,727,067	3,738,326	112,219,869	4,646,250
Interlocal Cooperative Agreement	2,000,000	0	500,000	1,500,000	500,000
Capital Outlay Note	1,479,000	0	123,000	1,356,000	128,000
Energy Efficiency Note	407,143	0	67,857	339,286	67,857
Notes Payable-State	3,986,140	0	358,034	3,628,106	358,033
Total Governmental Activities	<u>\$ 94,103,411</u>	<u>\$ 29,727,067</u>	<u>\$ 4,787,217</u>	<u>\$ 119,043,261</u>	<u>\$ 5,700,140</u>
Business-type activities:					
General Obligation Debt	\$ 16,574,999	\$ 12,406,279	\$ 1,831,500	\$ 27,149,778	\$ 1,927,250
Local Option Sales Tax Revenue and Tax Bonds	15,180,000	0	0	15,180,000	585,000
Water and Sewer Revenue and Tax Bonds	34,745,000	4,455,000	8,400,000	30,800,000	4,125,000
Less: Deferred amounts for refunding	(862,683)	(11,494)	(168,501)	(705,676)	0
Plus: Premiums and discounts	1,551,758	107,763	254,279	1,405,242	0
Total Bonds Payable	67,189,074	16,957,548	10,317,278	73,829,344	6,637,250
State Revolving Notes	15,578,624	7,064,792	453,153	22,190,263	469,656
Total Business-type Activities	<u>\$ 82,767,698</u>	<u>\$ 24,022,340</u>	<u>\$ 10,770,431</u>	<u>\$ 96,019,607</u>	<u>\$ 7,106,906</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Closure and postclosure costs

The City currently operates a demolition landfill located on Brookside Drive, with a remaining life of approximately 60 years. Upon closure, federal and state laws require the landfill to be monitored for two years at the City's expense.

In June, 1996, the City entered into a *Contract in Lieu of Performance Bond* with the State of Tennessee Department of Environment and Conservation to provide financial assurance in the amount of \$1,390,095, for proper operation, closure and/or post-closure activities related to the City's demolition landfill. This agreement is subsequently amended on an annual basis for inflation by the State of Tennessee Department of Environment and Conservation. The 2009 financial assurance amount of \$1,806,687 was adjusted for inflation by 1.2% resulting in an amended amount of \$1,826,367 at June 30, 2010.

The City's demolition type landfill does not fall under the same monitoring guidelines as a sanitation type landfill. The expected costs should be accumulated over a 60 year period with an immaterial effect to the Solid Waste Management Fund and therefore, have not been recorded in the current period.

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 Safety National.

An actuarial study for workers compensation and public liability was conducted in January 2010 for the period ended June 30, 2009. The estimated reserve requirements were as follows:

	<u>Low</u>	<u>Expected</u>	<u>High</u>
Workers Compensation *	\$ 1,920,000	\$ 2,320,000	\$ 2,910,000
Public Liability *	1,150,000	1,200,000	1,450,000

* Based on an annual discount rate of 3%

The Insurance Reserve Fund has available fund balance of \$2,984,604 at June 30, 2010. Estimated claims are budgeted and charged to the various departments on an annual basis.

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 five years, which were not covered by insurance.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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. Health insurance coverage for school system employees is provided through the State of Tennessee Local Education Program.

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

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

	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Year Ended</u> <u>June 30, 2009</u>
Claims Accrued, Beginning	\$ 218,935	\$ 341,669
Claims Incurred	1,185,492	1,129,226
Claims Paid	<u>(1,105,576)</u>	<u>(1,251,960)</u>
Claims Accrued, Ending	\$ <u>298,851</u>	\$ <u>218,935</u>

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2010.

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 June 2007, have been independently reviewed and it has been determined that no arbitrage rebate liability exists for those years. At June 30, 2010, 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, 2010

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 December 31, 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 December 31, 2011. The estimated total cost of the project is \$22,000,000. 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.

In April 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$1,995,000 in capital outlay notes, of which, the City is contingently liable for 31%. In February 2006, SCEDP issued an additional \$505,000 in capital outlay notes, of which the City is contingently liable for 31%. During July 2007, SCEDP issued \$6,500,000 in revenue bonds, of which the City is contingently liable for 31%. Proceeds from the capital outlay notes and the bonds were used for 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 property sales in the industrial park. The related liabilities are on the books of Sullivan County. The SCEDP is responsible for making the bond payments, however in the event of their default the City is responsible for a 31% portion of the debt. During fiscal year 2010, revenue from property sales in the industrial park was not sufficient for the SCEDP to make the related debt service payments. The City recorded a \$147,065 liability for the repayment of debt associated with the SCEDP. As of June 30, 2010, a total of \$8,375,000 of debt was outstanding, with \$2,596,250 representing the City's 31% contingent share.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

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://www.tn.gov/treasury/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, 2010 was 16.58% 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, 2010

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

City of Kingsport plan (continued)

Annual pension cost

For the fiscal year ending June 30, 2010, the City's annual pension cost of \$5,881,042 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2007 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, 2007 was 18 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

<u>Trend Information</u>			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$5,881,042	100.00%	\$0
June 30, 2009	5,832,643	100.00%	0
June 30, 2008	5,546,001	100.00%	0

As of July 1, 2009, the most recent actuarial valuation date, the plan was 79.11% funded. The actuarial accrued liability for benefits was \$153.27 million, and the actuarial value of assets was \$121.25 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$32.01 million. The covered Payroll (annual payroll of active employees covered by the plan) was \$34.90 million, and the ratio of UAAL to covered payroll was 91.73%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

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, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 142,266,000	\$ 24,800,000	82.57%	\$ 31,672,000	78.30%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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.tn.gov/treasury/tcrs.

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, 2010 was 6.42% 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, 2010, 2009, and 2008 were \$1,895,871, \$1,858,582, and \$1,782,000 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, 2010

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. Employees who retired before June 30, 2010 and continued on the City's health insurance as listed above are eligible for the City funded Medicare supplement plan when they reach 65 years of age. Employees retiring after June 30, 2010 are no longer eligible for the City funded Medicare supplement plan.

The number of participants as of July 1, 2009, 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	1,626
Retired employees	170
Spouses of retired employees	51
Retired employees eligible for death benefits only	<u>551</u>
Total	<u><u>2,398</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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)	\$ 2,532,635
Interest on the Net Pension Obligation (NPO)	245,301
Adjustment to the Annual Required Contribution (ARC)	<u>(196,594)</u>
Annual OPEB Cost	2,581,342
Amount of Contribution	<u>(1,215,106)</u>
Increase/Decrease in Net Pension Obligation (NPO)	1,366,236
Net OPEB Obligation - Beginning of Year	<u>4,906,010</u>
Net OPEB Obligation - Ending of Year	<u><u>\$ 6,272,246</u></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>
06/30/10	City Retiree	\$ 2,581,342	41%	\$ 6,272,246
06/30/09	City Retiree	\$ 3,292,208	27%	\$ 4,906,010
06/30/08	City Retiree	\$ 3,166,263	20%	\$ 2,518,897

*Data not available for the 2007 year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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 July 1, 2009, the date of the latest actuarial valuation, was as follows:

	<u>City of Kingsport Retiree Plan</u>
Actuarial valuation date	07/01/09
Actuarial accrued liability (AAL)	\$ 32,019,362
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 32,019,362
Actuarial Value of Assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 23,721,000
UAAL as a percentage of covered payroll	134%

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, 2009 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 9.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Both rates include a 4 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, 2009.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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 does not provide a subsidy for local government participants, however, the state does provide 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 is based on their years of service. For the year ended June 30, 2010, retired teachers contributed \$300,489. During the year ended June 30, 2010, Kingsport City Schools contributed \$356,010 for the teacher group plan and \$212,113 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)	\$ 1,894,000	\$ 1,897,000
Interest on the Net Pension Obligation (NPO)	161,663	182,538
Adjustment to the Annual Required Contribution (ARC)	0	0
Annual OPEB Cost	2,055,663	2,079,538
Amount of Contribution	(356,010)	(212,113)
Increase/Decrease in Net Pension Obligation (NPO)	1,699,653	1,867,425
Net OPEB Obligation - Beginning of Year	3,233,246	3,650,763
Net OPEB Obligation - Ending of Year	<u>\$ 4,932,899</u>	<u>\$ 5,518,188</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

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
06/30/10	Teacher Group	\$ 2,055,663	17%	\$ 4,932,899
06/30/09	Teacher Group	\$ 1,992,895	17%	\$ 3,233,246
06/30/08	Teacher Group	\$ 1,900,000	17%	\$ 1,575,446
06/30/10	Medicare Supp	\$ 2,079,538	10%	\$ 5,518,188
06/30/09	Medicare Supp	\$ 2,033,125	10%	\$ 3,650,763
06/30/08	Medicare Supp	\$ 1,928,000	6%	\$ 1,815,000

*Data not available for the 2007 year.

Funded Status and Funding Process

The funded status of the plan as of July 1, 2009, the date of the latest valuation, was as follows:

	Teacher Group Plan	Medicare Supplement Plan
Actuarial valuation date	07/01/09	07/01/09
Actuarial accrued liability (AAL)	\$ 17,196,000	\$ 18,481,000
Actuarial value of plan assets	\$ 0	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 17,196,000	\$ 18,481,000
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 22,403,067	\$ 22,403,067
UAAL as a percentage of covered payroll	77%	82%

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.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

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, 2009 actuarial valuation for the Local Education plan, 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 4 percent for fiscal year 2010. The trend will rise 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of 5 percent by the fiscal year 2021. The annual healthcare cost trend rate for the Medicare Supplement plan was 1 percent for fiscal year 2010. The trend will rise 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate 5 percent by fiscal year 2021. 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 June 30, 2008.

E. On-Behalf Payments

As required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the following on-behalf payments have been recorded.

Teacher Group Insurance Plan

The State of Tennessee makes a contribution (on-behalf payment) for retired teachers who participate in the State-administered Teacher Group Insurance Plan through TCRS as described in Note 5. D. The on-behalf payment for 2010 was \$370,694 and has been recorded as revenue and expenditure in the general purpose school fund.

Medicare Supplement Plan

Since Teachers are considered state employees per state statutes, the State of Tennessee makes a contribution (on-behalf payment) for retired teachers to this Plan through the TCRS. The on-behalf payment for 2010 was \$75,694 and has been recorded as revenue and expenditure in the general purpose school fund.

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, 2009 and 2008, the taxes assessed on the above mentioned taxpayer accounted for approximately 26% of total property taxes assessed for each year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

5. OTHER INFORMATION (CONTINUED):

G. 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, 2010 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,693,560
Operating Expenses	(5,101,080)
Depreciation	(3,053,364)
Amortization	(13,501)
Other Income	809,692
Capital Contributions	<u>6,774,016</u>
Change in Net Assets	5,109,323
Net Assets, July 1	<u>55,949,414</u>
Net Assets, June 30	\$ <u>61,058,737</u>
 Total Assets	 \$ 69,451,205
Total Liabilities	<u>(8,392,468)</u>
Total Net Assets	\$ <u>61,058,737</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

5. OTHER INFORMATION (CONTINUED):

G. Joint Ventures (continued)

Phipps Bend Joint Venture

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

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

Note Receivable from Phipps Bend Venture	\$ 501,312
20% interest in capital of Phipps Bend Joint Venture	<u>313,272</u>
Total Investment	<u>\$ 814,584</u>

H. Subsequent Events

In May 2010, the City BMA adopted a resolution discontinuing the non-contributory provisions of the City's defined benefit plan with the Tennessee Consolidated Retirement System (TCRS). This change becomes effective October 1, 2010 and applies to new employees hired on or after the effective date. Employees hired prior to the effective date will continue to participate in TCRS as non-contributory members, with actuarial percentage contributions made entirely by the City. New employees will be required to participate as contributory members and contribute 5% of their compensation into the TCRS plan along with the City contributing an additional percentage amount determined through actuarial methods.

In October 2010, the City's BMA adopted a resolution accepting the proposal of Humana, Inc. as the third-party administrator for the City's self-funded health insurance program. Humana, Inc. replaces the previous third-party administrator, United Healthcare, Inc.

In November 2010, the City's BMA adopted a resolution that authorized the City to enter into a \$5,000,000 loan agreement and a \$127,306 grant agreement with the State of Tennessee's Energy Efficient Schools Initiative. The loan and grant will provide funding for energy efficiency improvements to all of the buildings within the Kingsport City Schools. The loan carries a fixed interest rate of 0.75% and is payable over 12 years.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010**

5. OTHER INFORMATION (CONTINUED):

I. Prior Period Adjustment – Capital Assets

During the fiscal year, the City performed a major internal audit of capital assets. As a result, the City discovered that several roads annexed by the City had not been added to capital assets since implementation of GASB 34 in fiscal year 2002. It was also discovered that the amount recorded as the library collection included all books in circulation, as well as books of research or historical value. A prior period adjustment effecting only the government-wide statements has been recorded to correct these errors as follows:

Unrecorded Annexed Roads	\$ 9,543,053
Related Accumulated Depreciation	(817,445)
Reduction in Library Collection	<u>(3,945,854)</u>
Total Prior Period Adjustment	<u>\$ 4,779,754</u>

CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN
For the Fiscal Year Ended June 30, 2010

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

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, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 142,266,000	\$ 24,800,000	82.57%	\$ 31,672,000	78.30%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the Entry Age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS
For the Fiscal Year Ended June 30, 2010

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

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, 2009	City Retiree	\$ 0	\$ 32,019,362	\$ 32,019,362	0.00%	\$ 23,721,000	134%
July 1, 2007	City Retiree	\$ 0	\$ 30,541,000	\$ 30,541,000	0.00%	\$ 21,931,000	139%

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

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, 2009	Teacher Group	\$ 0	\$ 17,196,000	\$ 17,196,000	0.00%	\$ 22,403,067	77%
July 1, 2009	Medicare	0	18,481,000	18,481,000	0.00%	22,403,067	82%
July 1, 2007	Teacher Group	\$ 0	\$ 17,503,000	\$ 17,503,000	0.00%	\$ 24,795,000	70%
July 1, 2007	Medicare	0	18,268,000	18,268,000	0.00%	24,795,000	74%

* An additional year will be reported as data becomes available.



C. COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 39,300	\$ 397,043	\$ 409,850	\$ 12,807
Miscellaneous	0	0	2,885	2,885
Total Revenues	39,300	397,043	412,735	15,692
EXPENDITURES:				
Principal	4,356,100	4,356,100	4,286,390	69,710
Interest	3,612,600	3,625,695	3,612,987	12,708
Miscellaneous	44,500	80,648	9,744	70,904
Total Expenditures	8,013,200	8,062,443	7,909,121	153,322
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,973,900)	(7,665,400)	(7,496,386)	169,014
OTHER FINANCING SOURCES (USES):				
Transfers In	7,973,900	6,875,000	7,315,381	440,381
Total Other Financing Sources (Uses)	7,973,900	6,875,000	7,315,381	440,381
Net Change in Fund Balances	0	(790,400)	(181,005)	609,395
Fund Balances, July 1, 2009	0	790,400	676,082	(114,318)
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 495,077	\$ 495,077

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	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	\$ 5,176	\$ 100	\$ 0	\$ 1,295,287	\$ 1,300,563	\$ 0	\$ 1,300,563
Equity in Pooled Cash & Investments	0	510,199	409,301	49,530	671,202	386,782	2,027,014	17,128	2,044,142
Long Term Certificates of Deposit	0	0	0	0	0	217,698	217,698	152,691	370,389
Investments	0	0	0	0	513,879	65,482	579,361	4,463	583,824
Accrued Interest Receivable	0	0	0	0	0	0	0	15,213	15,213
Due from Other Governments	33,318	37,436	4,693	1,538,320	523,768	911,231	3,048,766	0	3,048,766
Due from Other Funds	0	0	0	0	248,752	0	248,752	0	248,752
Inventories	0	0	0	0	0	285,571	285,571	0	285,571
Restricted Cash	0	15,824	0	0	0	0	15,824	0	15,824
Restricted Investments	0	0	16,935	0	0	0	16,935	0	16,935
Total Assets	<u>\$ 33,318</u>	<u>\$ 563,459</u>	<u>\$ 436,105</u>	<u>\$ 1,587,950</u>	<u>\$ 1,957,601</u>	<u>\$ 3,162,051</u>	<u>\$ 7,740,484</u>	<u>\$ 189,495</u>	<u>\$ 7,929,979</u>
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts Payable	\$ 6,220	\$ 100,646	\$ 0	\$ 1,150,738	\$ 27,680	\$ 143,445	\$ 1,428,729	\$ 0	\$ 1,428,729
Contracts Payable	0	277	0	0	0	0	277	0	277
Other Liabilities	0	0	0	0	0	17,040	17,040	0	17,040
Due to Other Funds	10,329	0	4,693	34,629	0	682,230	731,881	0	731,881
Deferred Revenue	0	0	0	0	0	38,486	38,486	0	38,486
Total Liabilities	<u>16,549</u>	<u>100,923</u>	<u>4,693</u>	<u>1,185,367</u>	<u>27,680</u>	<u>881,201</u>	<u>2,216,413</u>	<u>0</u>	<u>2,216,413</u>
Fund Balances:									
Reserved for Encumbrances	91,677	109,251	0	988,414	94,982	259,241	1,543,565	0	1,543,565
Reserved for Inventories	0	0	0	0	0	285,571	285,571	0	285,571
Reserved for Safe Schools	0	0	0	0	0	23,004	23,004	0	23,004
Reserved for Projects	0	0	16,935	0	0	0	16,935	0	16,935
Reserved for Perpetual Care	0	0	0	0	0	0	0	152,691	152,691
Unreserved, Undesignated	(74,908)	353,285	414,477	(585,831)	1,834,939	1,713,034	3,654,996	36,804	3,691,800
Total Fund Balances	<u>16,769</u>	<u>462,536</u>	<u>431,412</u>	<u>402,583</u>	<u>1,929,921</u>	<u>2,280,850</u>	<u>5,524,071</u>	<u>189,495</u>	<u>5,713,566</u>
Total Liabilities and Fund Balances	<u>\$ 33,318</u>	<u>\$ 563,459</u>	<u>\$ 436,105</u>	<u>\$ 1,587,950</u>	<u>\$ 1,957,601</u>	<u>\$ 3,162,051</u>	<u>\$ 7,740,484</u>	<u>\$ 189,495</u>	<u>\$ 7,929,979</u>

See Independent Auditors' 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, 2010

	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	Total Nonmajor Governmental Funds
REVENUES:								
Local Option Sales Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,057,435	\$ 0	\$ 3,057,435	\$ 3,057,435
Federal Government	403,990	126,211	150,767	3,153,761	0	6,839,123	10,673,852	10,673,852
State Government	0	50,605	0	1,510,245	0	793,112	2,353,962	2,353,962
Charges for Services	0	779	0	103,207	123,311	1,458,413	1,685,710	1,685,710
Fines and Forfeitures	0	0	198,845	0	0	0	198,845	198,845
Investment Earnings	0	0	76	101	6,759	2,617	9,553	18,125
Contributions and Donations	0	44,593	0	0	34,250	215,369	294,212	294,212
Total Revenues	403,990	222,188	349,688	4,767,314	3,221,755	9,308,634	18,273,569	18,282,141
EXPENDITURES:								
General & Administrative	0	1,330,943	3,478	0	0	0	1,334,421	1,334,421
School Food Service	0	0	0	0	0	2,936,699	2,936,699	2,936,699
School Federal Projects	0	0	0	0	0	4,263,640	4,263,640	4,263,640
Economic & Physical Development	404,557	0	0	0	0	0	404,557	404,557
Public Safety	0	0	247,867	0	0	0	247,867	247,867
Transportation	0	0	0	5,767,852	0	0	5,767,852	5,767,852
Culture and Recreation	0	0	0	0	203,017	0	203,017	203,017
Education	0	0	0	0	0	1,346,058	1,346,058	1,346,058
Capital Outlay	0	254,835	0	73,574	0	336,045	664,454	664,454
Total Expenditures	404,557	1,585,778	251,345	5,841,426	203,017	8,882,442	17,168,565	17,168,565
Excess (Deficiency) of Revenues Over (Under) Expenditures	(567)	(1,363,590)	98,343	(1,074,112)	3,018,738	426,192	1,105,004	1,113,576
OTHER FINANCING SOURCES (USES):								
Transfers In	0	747,309	0	1,239,022	1,741,470	319,228	4,047,029	4,047,029
Transfers Out	0	(138,859)	0	0	(5,020,659)	(254,176)	(5,413,694)	(5,413,694)
Total Other Financing Sources (Uses)	0	608,450	0	1,239,022	(3,279,189)	65,052	(1,366,665)	(1,366,665)
Net Change in Fund Balances	(567)	(755,140)	98,343	164,910	(260,451)	491,244	(261,661)	(253,089)
Fund Balances, July 1, 2009	17,336	1,217,676	333,069	237,673	2,190,372	1,789,606	5,785,732	5,966,655
Fund Balances, June 30, 2010	\$ 16,769	\$ 462,536	\$ 431,412	\$ 402,583	\$ 1,929,921	\$ 2,280,850	\$ 5,524,071	\$ 5,713,566

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
 June 30, 2010

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Justice Assistance Grant Fund</u>	<u>Total Public Safety Funds</u>
ASSETS:				
Cash	\$ 0	\$ 5,176	\$ 0	\$ 5,176
Equity in Pooled Cash and Investments	83,450	325,851	0	409,301
Due from Other Governments	0	0	4,693	4,693
Restricted Investments	<u>16,935</u>	<u>0</u>	<u>0</u>	<u>16,935</u>
Total Assets	<u>\$ 100,385</u>	<u>\$ 331,027</u>	<u>\$ 4,693</u>	<u>\$ 436,105</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Funds	<u>0</u>	<u>0</u>	<u>4,693</u>	<u>4,693</u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>4,693</u>	<u>4,693</u>
Fund Balances:				
Reserved for:				
Projects	16,935	0	0	16,935
Unreserved, Undesignated	<u>83,450</u>	<u>331,027</u>	<u>0</u>	<u>414,477</u>
Total Fund Balances	<u>100,385</u>	<u>331,027</u>	<u>0</u>	<u>431,412</u>
Total Liabilities and Fund Balances	<u>\$ 100,385</u>	<u>\$ 331,027</u>	<u>\$ 4,693</u>	<u>\$ 436,105</u>

See Independent Auditors' Report.

CITY OF KINGSFORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
For the Fiscal Year Ended June 30, 2010

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 150,767	\$ 150,767
Fines and Forfeitures	0	198,845	0	198,845
Investment Earnings	76	0	0	76
Total Revenues	76	198,845	150,767	349,688
EXPENDITURES:				
General and Administrative	0	3,478	0	3,478
Public Safety	0	97,100	150,767	247,867
Total Expenditures	0	100,578	150,767	251,345
Excess (Deficiency) of Revenues Over (Under) Expenditures	76	98,267	0	98,343
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	76	98,267	0	98,343
Fund Balances, July 1, 2009	100,309	232,760	0	333,069
Fund Balances, June 30, 2010	<u>\$ 100,385</u>	<u>\$ 331,027</u>	<u>\$ 0</u>	<u>\$ 431,412</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
June 30, 2010

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
ASSETS:				
Cash	\$ 100	\$ 0	\$ 0	\$ 100
Equity in Pooled Cash and Investments	0	0	49,530	49,530
Due from Other Governments	271,637	1,044,214	222,469	1,538,320
Total Assets	\$ 271,737	\$ 1,044,214	\$ 271,999	\$ 1,587,950
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 5,503	\$ 981,086	\$ 164,149	\$ 1,150,738
Due to Other Funds	204	34,425	0	34,629
Total Liabilities	5,707	1,015,511	164,149	1,185,367
Fund Balances:				
Reserved for Encumbrances	611,865	356,041	20,508	988,414
Unreserved, Undesignated	(345,835)	(327,338)	87,342	(585,831)
Total Fund Balances	266,030	28,703	107,850	402,583
Total Liabilities and Fund Balances	\$ 271,737	\$ 1,044,214	\$ 271,999	\$ 1,587,950

See Independent Auditors' 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, 2010

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
REVENUES:				
Federal Government	\$ 751,634	\$ 2,402,127	\$ 0	\$ 3,153,761
State Government	292,892	12,903	1,204,450	1,510,245
Charges for Services	103,207	0	0	103,207
Investment Earnings	0	0	101	101
Total Revenues	<u>1,147,733</u>	<u>2,415,030</u>	<u>1,204,551</u>	<u>4,767,314</u>
EXPENDITURES:				
Transportation	1,268,974	2,448,585	2,050,293	5,767,852
Capital Outlay	<u>56,464</u>	<u>3,306</u>	<u>13,804</u>	<u>73,574</u>
Total Expenditures	<u>1,325,438</u>	<u>2,451,891</u>	<u>2,064,097</u>	<u>5,841,426</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(177,705)</u>	<u>(36,861)</u>	<u>(859,546)</u>	<u>(1,074,112)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	327,316	26,401	885,305	1,239,022
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>327,316</u>	<u>26,401</u>	<u>885,305</u>	<u>1,239,022</u>
Net Change in Fund Balances	149,611	(10,460)	25,759	164,910
Fund Balances, July 1, 2009	<u>116,419</u>	<u>39,163</u>	<u>82,091</u>	<u>237,673</u>
Fund Balances, June 30, 2010	<u>\$ 266,030</u>	<u>\$ 28,703</u>	<u>\$ 107,850</u>	<u>\$ 402,583</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
June 30, 2010

	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	\$ 275,188	\$ 301,440	\$ 86,162	\$ 0	\$ 19	\$ 2,141	\$ 6,252	\$ 671,202
Investments	382,336	0	0	18,815	1,146	55,871	55,711	513,879
Due from Other Governments	523,768	0	0	0	0	0	0	523,768
Due from Other Funds	220,371	28,381	0	0	0	0	0	248,752
Total Assets	\$ 1,401,663	\$ 329,821	\$ 86,162	\$ 18,815	\$ 1,165	\$ 58,012	\$ 61,963	\$ 1,957,601
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Accounts Payable	\$ 0	\$ 27,439	\$ 0	\$ 0	\$ 0	\$ 0	\$ 241	\$ 27,680
Due to Other Funds	0	0	0	0	0	0	0	0
Total Liabilities	0	27,439	0	0	0	0	241	27,680
Fund Balances:								
Reserved for Encumbrances	0	91,462	0	0	0	0	3,520	94,982
Unreserved, Undesignated	1,401,663	210,920	86,162	18,815	1,165	58,012	58,202	1,834,939
Total Fund Balances	1,401,663	302,382	86,162	18,815	1,165	58,012	61,722	1,929,921
Total Liabilities and Fund Balances	\$ 1,401,663	\$ 329,821	\$ 86,162	\$ 18,815	\$ 1,165	\$ 58,012	\$ 61,963	\$ 1,957,601

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
For the Fiscal Year Ended June 30, 2010

	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	\$ 3,057,435	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,057,435
Charges for Services	0	0	0	0	0	0	123,311	123,311
Investment Earnings	6,186	0	0	67	4	375	127	6,759
Contributions and Donations	0	0	0	0	0	21,750	12,500	34,250
Total Revenues	3,063,621	0	0	67	4	22,125	135,938	3,221,755
EXPENDITURES:								
Culture and Recreation	0	59,776	0	0	0	33,254	109,987	203,017
Total Expenditures	0	59,776	0	0	0	33,254	109,987	203,017
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,063,621	(59,776)	0	67	4	(11,129)	25,951	3,018,738
OTHER FINANCING SOURCES (USES):								
Transfers In	0	325,192	1,416,278	0	0	0	0	1,741,470
Transfers Out	(3,301,102)	(311,387)	(1,371,170)	0	0	(37,000)	0	(5,020,659)
Total Other Financing Sources (Uses)	(3,301,102)	13,805	45,108	0	0	(37,000)	0	(3,279,189)
Net Change in Fund Balances	(237,481)	(45,971)	45,108	67	4	(48,129)	25,951	(260,451)
Fund Balances, July 1, 2009	1,639,144	348,353	41,054	18,748	1,161	106,141	35,771	2,190,372
Fund Balances, June 30, 2010	\$ 1,401,663	\$ 302,382	\$ 86,162	\$ 18,815	\$ 1,165	\$ 58,012	\$ 61,722	\$ 1,929,921

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
June 30, 2010

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
ASSETS:					
Cash	\$ 1,295,287	\$ 0	\$ 0	\$ 0	\$ 1,295,287
Equity in Pooled Cash and Investments	386,782	0	0	0	386,782
Long Term Certificates of Deposit	217,698	0	0	0	217,698
Investments	0	0	0	65,482	65,482
Due from Other Governments	40,812	270,687	599,732	0	911,231
Inventories	285,571	0	0	0	285,571
Total Assets	\$ 2,226,150	\$ 270,687	\$ 599,732	\$ 65,482	\$ 3,162,051
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 373	\$ 45,996	\$ 97,076	\$ 0	\$ 143,445
Other Liabilities	0	8,712	8,328	0	17,040
Due to Other Funds	0	187,970	494,260	0	682,230
Deferred Revenue	33,413	5,005	68	0	38,486
Total Liabilities	33,786	247,683	599,732	0	881,201
Fund Balances:					
Reserved for Encumbrances	75,102	23,957	160,182	0	259,241
Reserved for Inventories	285,571	0	0	0	285,571
Reserved for Safe Schools	0	23,004	0	0	23,004
Unreserved, Undesignated	1,831,691	(23,957)	(160,182)	65,482	1,713,034
Total Fund Balances	2,192,364	23,004	0	65,482	2,280,850
Total Liabilities and Fund Balances	\$ 2,226,150	\$ 270,687	\$ 599,732	\$ 65,482	\$ 3,162,051

See Independent Auditors' 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, 2010

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
REVENUES:					
Federal Government	\$ 1,709,303	\$ 345,895	\$ 4,783,925	\$ 0	\$ 6,839,123
State Government	26,741	766,371	0	0	793,112
Charges for Services	1,450,909	7,504	0	0	1,458,413
Investment Earnings	2,385	0	0	232	2,617
Contributions and Donations	215,369	0	0	0	215,369
Total Revenues	3,404,707	1,119,770	4,783,925	232	9,308,634
EXPENDITURES:					
School Food Service	2,936,699	0	0	0	2,936,699
School Federal Projects	0	0	4,263,640	0	4,263,640
Education	0	1,346,058	0	0	1,346,058
Capital Outlay	0	34,824	301,221	0	336,045
Total Expenditures	2,936,699	1,380,882	4,564,861	0	8,882,442
Excess (Deficiency) of Revenues Over (Under) Expenditures	468,008	(261,112)	219,064	232	426,192
OTHER FINANCING SOURCES (USES):					
Transfers In	0	319,172	56	0	319,228
Transfers Out	0	(35,056)	(219,120)	0	(254,176)
Total Other Financing Sources (Uses)	0	284,116	(219,064)	0	65,052
Net Change in Fund Balances	468,008	23,004	0	232	491,244
Fund Balances, July 1, 2009	1,724,356	0	0	65,250	1,789,606
Fund Balances, June 30, 2010	<u>\$ 2,192,364</u>	<u>\$ 23,004</u>	<u>\$ 0</u>	<u>\$ 65,482</u>	<u>\$ 2,280,850</u>

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Fines and Forfeitures	\$ 8,000	\$ 8,000	\$ 0	\$ (8,000)
Investment Earnings	0	0	76	76
Total Revenues	8,000	8,000	76	(7,924)
EXPENDITURES:				
Public Safety	8,000	8,000	0	8,000
Total Expenditures	8,000	8,000	0	8,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	76	76
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	76	76
Fund Balances, July 1, 2009	0	0	100,309	100,309
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 100,385	\$ 100,385

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Fines and Forfeitures	\$ 95,000	\$ 95,000	\$ 198,845	\$ 103,845
Total Revenues	95,000	95,000	198,845	103,845
EXPENDITURES:				
General and Administrative	3,500	3,500	3,478	22
Public Safety	90,100	119,422	97,100	22,322
Capital Outlay	35,000	5,678	0	5,678
Total Expenditures	128,600	128,600	100,578	28,022
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,600)	(33,600)	98,267	131,867
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	(33,600)	(33,600)	98,267	131,867
Fund Balances, July 1, 2009	33,600	33,600	232,760	199,160
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 331,027	\$ 331,027

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
State Government	\$ 1,200,000	\$ 1,200,000	\$ 1,204,450	\$ 4,450
Investment Earnings	0	0	101	101
Total Revenues	1,200,000	1,200,000	1,204,551	4,551
EXPENDITURES:				
Highways and Streets	2,088,700	2,152,441	2,050,293	102,148
Capital Outlay	19,000	13,804	13,804	0
Total Expenditures	2,107,700	2,166,245	2,064,097	102,148
Excess (Deficiency) of Revenues Over (Under) Expenditures	(907,700)	(966,245)	(859,546)	106,699
OTHER FINANCING SOURCES (USES):				
Transfers In	827,700	885,400	885,305	(95)
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	827,700	885,400	885,305	(95)
Net Change in Fund Balances	(80,000)	(80,845)	25,759	106,604
Fund Balances, July 1, 2009	80,000	80,845	82,091	1,246
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 107,850	\$ 107,850

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Local Option Sales Tax	\$ 2,870,900	\$ 2,870,900	\$ 3,057,435	\$ 186,535
Investment Earnings	22,000	22,000	6,186	(15,814)
Total Revenues	2,892,900	2,892,900	3,063,621	170,721
EXPENDITURES:				
Culture and Recreation	0	0	0	0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,892,900	2,892,900	3,063,621	170,721
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(2,892,900)	(3,392,900)	(3,301,102)	91,798
Total Other Financing Sources (Uses)	(2,892,900)	(3,392,900)	(3,301,102)	91,798
Net Change in Fund Balances	0	(500,000)	(237,481)	262,519
Fund Balances, July 1, 2009	0	500,000	1,639,144	1,139,144
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 1,401,663	\$ 1,401,663

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Other	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	0	0	0	0
EXPENDITURES:				
Culture and Recreation	325,000	315,339	59,776	255,563
Capital Outlay	15,000	15,000	0	15,000
Total Expenditures	340,000	330,339	59,776	270,563
Excess (Deficiency) of Revenues Over (Under) Expenditures	(340,000)	(330,339)	(59,776)	270,563
OTHER FINANCING SOURCES (USES):				
Transfers In	330,000	330,000	325,192	(4,808)
Transfers Out	(295,000)	(334,930)	(311,387)	23,543
Total Other Financing Sources (Uses)	35,000	(4,930)	13,805	18,735
Net Change in Fund Balances	(305,000)	(335,269)	(45,971)	289,298
Fund Balances, July 1, 2009	305,000	335,269	348,353	13,084
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 302,382	\$ 302,382

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Other	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	0	0	0	0
EXPENDITURES:				
Culture and Recreation	0	0	0	0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	0	0
OTHER FINANCING SOURCES (USES):				
Transfers In	1,422,400	1,422,400	1,416,278	(6,122)
Transfers Out	(1,431,500)	(1,431,500)	(1,371,170)	60,330
Total Other Financing Sources (Uses)	(9,100)	(9,100)	45,108	54,208
Net Change in Fund Balances	(9,100)	(9,100)	45,108	54,208
Fund Balances, July 1, 2009	9,100	9,100	41,054	31,954
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 86,162	\$ 86,162

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 67	\$ (33)
Total Revenues	100	100	67	(33)
EXPENDITURES:				
Maintenance	100	100	0	100
Total Expenditures	100	100	0	100
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	67	67
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	67	67
Fund Balances, July 1, 2009	0	0	18,748	18,748
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 18,815	\$ 18,815

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 500	\$ 500	\$ 4	\$ (496)
Contributions and Donations	0	0	0	0
Total Revenues	500	500	4	(496)
EXPENDITURES:				
Culture and Recreation	500	500	0	500
Total Expenditures	500	500	0	500
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	4	4
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	4	4
Fund Balances, July 1, 2009	0	0	1,161	1,161
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 1,165	\$ 1,165

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 4,000	\$ 4,000	\$ 375	\$ (3,625)
Contributions and Donations	20,000	20,000	21,750	1,750
Total Revenues	24,000	24,000	22,125	(1,875)
EXPENDITURES:				
Culture and Recreation	60,000	60,000	33,254	26,746
Total Expenditures	60,000	60,000	33,254	26,746
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,000)	(36,000)	(11,129)	24,871
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	(37,000)	(37,000)	0
Total Other Financing Sources (Uses)	0	(37,000)	(37,000)	0
Net Change in Fund Balances	(36,000)	(73,000)	(48,129)	24,871
Fund Balances, July 1, 2009	36,000	73,000	106,141	33,141
Fund Balances, June 30, 2010	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,012</u>	<u>\$ 58,012</u>

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Charges for Services	\$ 144,800	\$ 144,800	\$ 123,311	\$ (21,489)
Investment Earnings	500	500	127	(373)
Contributions and Donations	8,500	8,500	12,500	4,000
Total Revenues	153,800	153,800	135,938	(17,862)
EXPENDITURES:				
Culture and Recreation	155,100	155,100	109,987	45,113
Total Expenditures	155,100	155,100	109,987	45,113
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,300)	(1,300)	25,951	27,251
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	(1,300)	(1,300)	25,951	27,251
Fund Balances, July 1, 2009	1,300	1,300	35,771	34,471
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 61,722	\$ 61,722

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 1,312,650	\$ 1,322,968	\$ 1,709,303	\$ 386,335
State Government	28,350	28,350	26,741	(1,609)
Charges for Services	1,439,150	1,439,150	1,450,909	11,759
Investment Earnings	10,000	10,000	2,385	(7,615)
Contributions and Donations	171,700	171,700	215,369	43,669
Total Revenues	2,961,850	2,972,168	3,404,707	432,539
EXPENDITURES:				
School Food Service	2,961,850	3,072,168	2,936,699	135,469
Total Expenditures	2,961,850	3,072,168	2,936,699	135,469
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(100,000)	468,008	568,008
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	(100,000)	468,008	568,008
Fund Balances, July 1, 2009	0	100,000	1,724,356	1,624,356
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 2,192,364	\$ 2,192,364

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 500	\$ 500	\$ 232	\$ (268)
Total Revenues	500	500	232	(268)
EXPENDITURES:				
Capital Outlay	500	500	0	500
Total Expenditures	500	500	0	500
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	232	232
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	232	232
Fund Balances, July 1, 2009	0	0	65,250	65,250
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 65,482	\$ 65,482

See Independent Auditors' 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, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 6,000	\$ 6,000	\$ 8,572	\$ 2,572
Total Revenues	6,000	6,000	8,572	2,572
EXPENDITURES:				
Culture and Recreation	6,000	6,000	0	6,000
Total Expenditures	6,000	6,000	0	6,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	8,572	8,572
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	8,572	8,572
Fund Balances, July 1, 2009	0	0	180,923	180,923
Fund Balances, June 30, 2010	\$ 0	\$ 0	\$ 189,495	\$ 189,495

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2010

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
ASSETS:					
Current Assets:					
Equity in Pooled Cash and Investments	\$ 1,188,568	\$ 2,673,554	\$ 3,346,426	\$ 347,117	\$ 7,555,665
Accounts Receivable	1,238	132	803	2,919	5,092
Accrued Interest Receivable	125,674	34	0	0	125,708
Due from Other Funds	943,836	0	0	0	943,836
Inventories	366,506	0	0	0	366,506
Prepays	0	155,488	0	0	155,488
Total Current Assets	2,625,822	2,829,208	3,347,229	350,036	9,152,295
Capital Assets:					
Land	14,695	0	0	0	14,695
Machinery and Equipment	23,032,128	0	0	0	23,032,128
Less: Accumulated Depreciation	(15,940,269)	0	0	0	(15,940,269)
Net Capital Assets	7,106,554	0	0	0	7,106,554
Other Assets:					
Deposits	0	30,000	0	0	30,000
Total Other Assets	0	30,000	0	0	30,000
Restricted Assets:					
Long Term Certificates of Deposit	3,800,000	500,000	0	0	4,300,000
Investments	972,791	0	0	0	972,791
Total Restricted Assets	4,772,791	500,000	0	0	5,272,791
Total Assets	14,505,167	3,359,208	3,347,229	350,036	21,561,640
LIABILITIES:					
Current Liabilities:					
Accounts Payable	148,737	65,307	7,663	0	221,707
Benefits Payable	0	298,851	770,000	235,000	1,303,851
Compensated Absences Payable	83,439	10,446	4,630	0	98,515
Total Current Liabilities	232,176	374,604	782,293	235,000	1,624,073
Total Liabilities	232,176	374,604	782,293	235,000	1,624,073
NET ASSETS:					
Invested in Capital Assets	7,106,554	0	0	0	7,106,554
Unrestricted	7,166,437	2,984,604	2,564,936	115,036	12,831,013
Total Net Assets	\$ 14,272,991	\$ 2,984,604	\$ 2,564,936	\$ 115,036	\$ 19,937,567

See Independent Auditors' 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, 2010

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
OPERATING REVENUE:					
Charges for Sales and Services	\$ 5,085,816	\$ 2,145,196	\$ 5,496,308	\$ 885,808	\$ 13,613,128
Miscellaneous	0	991	215,858	157,483	374,332
Total Operating Revenue	5,085,816	2,146,187	5,712,166	1,043,291	13,987,460
OPERATING EXPENSES:					
Personnel Services and Benefits	1,207,257	210,654	57,892	0	1,475,803
Materials and Supplies	2,550,160	2,672	2,367	0	2,555,199
Contractual Services	76,790	50,701	143,275	0	270,766
Insurance	1,730	365,459	286,091	27,969	681,249
Insurance Claims	0	1,713,929	4,673,708	1,493,758	7,881,395
Depreciation	1,568,785	0	0	0	1,568,785
Miscellaneous	89,081	59,940	492,477	24,135	665,633
Total Operating Expenses	5,493,803	2,403,355	5,655,810	1,545,862	15,098,830
Operating Income (Loss)	(407,987)	(257,168)	56,356	(502,571)	(1,111,370)
NONOPERATING REVENUES:					
Gain on Disposal of Fixed Assets	5,927	0	0	0	5,927
Investment Earnings	185,112	34,384	29,509	2,395	251,400
Total Nonoperating Revenues	191,039	34,384	29,509	2,395	257,327
Income (Loss) Before Transfers	(216,948)	(222,784)	85,865	(500,176)	(854,043)
Transfers In	0	0	0	300,000	300,000
Transfers Out	0	0	(300,000)	0	(300,000)
Change in Net Assets	(216,948)	(222,784)	(214,135)	(200,176)	(854,043)
Net Assets, July 1, 2009	14,489,939	3,207,388	2,779,071	315,212	20,791,610
Net Assets, June 30, 2010	\$ 14,272,991	\$ 2,984,604	\$ 2,564,936	\$ 115,036	\$ 19,937,567

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Interfund Services Provided	\$ 5,089,514	\$ 2,146,187	\$ 5,711,785	\$ 1,042,476	\$ 13,989,962
Payments to Suppliers	(3,026,306)	(2,113,087)	(5,543,401)	(1,450,862)	(12,133,656)
Payments to Employees	(1,206,236)	(211,306)	(58,237)	0	(1,475,779)
Net Cash Provided (Used) by Operating Activities	856,972	(178,206)	110,147	(408,386)	380,527
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers (to) from Other Funds	0	0	(300,000)	300,000	0
Advances (to) from Other Funds	226,282	0	0	0	226,282
Net Cash Provided (Used) by Noncapital Financing Activities	226,282	0	(300,000)	300,000	226,282
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	(1,186,640)	0	0	0	(1,186,640)
Proceeds from Sales of Capital Assets	5,927	0	0	0	5,927
Net Cash Used by Capital and Related Financing Activities	(1,180,713)	0	0	0	(1,180,713)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(827,580)	0	0	0	(827,580)
Interest Received	205,098	34,423	29,509	2,395	271,425
Net Cash Provided (Used) by Investing Activities	(622,482)	34,423	29,509	2,395	(556,155)
Net Increase (Decrease) In Cash and Cash Equivalents	(719,941)	(143,783)	(160,344)	(105,991)	(1,130,059)
Cash and Cash Equivalents, July 1, 2009	1,908,509	2,817,337	3,506,770	453,108	8,685,724
Cash and Cash Equivalents, June 30, 2010	<u>\$ 1,188,568</u>	<u>\$ 2,673,554</u>	<u>\$ 3,346,426</u>	<u>\$ 347,117</u>	<u>\$ 7,555,665</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (407,987)	\$ (257,168)	\$ 56,356	\$ (502,571)	\$ (1,111,370)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	1,568,785	0	0	0	1,568,785
(Increase) Decrease in Assets:					
Accounts Receivable	3,698	0	(381)	(815)	2,502
Inventory	220	0	0	0	220
Prepays	0	(9,553)	0	0	(9,553)
Increase (Decrease) in Liabilities:					
Accounts Payable	(308,765)	9,251	517	0	(298,997)
Benefits Payable	0	79,916	54,000	95,000	228,916
Compensated Absences Payable	1,021	(652)	(345)	0	24
Net Cash Provided (Used) by Operating Activities	<u>\$ 856,972</u>	<u>\$ (178,206)</u>	<u>\$ 110,147</u>	<u>\$ (408,386)</u>	<u>\$ 380,527</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:					
Equity in Pooled Cash and Investments	\$ 1,188,568	\$ 2,673,554	\$ 3,346,426	\$ 347,117	\$ 7,555,665
Restricted Assets Cash in Bank	0	0	0	0	0
Cash and Cash Equivalents, June 30, 2010	<u>\$ 1,188,568</u>	<u>\$ 2,673,554</u>	<u>\$ 3,346,426</u>	<u>\$ 347,117</u>	<u>\$ 7,555,665</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

	Industrial Development Board	Emergency Communications District
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 1,281,054	\$ 656,261
Payments to Suppliers	(1,735,087)	(468,814)
Net Cash Provided (Used) by Operating Activities	(454,033)	187,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital Grants	720,000	40,827
Net Cash Provided by Noncapital Financing Activities	720,000	40,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(669,205)	(22,662)
Capital Grants	577,180	10,000
Principal Paid on Capital Debt	(485,082)	0
Interest Paid on Capital Debt	(84,424)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(661,531)	(12,662)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	7,905	44,861
Net Cash Provided by Investing Activities	7,905	44,861
Net Increase (Decrease) in Cash and Cash Equivalents	(387,659)	260,473
Cash and Cash Equivalents, July 1, 2009	1,603,064	1,819,657
Cash and Cash Equivalents, June 30, 2010	<u>\$ 1,215,405</u>	<u>\$ 2,080,130</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (183,196)	\$ (30,170)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,084	105,345
(Increase) Decrease in Assets:		
Accounts Receivable	4,818	1,269
Due from Other Governments	0	40,827
Due from Primary Government	541,291	0
Note Receivable from Other Non-Profit Organization	(98,351)	0
Land Held for Sale or Development	(38,917)	0
Prepaid Items	(3,710)	5,674
Increase (Decrease) in Liabilities:		
Accounts Payable	(738,499)	537
Other Payables	59,447	63,965
Net Cash Provided (Used) by Operating Activities	<u>\$ (454,033)</u>	<u>\$ 187,447</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:		
Cash	\$ 560,350	\$ 2,080,130
Restricted Assets Cash in Bank	655,055	0
Cash and Cash Equivalents, June 30, 2010	<u>\$ 1,215,405</u>	<u>\$ 2,080,130</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Donation of RCAM Building and Equipment to Northeast Tennessee Community College Foundation	<u>\$ 2,730,950</u>	<u>\$ 0</u>
Increase in Investment in Joint Venture	<u>\$ 73,309</u>	<u>\$ 0</u>

See Independent Auditors' Report.



D. SUPPLEMENTAL INFORMATION

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2010 and 2009

	2010	2009
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 19,580,699	\$ 19,564,339
Buildings	117,312,394	116,254,878
Improvements Other Than Buildings	14,982,438	13,926,395
Equipment	10,265,334	12,868,758
Software	304,032	355,647
Infrastructure	268,180,369	266,343,933
Construction in Progress	67,961,891	50,421,336
Total Governmental Funds Fixed Assets	\$ 498,587,157	\$ 479,735,286
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Obligation Bonds	\$ 322,082,499	\$ 322,112,538
Contributions from Municipalities	576,947	576,947
Federal Grants	6,353,779	5,489,315
State Grants	97,844	286,061
County Grants	63,817	63,817
Federal Revenue Sharing	261,130	261,130
General Fund Revenue	11,466,594	11,801,723
Gifts	19,544,575	17,955,026
Annexed Roads	10,146,045	9,543,053
Forfeitures	64,632	65,273
Special Revenue Funds	57,346,464	57,391,011
Operating Revenue	2,619,851	3,656,422
Capital Lease Purchase	0	110,545
Notes Payable	1,089	1,089
Construction in Progress	67,961,891	50,421,336
Total Governmental Funds Capital Assets	\$ 498,587,157	\$ 479,735,286

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.

A prior period adjustment was recorded in fiscal year 2010 that increased governmental capital assets by \$5,597,199.

This is a net effect of adding annexed roads of \$9,543,053 and reducing the library collection by (\$3,945,854).

The 2009 information presented above includes the prior period adjustment.

See Note 5. Section I. for additional detail.

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2010

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
General Government:								
General Government	\$ 9,097,095	\$ 1,768,036	\$ 1,315,926	\$ 116,345	\$ 26,173	\$ 0	\$ 19,495,157	\$ 31,818,732
City Manager	0	0	20,889	0	0	0	0	20,889
Finance	0	0	0	11,551	44,200	0	149,428	205,179
Information Services	0	0	0	315,986	0	0	0	315,986
Geographic Information	0	0	0	106,412	9,000	0	0	115,412
Total General Government	9,097,095	1,768,036	1,336,815	550,294	79,373	0	19,644,585	32,476,198
Economic and Physical Development:								
Development Services	0	650,519	45,984	34,575	0	0	0	731,078
Transportation	0	975,014	104,076	1,314,270	69,601	0	0	2,462,961
Engineering	0	0	0	64,361	0	0	0	64,361
Total Economic and Physical Development	0	1,625,533	150,060	1,413,206	69,601	0	0	3,258,400
Public Safety:								
Police	90,587	4,650,342	69,147	807,130	23,053	0	735,251	6,375,510
Fire	455,230	2,139,315	208,178	711,855	0	0	2,914,055	6,428,633
Communication	0	66,535	0	66,972	0	0	0	133,507
Central Dispatch	0	0	44,000	2,168,168	0	0	0	2,212,168
Total Public Safety	545,817	6,856,192	321,325	3,754,125	23,053	0	3,649,306	15,149,818
Public Works:								
General and Administrative	0	315,240	5,370	33,180	0	344,470	0	698,260
Sanitation	0	0	0	13,742	0	0	0	13,742
Streets	0	0	1,123,214	56,649	0	17,547,327	4,284,552	23,011,742
Maintenance	0	0	0	205,464	0	0	0	205,464
Bridges System	0	0	0	0	0	6,206,316	1,394,569	7,600,885
Highways System	0	0	0	0	0	243,605,639	504,393	244,110,032
Total Public Works	0	315,240	1,128,584	309,035	0	267,703,752	6,183,514	275,640,125

(continued)

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2010

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
Culture and Recreation:								
Senior Citizens	0	3,871,546	0	0	0	0	0	3,871,546
Recreation	4,711,227	7,754,956	3,778,300	593,470	0	0	18,368,702	35,206,655
Bays Mountain	980,962	886,158	255,893	33,890	0	0	828,378	2,985,281
Allandale	306,018	344,930	336,886	192,686	0	0	0	1,180,520
Library	133,000	3,620,618	0	125,153	0	476,617	0	4,355,388
Total Culture and Recreation	6,131,207	16,478,208	4,371,079	945,199	0	476,617	19,197,080	47,599,390
Education	3,806,580	90,269,185	7,674,575	3,293,475	132,005	0	19,287,406	124,463,226
Total Governmental Funds Capital Assets	<u>\$ 19,580,699</u>	<u>\$ 117,312,394</u>	<u>\$ 14,982,438</u>	<u>\$ 10,265,334</u>	<u>\$ 304,032</u>	<u>\$ 268,180,369</u>	<u>\$ 67,961,891</u>	<u>\$ 498,587,157</u>

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, 2010

Function and Activity	Governmental Funds Capital Assets July 1, 2009	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2010
General Government:					
General Government	\$ 28,633,527	\$ 4,273,925	\$ (1,088,720)	\$ 0	\$ 31,818,732
City Manager	20,889	0	0	0	20,889
Finance	91,777	149,428	(36,026)	0	205,179
Information Services	1,562,440	12,371	(1,258,825)	0	315,986
Geographic Information	133,253	0	(17,841)	0	115,412
Total General Government	30,441,886	4,435,724	(2,401,412)	0	32,476,198
Economic and Physical Development:					
Development Services	731,078	0	0	0	731,078
Transportation	2,495,521	309,001	(341,561)	0	2,462,961
Engineering	64,361	0	0	0	64,361
Total Economic and Physical Development	3,290,960	309,001	(341,561)	0	3,258,400
Public Safety:					
Police	5,772,310	845,829	(242,629)	0	6,375,510
Fire	5,025,691	1,402,942	0	0	6,428,633
Communication	133,507	0	0	0	133,507
Central Dispatch	2,246,573	0	(34,405)	0	2,212,168
Total Public Safety	13,178,081	2,248,771	(277,034)	0	15,149,818
Public Works:					
General and Administrative	698,260	0	0	0	698,260
Sanitation	13,742	0	0	0	13,742
Streets	18,662,579	4,349,163	0	0	23,011,742
Maintenance	217,964	0	(12,500)	0	205,464
Bridges System	7,580,260	20,625	0	0	7,600,885
Highways System	243,946,546	163,486	0	0	244,110,032
Total Public Works	271,119,351	4,533,274	(12,500)	0	275,640,125
Culture and Recreation:					
Senior Citizens	3,878,743	0	(7,197)	0	3,871,546
Recreation	26,127,261	9,887,561	(808,167)	0	35,206,655
Bays Mountain	3,059,371	28,025	(102,115)	0	2,985,281
Allandale	1,180,520	0	0	0	1,180,520
Library	4,360,883	0	(5,495)	0	4,355,388
Total Culture and Recreation	38,606,778	9,915,586	(922,974)	0	47,599,390
Education	123,098,230	3,498,450	(2,133,454)	0	124,463,226
Total Governmental Funds Capital Assets	\$ 479,735,286	\$ 24,940,806	\$ (6,088,935)	\$ 0	\$ 498,587,157

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.

A prior period adjustment was recorded in fiscal year 2010 that increased governmental capital assets by \$5,597,199. The 2009 information presented above includes the prior period adjustment. See Note 5 Section I. for additional detail.

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS
For the Fiscal Year Ended June 30, 2010

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds
General and Administrative:						
Personnel Services	\$ 516,155	\$ 203,557	\$ 45,496	\$ 0	\$ 0	\$ 765,208
Contractual Services	169,531	86,275	11,156	31,910	190,547	489,419
Supplies	159,851	2,277	0	90,898	3,854	256,880
Insurance	55,751	59,400	14,300	5,928	4,385	139,764
Subsidies and Contributions	0	0	0	563,174	0	563,174
Base Management Fee	0	0	0	80,857	28,199	109,056
Other	173,900	72,509	55,091	135,009	46,624	483,133
Total General and Administrative	1,075,188	424,018	126,043	907,776	273,609	2,806,634
Operations:						
Water Plant Operations	2,248,915	0	0	0	0	2,248,915
Sewer Plant Operations	0	1,846,718	0	0	0	1,846,718
Water Distribution System Maintenance	2,779,371	0	0	0	0	2,779,371
Sewer Collection System Maintenance	0	1,652,965	0	0	0	1,652,965
Reading, Service and Maintenance of Meters	745,631	0	0	0	0	745,631
Landfill Operations and Services	0	0	661,199	0	0	661,199
Solid Waste Collection Services	0	0	649,261	0	0	649,261
Organic Refuse Services	0	0	1,662,744	0	0	1,662,744
Recycling Services	0	0	418,337	0	0	418,337
Golf Grounds Maintenance	0	0	0	0	319,334	319,334
Golf Pro Shop	0	0	0	0	386,929	386,929
Golf Shop Food and Beverage	0	0	0	0	68,342	68,342
Total Operations	5,773,917	3,499,683	3,391,541	0	774,605	13,439,746
Total Operating Costs	\$ 6,849,105	\$ 3,923,701	\$ 3,517,584	\$ 907,776	\$ 1,048,214	\$ 16,246,380

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2009	Cash Receipts	Expend- itures	Balance June 30, 2010
<u>SCHOOL NUTRITION SERVICES FUND:</u>						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (107,666)	\$ 1,372,071	\$ 1,303,252	\$ (38,847) *
10.553	School Breakfast Program	U.S. Department of Agriculture	(26,002)	410,579	384,577	0
10.582	Fresh Fruit and Vegetable Program	U.S. Department of Agriculture	0	9,191	11,156	(1,965) *
ARRA 10.579	USDA Equipment, ARRA	U.S. Department of Agriculture	0	10,318	10,318	0
Pass-Through Tennessee Department of Agriculture:						
10.569	Commodity Supplemental Feeding	U.S. Department of Agriculture	171,297	151,243	65,905	256,635 ***
Total School Nutrition Services Fund			37,629	1,953,402	1,775,208	215,823
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 09-01	U.S. Department of Education	(227,510)	349,916	122,406	0
84.010	Title I, Project 10-01	U.S. Department of Education	0	1,368,337	1,612,858	(244,521) *
ARRA 84.389	Title I, Project 10-01 ARRA	U.S. Department of Education	0	407,390	442,796	(35,406) *
84.027	IDEA Part B, 09-01	U.S. Department of Education	(159,937)	177,244	17,307	0
84.027	IDEA Part B, 09-21	U.S. Department of Education	0	439,392	439,392	0
84.027	IDEA Part B, 10-01	U.S. Department of Education	0	669,499	791,966	(122,467) *
ARRA 84.391	IDEA Part B, 10-01 ARRA	U.S. Department of Education	0	551,764	637,761	(85,997) *
84.048	Carl Perkins, 2009	U.S. Department of Education	(64,497)	67,335	2,838	0
84.048	Carl Perkins, 2010	U.S. Department of Education	0	60,925	115,200	(54,275) *
84.048	Carl Perkins Reserve, 2010	U.S. Department of Education	0	91,712	91,712	0
84.173	Pre School 09-01	U.S. Department of Education	(11,482)	11,482		0
84.173	Pre School 10-01	U.S. Department of Education	0	32,605	40,362	(7,757) *
ARRA 84.392	Pre School 10-01 ARRA	U.S. Department of Education	0	1,722	2,564	(842) *
84.365	Title III, 2009	U.S. Department of Education	(6,164)	7,285	1,121	0
84.365	Title III, 2009-21	U.S. Department of Education	0	245	245	0
84.367	Title II, 2008, 2008-01, 2008-21	U.S. Department of Education	(597)	597		0
84.367	Title II, 2009, 2009-21	U.S. Department of Education	0	141,183	141,183	0
84.367	Title II, 2009, 2009-01	U.S. Department of Education	(165,394)	231,298	65,904	0
84.367	Title II, 2010, 2010-01	U.S. Department of Education	0	117,247	161,852	(44,605) *
84.318	Title II D, 2008, 2008-01, 2008-21	U.S. Department of Education	(2,701)	2,701		0
84.318	Title II D, 2009, 2009-21	U.S. Department of Education	0	12,755	12,755	0
84.318	Title II D, 2010, 2010-01	U.S. Department of Education	0	16,430	16,430	0
ARRA 84.386	Title II D, 2010, 2010-01 ARRA	U.S. Department of Education	0	26,185	26,185	0
84.186	Title IV, 2009, 2009-01	U.S. Department of Education	(26,622)	26,622		0
84.366	Title IV, 2010, 2010-01	U.S. Department of Education	0	24,490	24,490	0
ARRA 84.387	Title X, 2010-01 ARRA	U.S. Department of Education	0	4,890	8,751	(3,861) *
Pass-Through Cocke County:						
84.365	Title III, 2010-01	U.S. Department of Education	0	7,913	7,845	68 **
Total Public Law 93-380 Fund			(664,904)	4,849,164	4,783,923	(599,663)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2009	Cash Receipts	Expend- itures	Balance June 30, 2010
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
17.279	Green Collar Job Preparation CO-196394-09	U.S. Department of Labor	0	0	44,625	(44,625) *
84.215	Elementary / Secondary School Counseling	U.S. Department of Education	0	133,294	133,294	0
84.287	Community of Learners	U.S. Department of Education	(11,899)	11,899	0	0
Pass-Through Tennessee Department of Labor:						
17.260	Rapid Response Dislocated Worker Z-08-211888-00	U.S. Department of Education	(6,859)	48,962	46,865	(4,762) *
Pass-Through Tennessee Department of Education:						
84.318	Education for Tennessee Grant	U.S. Department of Education	(14,703)	51,087	50,619	(14,235) *
84.186	Youth Violence & Drug Prevention	U.S. Department of Education	(17,965)	54,426	43,000	(6,539) *
84.196	Homeless Assistance Grant	U.S. Department of Education	(19,136)	36,610	27,493	(10,019) *
Total Special School Projects Fund			(70,562)	336,278	345,896	(80,180)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
97.044	2008 Assistance to Fire Fighters Grant / EMW-2008-FO-11093	U.S. Dept. of Homeland Security	8,198	0	8,198	0
ARRA 16.710	COPS Hiring Program 2009RKWX0812 ARRA	U.S. Department of Justice	0	88,775	126,211	(37,436) *
Total Special Revenue General Projects Fund			8,198	88,775	134,409	(37,436)
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
ARRA 14.218	Community Development Block Grants	U.S. Department of HUD	(44,983)	250,346	229,881	(24,518) *
ARRA 14.253	Community Development Block Grant ARRA B-09-MY-47-0004	U.S. Department of HUD	0	88,251	97,051	(8,800) *
Pass-Through Tennessee Department of Health & Human Services:						
14.231	Emergency Shelter Grant Program	U.S. Department of HUD	(25,373)	102,431	77,058	0
Total Community Development Fund			(70,356)	441,028	403,990	(33,318)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X250	U.S. Department of Transportation	(5,840)	38,695	32,855	0
20.507	FTA Capital/Operating/Planning TN-90-X263	U.S. Department of Transportation	(44,181)	87,370	43,189	0
20.507	FTA Capital/Operating/Planning TN-90-X278	U.S. Department of Transportation	(127,634)	432,999	305,365	0
20.507	FTA Capital/Operating/Planning TN-90-X296	U.S. Department of Transportation	0	207,052	337,260	(130,208) *
ARRA 20.507	FTA Capital ARRA Grant TN-96-X008	U.S. Department of Transportation	0	0	32,965	(32,965) *
Total Federal Transit Administration Fund			(177,655)	766,116	751,634	(163,173)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

<u>CFDA Number</u>	<u>Program Name / Grant Number</u>	<u>Grantor Agency</u>	<u>Balance June 30, 2009</u>	<u>Cash Receipts</u>	<u>Expend- itures</u>	<u>Balance June 30, 2010</u>
<u>CAPITAL PROJECTS FUND:</u>						
Direct Programs:						
11.300	Public Works Program					
ARRA 81.128	Leadership in Energy and Environment Design Energy Efficiency and Conservation Block Grant ARRA EE0002433	U.S. Department of Commerce	(1,373,179)	1,665,000	446,685	(154,864) *
		U.S. Department of Energy	0	219,100	65,249	153,851 **
Pass-Through Tennessee Department of Transportation:						
20.219	STP-EN-8200(24)	U.S. Department of Transportation	(66,073)	0	226,072	(292,145) *
20.219	STP-EN-8200(22/29)	U.S. Department of Transportation	(255,864)	233,084	36,082	(58,862) *
Total Capital Projects Fund			(1,695,116)	2,117,184	774,088	(352,020)
<u>GENERAL PURPOSE SCHOOL FUND:</u>						
Pass-Through Tennessee Department of Labor:						
84.002	Adult Basic Education	U.S. Department of Education	(32,654)	174,266	162,263	(20,651) *
Pass-Through Tennessee Department of Education:						
State Fiscal Stabilization Fund:						
ARRA 84.394	SFSF - BEP ARRA	U.S. Department of Education	0	1,166,500	1,166,500	0
ARRA 84.397	SFSF - Safe Schools ARRA	U.S. Department of Education	0	1,987	15,500	(13,513) *
ARRA 84.397	SFSF - Extended Contract ARRA	U.S. Department of Education	0	0	95,956	(95,956) *
ARRA 84.397	SFSF - Internet Connect ARRA	U.S. Department of Education	0	18,361	18,361	0
ARRA 84.397	SFSF - Family Resource ARRA	U.S. Department of Education	0	22,538	33,300	(10,762) *
ARRA 84.397	SFSF - Coordinated School Health ARRA	U.S. Department of Education	0	50,362	98,337	(47,975) *
Total General Purpose School Fund			(32,654)	1,434,014	1,590,217	(188,857)
<u>GENERAL FUND:</u>						
Pass-Through First Tennessee Development District:						
93.044	Title III-B Transportation & III-D Health Promotion	U.S. Dept of Health & Human Services	0	7,834	9,400	(1,566) *
45.024	The Big Read Program	National Endowment for the Arts	0	4,000	5,000	(1,000) *
Total General Fund			0	11,834	14,400	(2,566)
<u>JUSTICE ASSISTANCE GRANT FUND:</u>						
Direct Programs:						
16.579	Justice Assistance Grant / 2006-DJ-BX-0738	U.S. Department of Justice	(5,902)	37,607	35,505	(3,800) *
16.579	Justice Assistance Grant / 2008-DJ-BX-0378	U.S. Department of Justice	0	11,227	11,227	0
16.579	Justice Assistance Grant / 2009-DJ-BX-0800	U.S. Department of Justice	0	22,034	22,034	0
ARRA 16.804	Justice Assistance Grant / 2009-SB-B9-0981 ARRA	U.S. Department of Justice	0	81,108	82,001	(893) *
Total Justice Assistance Grant Fund			(5,902)	151,976	150,767	(4,693)

(continued)

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2009	Cash Receipts	Expend- itures	Balance June 30, 2010
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(221) 2009	Federal Highway Administration	(34,495)	77,346	42,851	0
20.205	FHWA Project No. SPR-PL-1-(210) 2010	Federal Highway Administration	0	62,327	90,398	(28,071) *
20.505	FTA Capital / Operating / Planning Section 5303 09	U.S. Department of Transportation	(5,374)	5,374		0
20.505	FTA Capital / Operating / Planning Section 5303 10	U.S. Department of Transportation	0	6,827	19,198	(12,371) *
ARRA 20.205	ARRA STP M 9108 (31) (32) (33)	U.S. Department of Transportation	(356)	1,256,357	2,203,981	(947,980) *
Pass-Through Virginia Department of Transportation:						
20.205	FHWA Project VA PL Funds 2009	Federal Highway Administration	(4,000)	4,000		0
20.205	FHWA Project VA PL Funds 2010	Federal Highway Administration	0	399	3,999	(3,600) *
20.205	FHWA Project VA SPR Funds 2010	Federal Highway Administration	0	1,207	38,326	(37,119) *
20.505	FTA Capital / Operating / Planning VA 2009	U.S. Department of Transportation	(3,195)	3,195		0
20.505	FTA Capital / Operating / Planning VA 2010	U.S. Department of Transportation	0	0	3,374	(3,374) *
Total Metropolitan Planning Office Fund			(47,420)	1,417,032	2,402,127	(1,032,515)
<u>SEWER FUND:</u>						
Pass-Through Tennessee Dept of Environment & Conservation:						
ARRA 66.458	Clean Water SRF Loan ARRA Funded Loan	U.S. Dept. of Environmental Protection	0	28,214	33,076	(4,862) *
ARRA 66.458	Clean Water SRF ARRA Funded Principal Forgiveness	U.S. Dept. of Environmental Protection	0	112,856	132,305	(19,449) *
Total Sewer Fund			0	141,070	165,381	(24,311)
Total Federal Awards			<u>\$ (2,718,742)</u>	<u>\$ 13,707,873</u>	<u>\$ 13,292,040</u>	<u>\$ (2,302,909)</u>

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 \$44,498; \$16,587; and \$43,754, respectively.

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2010

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2009	Cash Receipts	Expend- itures	Balance June 30, 2010
PRIMARY GOVERNMENT						
<u>GENERAL FUND:</u>						
Z-09-216060-00	Touring Art Program Red Hot and Blue Revue	Tennessee Arts Commission	\$ (4,000)	\$ 4,000	\$ 0	\$ 0
Z-09-216059-00	Touring Art Program Art Nights / City Lights	Tennessee Arts Commission	(2,000)	2,000	0	0
5-J/10	Arts Build Communities	Tennessee Arts Commission	0	0	2,250	(2,250) *
31625-17103	TAC Technical Assistance Grant	Tennessee Arts Commission	0	3,500	3,500	0
31625-18009	TAC Social Media Workshop	Tennessee Arts Commission	0	1,000	1,000	0
Pass-Through First Tennessee Development District:						
KINGS-2010-HOOT-10	State Senior Center Operations Grant	TN Department of Health & Human Services	0	16,666	20,000	(3,334) *
Total General Fund			(6,000)	27,166	26,750	(5,584)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Z-09-215780-00	Kingsport Art and Sculpture Walk	Tennessee Arts Commission	(6,000)	13,280	7,280	0
31625-16985	TAC Touring Grant - Freddy Cole	Tennessee Arts Commission	0	2,800	2,800	0
31625-17110	TAC Touring Grant - Symphony of Mountains	Tennessee Arts Commission	0	1,000	1,000	0
31625-17105	Red Hot and Blue Revue Grant	Tennessee Arts Commission	0	1,500	1,500	0
Z-09-214344-00	KTAG - Kingsport Targeting Aggressive Groups	Governors Highway Safety Office	(10,955)	29,050	18,095	0
32506-08110	TN Agriculture Enhancement Tree Planting Grant	Tennessee Department of Agriculture	0	19,930	19,930	0
Total Special Revenue General Projects Fund			(16,955)	67,560	50,605	0
<u>METROPOLITAN PLANNING ORGANIZATION FUND:</u>						
GG-07-26135-00	TN-80-0002-00 Operating 82-5303-S3-006	Tennessee Department of Transportation	(672)	672		0
GG-07-26135-00	TN-80-0002-01 Operating 82-5303-S3-006	Tennessee Department of Transportation	0	853	2,400	(1,547) *
Total Metropolitan Planning Organization Fund			(672)	1,525	2,400	(1,547)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Z-08-212260	TN-90-XS05 Capital 82LEGS-S3-002	Tennessee Department of Transportation	0	34,813	34,813	0
GG-07-12844	TN-90-X-250 Capital 82-5307-S2-003	Tennessee Department of Transportation	(730)	4,837	4,107	0
GG-08-24064	TN-90-X-263 Capital 82-UROP-S2-004	Tennessee Department of Transportation	(5,523)	10,922	5,399	0
GG-09-26601	TN-90-X-278 Capital 82-5307-S3-005	Tennessee Department of Transportation	(4,634)	21,972	17,338	0
Z-09-213798	TN-90-X-278 Operating 82-UROP-S3-008	Tennessee Department of Transportation	(44,421)	127,752	83,331	0
GG-10-30807	TN-90-X-296 Capital 82-UROP-S3-007	Tennessee Department of Transportation	0	4,824	6,908	(2,084) *
GG-10-30730	TN-90-X-296 Operating 82-UROP-S3-011	Tennessee Department of Transportation	0	84,229	140,996	(56,767) *
Total Federal Transit Administration Fund			(55,308)	289,349	292,892	(58,851)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2010

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2009	Cash Receipts	Expenditures	Balance June 30, 2010
PRIMARY GOVERNMENT						
SPECIAL SCHOOL PROJECTS FUND:						
GG-10-28898	Truancy Intervention Program	Tennessee Department of Children's Services	(21,038)	53,873	42,104	(9,269) *
119-09-2-022	LEAPS Program	Tennessee Department of Education	(86,133)	238,951	265,748	(112,930) *
GP-46590	Safe Schools	Tennessee Department of Education	(2,780)	10,815	8,035	0
MX0-AAX	Pre-Kindergarten- Lottery	Tennessee Department of Education	(41,323)	423,386	450,370	(68,307) *
MTE-AAX	Family Resource	Tennessee Department of Education	(3,074)	3,074	0	0
GZB-AAX	Coordinated School Health	TN Department of Health & Human Services	(29,534)	29,648	114	0
GP-46590	Drop Out Prevention	Tennessee Department of Education	(6,000)	6,000	0	0
Total Special School Projects Fund			(189,882)	765,747	766,371	(190,506)
CAPITAL PROJECTS FUND:						
Z-09-2414344	Governor's Highway Safety Grant - KTAG	Tennessee Department of Transportation	0	11,158	11,158	0
GG-08-22460-00	Mad Branch Improvement	Tennessee Department of Agriculture	0	1,467	1,467	0
GG-09-25533-00	Mad Branch Storm Water Device	Tennessee Department of Agriculture	0	27,500	0	27,500 **
GG-09-26897-00	Phase 3 Enhancements Domtar & Eastman Parks	Tennessee Dept of Environment & Conservation	0	0	283,423	(283,423) *
DG-08-22849-00	Tennessee Agricultural Enhancement Program	Tennessee Department of Agriculture	0	31,996	31,996	0
Total Capital Projects Fund			0	72,121	328,044	(255,923)
SEWER FUND:						
SRF-2007-197	State Revolving Loan Fund	Tennessee Dept of Environment & Conservation	(1,349,997)	7,594,433	6,287,151	(42,715) *
SRF-2007-200	State Revolving Loan Fund	Tennessee Dept of Environment & Conservation	0	0	579,184	(579,184) *
CGA-2009-240 ARRA	State Revolving Loan Fund State Funded	Tennessee Dept of Environment & Conservation	0	141,069	165,380	(24,311) *
Total Sewer Fund			(1,349,997)	7,735,502	7,031,715	(646,210)
Total State Awards for the Primary Government			(1,618,814)	8,958,970	8,498,777	(1,158,621)
COMPONENT UNIT						
INDUSTRIAL DEVELOPMENT BOARD:						
GG-09-26919-00	Regional Center for Advanced Manufacturing	TN Dept of Economic and Community Development	92,025	577,180	669,205	0
GG-10-30537-00	Advanced Manufacturing Partnership	TN Dept of Economic and Community Development	0	720,000	65,000	655,000 **
Total Industrial Development Board			92,025	1,297,180	734,205	655,000
Total State Awards			\$ (1,526,789)	\$ 10,256,150	\$ 9,232,982	\$ (503,621)

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

See Independent Auditors' Report.

STATISTICAL SECTION

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

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Financial Trends

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

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Revenue Capacity

Tables 7 - 11 contain information to help the reader assess the government's most significant local revenue sources, the property tax and local option sales tax.

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Debt Capacity

Tables 12 - 16 present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

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Demographic and Economic Information

Tables 17 - 18 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information

Tables 19 - 28 contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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

Table 1

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 255,888,658	\$ 262,313,208
Restricted	8,981,000	6,876,000	6,694,000	1,081,000	4,099,000	33,768,000	30,399,946	22,286,383	184,626
Unrestricted	37,305,000	39,600,000	38,668,000	50,500,000	38,707,000	9,145,000	2,085,078	(702,400)	6,871,567
Total Governmental Activities Net Assets	<u>\$ 280,830,000</u>	<u>\$ 281,821,000</u>	<u>\$ 281,657,000</u>	<u>\$ 287,706,000</u>	<u>\$ 288,007,000</u>	<u>\$ 287,769,000</u>	<u>\$ 284,191,802</u>	<u>\$ 277,472,641</u>	<u>\$ 269,369,401</u>
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	\$ 149,317,029	\$ 157,978,008
Restricted	1,046,000	1,068,000	562,000	897,000	838,000	952,000	1,119,119	939,246	882,421
Unrestricted	2,627,000	3,939,000	43,000	3,174,000	6,069,000	10,225,000	13,816,505	16,644,944	16,420,757
Total Business-Type Activities Net Assets	<u>\$ 102,619,000</u>	<u>\$ 108,260,000</u>	<u>\$ 114,464,000</u>	<u>\$ 123,548,000</u>	<u>\$ 133,792,000</u>	<u>\$ 145,046,000</u>	<u>\$ 157,339,216</u>	<u>\$ 166,901,219</u>	<u>\$ 175,281,186</u>
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	\$ 405,205,687	\$ 420,291,216
Restricted	10,027,000	7,944,000	7,256,000	1,978,000	4,937,000	34,720,000	31,519,065	23,225,629	1,067,047
Unrestricted	39,932,000	43,539,000	38,711,000	53,674,000	44,776,000	19,370,000	15,901,583	15,942,544	23,292,324
Total Primary Government Net Assets	<u>\$ 383,449,000</u>	<u>\$ 390,081,000</u>	<u>\$ 396,121,000</u>	<u>\$ 411,254,000</u>	<u>\$ 421,799,000</u>	<u>\$ 432,815,000</u>	<u>\$ 441,531,018</u>	<u>\$ 444,373,860</u>	<u>\$ 444,650,587</u>

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	2009	2010
Expenses									
<u>Governmental Activities:</u>									
General Government	\$ 5,530,000	\$ 5,295,000	\$ 6,571,000	\$ 4,687,000	\$ 5,605,000	\$ 10,185,000	\$ 10,448,110	\$ 8,346,300	\$ 11,201,367
Public Safety	12,631,000	13,395,000	13,918,000	14,767,000	16,076,000	16,994,000	19,844,589	19,955,908	19,485,392
Public Works	9,279,000	9,225,000	10,151,000	8,737,000	11,638,000	11,388,000	13,370,957	12,871,747	14,690,010
Highway Transportation Planning	2,034,000	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852
Economic and Physical Development	3,128,000	3,066,000	2,829,000	3,065,000	3,280,000	3,418,000	4,097,855	4,397,024	4,234,673
Culture and Recreation	4,096,000	4,469,000	4,294,000	4,456,000	5,253,000	5,097,000	6,802,922	6,535,076	6,144,900
Education	47,840,000	50,950,000	52,939,000	54,274,000	57,985,000	60,306,000	66,063,108	69,060,256	71,107,497
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	3,276,319	4,069,104
Other	234,000	314,000	475,000	0	0	0	0	0	0
Total Governmental Activities Expenses	87,485,000	91,409,000	96,098,000	94,667,000	104,468,000	111,678,000	126,993,208	127,975,129	136,700,795
<u>Business-Type Activities:</u>									
Water	8,216,000	7,503,000	7,483,000	7,618,000	8,051,000	7,910,000	8,971,314	9,208,308	9,068,323
Sewer	8,015,000	6,824,000	7,631,000	7,545,000	7,700,000	7,582,000	7,941,556	8,527,859	8,082,865
Solid Waste Management	2,794,000	2,915,000	3,078,000	3,304,000	3,168,000	4,432,000	3,798,666	3,643,156	3,614,988
MeadowView Conference Center	2,117,000	1,701,000	2,321,000	1,740,000	1,392,000	1,230,000	1,246,702	1,461,629	1,986,408
Cattails at MeadowView Golf Course	1,351,000	1,246,000	1,255,000	1,323,000	1,355,000	1,432,000	1,447,591	1,361,077	1,586,343
Total Business-Type Activities Expenses	22,493,000	20,189,000	21,768,000	21,530,000	21,666,000	22,586,000	23,405,829	24,202,029	24,338,927
Total Primary Government Expenses	\$ 109,978,000	\$ 111,598,000	\$ 117,866,000	\$ 116,197,000	\$ 126,134,000	\$ 134,264,000	\$ 150,399,037	\$ 152,177,158	\$ 161,039,722
Program Revenues									
<u>Governmental Activities:</u>									
Charges for Services:									
General Government	\$ 1,564,000	\$ 406,000	\$ 322,000	\$ 368,000	\$ 507,000	\$ 821,000	\$ 138,937	\$ 194,323	\$ 687,263
Public Safety	140,000	274,000	216,000	287,000	288,000	314,000	2,478,198	2,384,667	1,789,496
Highway Transportation Planning	51,000	49,000	98,000	95,000	88,000	97,000	97,070	120,520	103,207
Economic and Physical Development	247,000	241,000	321,000	308,000	435,000	519,000	513,595	562,536	1,192,238
Culture and Recreation	563,000	519,000	495,000	571,000	679,000	678,000	748,935	754,137	818,919
Education	2,584,000	2,600,000	2,571,000	2,648,000	2,639,000	2,726,000	2,472,281	2,452,987	2,475,034
Operating Grants and Contributions	22,877,000	24,420,000	25,195,000	27,005,000	26,957,000	29,035,000	31,848,530	32,757,394	34,317,663
Capital Grants and Contributions	821,000	1,629,000	940,000	2,738,000	1,627,000	706,000	6,982,702	4,179,278	7,348,567
Total Governmental Activities Program Revenues	28,847,000	30,138,000	30,158,000	34,020,000	33,220,000	34,896,000	45,280,248	43,405,842	48,732,387
<u>Business-Type Activities:</u>									
Charges for Services:									
Water	10,157,000	10,708,000	11,198,000	11,904,000	12,493,000	13,445,000	13,073,516	12,981,541	12,513,017
Sewer	10,349,000	10,429,000	11,120,000	12,709,000	12,895,000	13,357,000	12,740,996	13,081,940	12,618,400
Solid Waste Management	391,000	383,000	441,000	580,000	489,000	580,000	783,960	679,518	772,999
MeadowView Conference Center	239,000	248,000	248,000	267,000	253,000	287,000	283,188	259,746	251,800
Cattails at MeadowView Golf Course	1,132,000	973,000	958,000	950,000	982,000	1,025,000	1,095,861	1,042,420	981,837
Capital Grants and Contributions	201,000	0	0	0	0	0	2,660,735	2,123,441	1,296,823
Total Business-Type Activities Program Revenues	22,469,000	22,741,000	23,965,000	26,410,000	27,112,000	28,694,000	30,638,256	30,168,606	28,434,876
Total Primary Government Program Revenues	\$ 51,316,000	\$ 52,879,000	\$ 54,123,000	\$ 60,430,000	\$ 60,332,000	\$ 63,590,000	\$ 75,918,504	\$ 73,574,448	\$ 77,167,263

(continued)

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	2009	2010
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)	\$ (84,569,287)	\$ (87,968,408)
Business-Type Activities	(24,000)	2,552,000	2,197,000	4,880,000	5,446,000	6,108,000	7,232,427	5,966,577	4,095,949
Total Primary Government Net (Expense) Revenue	<u>\$ (58,662,000)</u>	<u>\$ (58,719,000)</u>	<u>\$ (63,743,000)</u>	<u>\$ (55,767,000)</u>	<u>\$ (65,802,000)</u>	<u>\$ (70,674,000)</u>	<u>\$ (74,480,533)</u>	<u>\$ (78,602,710)</u>	<u>\$ (83,872,459)</u>
General Revenues and Other Changes in Net Assets									
<u>Governmental Activities:</u>									
Taxes:									
Property Taxes	\$ 35,254,000	\$ 36,399,000	\$ 38,532,000	\$ 39,122,000	\$ 41,609,000	\$ 42,857,000	\$ 43,181,138	\$ 45,003,403	\$ 45,938,645
Sales Taxes	23,874,000	24,133,000	24,394,000	25,174,000	26,154,000	27,570,000	27,531,437	27,003,900	26,304,997
Other Taxes	4,115,000	4,013,000	3,826,000	3,743,000	4,460,000	5,069,000	6,117,575	5,447,237	5,017,241
Grants and Contributions Not Restricted	986,000	565,000	581,000	524,000	589,000	713,000	641,999	970,035	1,040,878
Unrestricted Investment Earnings	1,118,000	673,000	598,000	1,015,000	1,662,000	2,801,000	3,392,236	1,624,800	786,056
Gain (Loss) on Disposal of Capital Assets	20,000	4,000	13,000	30,000	2,000	4,000	269,917	18,322	(869,975)
Miscellaneous	621,000	933,000	1,589,000	944,000	972,000	1,340,000	1,036,779	790,029	742,259
Transfers	(5,067,000)	(2,987)	(3,757,000)	(3,856,000)	(3,899,000)	(3,810,000)	(4,035,319)	(3,007,600)	(3,874,687)
Total Governmental Activities	<u>60,921,000</u>	<u>66,717,013</u>	<u>65,776,000</u>	<u>66,696,000</u>	<u>71,549,000</u>	<u>76,544,000</u>	<u>78,135,762</u>	<u>77,850,126</u>	<u>75,085,414</u>
<u>Business-Type Activities:</u>									
Unrestricted Investment Earnings	442,000	295,000	239,000	351,000	877,000	1,334,000	1,024,862	600,431	409,331
Gain (Loss) on Disposal of Capital Assets	(6,000)	6,000	4,000	(8,000)	0	2,000	50	(12,605)	0
Miscellaneous	0	0	7,000	5,000	22,000	0	0	0	0
Transfers	5,067,000	2,987,000	3,757,000	3,856,000	3,899,000	3,810,000	4,035,319	3,007,600	3,874,687
Total Business-Type Activities	<u>5,503,000</u>	<u>3,288,000</u>	<u>4,007,000</u>	<u>4,204,000</u>	<u>4,798,000</u>	<u>5,146,000</u>	<u>5,060,231</u>	<u>3,595,426</u>	<u>4,284,018</u>
Total Primary Government	<u>\$ 66,424,000</u>	<u>\$ 70,005,013</u>	<u>\$ 69,783,000</u>	<u>\$ 70,900,000</u>	<u>\$ 76,347,000</u>	<u>\$ 81,690,000</u>	<u>\$ 83,195,993</u>	<u>\$ 81,445,552</u>	<u>\$ 79,369,432</u>
Change in Net Assets									
Governmental Activities	\$ 2,283,000	\$ 5,446,013	\$ (164,000)	\$ 6,049,000	\$ 301,000	\$ (238,000)	\$ (3,577,198)	\$ (6,719,161)	\$ (12,882,994)
Business-Type Activities	5,479,000	5,840,000	6,204,000	9,084,000	10,244,000	11,254,000	12,292,658	9,562,003	8,379,967
Total Primary Government	<u>\$ 7,762,000</u>	<u>\$ 11,286,013</u>	<u>\$ 6,040,000</u>	<u>\$ 15,133,000</u>	<u>\$ 10,545,000</u>	<u>\$ 11,016,000</u>	<u>\$ 8,715,460</u>	<u>\$ 2,842,842</u>	<u>\$ (4,503,027)</u>

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.

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	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
2009	45,003,403	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,454,540
2010	45,938,645	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,260,883

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 2,916,000	\$ 2,910,000	\$ 3,378,000	\$ 3,950,000	\$ 3,607,000	\$ 3,232,000	\$ 3,510,000	\$ 3,391,331	\$ 2,384,571	\$ 1,574,013
Unreserved	13,836,000	14,627,000	14,920,000	12,720,000	12,078,000	15,420,000	17,409,000	14,848,415	12,927,260	13,155,138
Total General Fund	<u>\$ 16,752,000</u>	<u>\$ 17,537,000</u>	<u>\$ 18,298,000</u>	<u>\$ 16,670,000</u>	<u>\$ 15,685,000</u>	<u>\$ 18,652,000</u>	<u>\$ 20,919,000</u>	<u>\$ 18,239,746</u>	<u>\$ 15,311,831</u>	<u>\$ 14,729,151</u>
All Other Governmental Funds										
Reserved	\$ 563,000	\$ 753,000	\$ 5,602,000	\$ 4,713,000	\$ 7,797,000	\$ 4,747,000	\$ 5,695,000	\$ 14,961,015	\$ 16,130,214	\$ 9,018,913
Unreserved, reported in:										
Debt Service	0	15,000	0	71,000	33,000	69,000	1,022,000	1,140,765	626,839	411,923
Special Revenue Funds	4,991,000	6,447,000	5,732,000	5,956,000	5,385,000	5,050,000	7,556,000	6,895,192	7,432,715	6,594,744
Capital Project Funds	9,641,000	8,777,000	6,689,000	6,532,000	688,000	3,757,000	33,434,000	30,073,388	22,101,833	38,247,760
Permanent Fund	0	0	0	0	0	0	0	20,293	28,232	36,804
Total all Other Governmental Funds	<u>\$ 15,195,000</u>	<u>\$ 15,992,000</u>	<u>\$ 18,023,000</u>	<u>\$ 17,272,000</u>	<u>\$ 13,903,000</u>	<u>\$ 13,623,000</u>	<u>\$ 47,707,000</u>	<u>\$ 53,090,653</u>	<u>\$ 46,319,833</u>	<u>\$ 54,310,144</u>

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues:										
Taxes	\$ 42,567,000	\$ 43,644,000	\$ 45,098,000	\$ 46,524,000	\$ 48,415,000	\$ 51,532,000	\$ 53,341,000	\$ 57,472,994	\$ 58,697,849	\$ 59,644,769
Licenses and Permits	207,000	401,000	264,000	324,000	350,000	350,000	526,000	778,788	544,797	354,400
Intergovernmental	43,518,000	44,025,000	46,018,000	46,457,000	49,907,000	50,004,000	52,686,000	52,217,860	54,633,138	57,016,177
Charges for Services	4,800,000	4,643,000	3,503,000	3,561,000	3,669,000	3,900,000	4,162,000	3,940,109	4,056,619	4,903,995
Fines and Forfeitures	542,000	506,000	421,000	297,000	443,000	560,000	787,000	2,233,346	2,083,918	1,404,126
Contributions	26,000	73,000	319,000	272,000	579,000	459,000	316,000	385,508	343,405	417,259
Investment Earnings	1,997,000	761,000	488,000	395,000	731,000	1,188,000	2,123,000	2,754,996	1,209,675	534,657
Miscellaneous	368,000	274,000	276,000	327,000	332,000	360,000	555,000	714,899	438,420	620,950
Total Revenues	94,025,000	94,327,000	96,387,000	98,157,000	104,426,000	108,353,000	114,496,000	120,498,500	122,007,821	124,896,333
Expenditures:										
General Government	5,200,000	5,326,000	5,526,000	5,657,000	5,898,000	6,240,000	7,698,000	8,228,820	8,287,499	9,493,673
Public Safety	11,331,000	12,196,000	12,634,000	13,085,000	13,890,000	14,556,000	15,568,000	16,983,599	17,862,379	18,183,202
Public Works	6,841,000	4,448,000	4,299,000	5,207,000	4,814,000	5,018,000	5,178,000	5,639,582	6,162,895	6,297,624
Transportation	2,106,000	2,034,000	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852
Development	3,567,000	2,977,000	2,816,000	2,556,000	2,948,000	3,068,000	3,219,000	3,681,462	3,884,126	3,823,882
Recreation	3,197,000	3,190,000	3,274,000	3,022,000	3,726,000	4,011,000	3,933,000	4,594,675	4,884,551	4,883,835
Education	42,788,000	44,589,000	46,818,000	48,581,000	51,437,000	53,181,000	55,800,000	57,969,972	60,328,330	62,216,835
Miscellaneous	249,000	220,000	309,000	348,000	516,000	722,000	878,000	1,019,288	860,350	1,164,299
Capital Outlay	14,951,000	7,368,000	7,502,000	10,048,000	11,933,000	10,562,000	4,954,000	21,263,050	30,907,899	23,141,716
Debt Service:										
Principal	6,081,000	6,628,000	19,770,000	11,060,000	7,847,000	8,525,000	8,488,000	12,191,783	7,750,015	4,286,390
Interest	2,898,000	2,713,000	2,299,000	2,170,000	1,982,000	1,735,000	1,470,000	2,449,755	2,761,593	3,612,987
Bond Issuance Costs	18,000	34,000	123,000	211,000	43,000	100,000	300,000	389,556	405,059	459,043
Arbitrage Rebate	0	0	0	0	0	0	0	0	0	0
Other Charges	8,000	14,000	5,000	30,000	15,000	20,000	11,000	7,590	19,516	9,744
Total Expenditures	99,235,000	91,737,000	107,741,000	104,668,000	107,728,000	110,632,000	110,317,000	137,540,308	147,646,711	143,341,082
Excess of revenues over (under) expenditures	(5,210,000)	2,590,000	(11,354,000)	(6,511,000)	(3,302,000)	(2,279,000)	4,179,000	(17,041,808)	(25,638,890)	(18,444,749)

(Continued)

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Other Financing Sources (Uses):										
Transfers In	\$ 25,305,000	\$ 24,826,000	\$ 29,658,000	\$ 28,792,000	\$ 30,494,000	\$ 32,824,000	\$ 36,504,000	\$ 36,400,996	\$ 33,134,077	\$ 28,905,392
Transfers Out	(28,149,000)	(29,997,000)	(32,681,000)	(32,606,000)	(34,396,000)	(36,723,000)	(40,314,000)	(40,680,728)	(36,665,512)	(32,780,079)
Issuance of Debt	1,909,000	2,620,000	17,155,000	13,725,000	2,850,000	6,771,000	35,441,000	23,120,000	19,260,000	29,207,043
Premiums on Debt Issued	0	0	0	561,000	0	0	0	112,398	211,590	520,024
Sale of Building	0	0	0	0	0	0	0	800,000	0	0
Payments to Refunded Bond Escrow Agent	0	0	0	(6,340,000)	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(935,000)	(2,551,000)	14,132,000	4,132,000	(1,052,000)	2,872,000	31,631,000	19,752,666	15,940,155	25,852,380
Net Change in Fund Balances	<u>\$ (6,145,000)</u>	<u>\$ 39,000</u>	<u>\$ 2,778,000</u>	<u>\$ (2,379,000)</u>	<u>\$ (4,354,000)</u>	<u>\$ 593,000</u>	<u>\$ 35,810,000</u>	<u>\$ 2,710,858</u>	<u>\$ (9,698,735)</u>	<u>\$ 7,407,631</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>10.7%</u>	<u>11.1%</u>	<u>22.0%</u>	<u>14.0%</u>	<u>10.3%</u>	<u>10.3%</u>	<u>9.5%</u>	<u>12.6%</u>	<u>9.0%</u>	<u>6.6%</u>

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

Fiscal Year	Property Tax	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
2009	44,749,419	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,200,556
2010	45,745,881	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,068,119

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	Tax Year	Real Property				Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
		Residential and Farm Property	Industrial and Commercial Property	Personal Property	Public Utility				
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%
2009	2008	456,423,060	480,026,995	345,357,678	40,519,972	1,322,327,705	2.30	4,250,624,664	31.11%
2010	2009	542,112,415	601,517,500	408,047,665	47,796,156	1,599,473,736	1.94	5,119,304,395	31.24%

Source: City of Kingsport Finance Department

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

Table 8

**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
2001	\$ 2.3900	\$ 2.6300	\$ 3.0000
2002	2.2200	2.3500	2.4100
2003	2.2900	2.3500	2.4100
2004	2.2900	2.3500	2.4100
2005	2.2900	2.6700	2.5300
2006	2.2600	2.5300	2.6800
2007	2.2600	2.5300	2.3600
2008	2.3000	2.5300	2.6100
2009	2.3000	2.5300	2.6100
2010	1.9400	2.1307	2.7050

Source: City of Kingsport Finance Department

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

Table 9

**CITY OF KINGSPORT, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
For The Fiscal Years Noted**

Taxpayer	2010			2001		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 419,085,596	1	26.2%	\$ 266,148,118	1	28.0%
Domtar, Inc (Weyerhaeuser Co/ Willamette Industries)	31,893,757	2	2.0%	26,987,758	2	2.8%
Wellmont Health System/ Holston Vally Health Care	24,096,551	3	1.5%	4,694,136	9	0.5%
Kingsport Power Company	17,336,451	4	1.1%	10,813,844	5	1.1%
Fort Henry Mall- Baltry, LLC	16,977,680	5	1.1%	10,197,775	6	1.1%
Mountain States Health / HCA	12,165,680	6	0.8%	5,676,240	8	0.6%
Inland Western Kpt East Stone LLC - Clara F Jackson	10,897,760	7	0.7%			
Wal Mart Properties/Real Estate	10,653,897	8	0.7%			
AFG/AGC Industries	9,323,872	9	0.6%	5,948,062	7	0.6%
Eastman Credit Union	8,900,440	10	0.6%			
Sprint/United Inter-Mountain Telephone Southeast				12,813,300	3	1.3%
Quebecor				12,139,443	4	1.3%
Crosscreek				3,128,120	10	0.3%
Totals	<u>\$ 561,331,684</u>		<u>35.3%</u>	<u>\$ 358,546,796</u>		<u>37.6%</u>
Total Taxable Assessed Value:						
FYE 2010 (Tax Year 2009)	\$ 1,599,473,736					
FYE 2001 (Tax Year 2000)	951,076,563					

Source: City of Kingsport Finance Department

Table 10

CITY OF KINGSPORT, 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 Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Uncollected Delinquent Taxes
				Amount	Percentage of Adjusted Levy		Amount	Percentage of Adjusted Levy	
2001	\$ 22,824,429	\$ 6,819	\$ 22,831,248	\$ 22,121,322	96.89%	\$ 653,729	\$ 22,775,051	99.75%	\$ 56,197
2002	23,911,170	(13,092)	23,898,078	23,042,569	96.42%	761,802	23,804,371	99.61%	93,707
2003	24,868,827	63,600	24,932,427	24,104,536	96.68%	777,808	24,882,344	99.80%	50,083
2004	26,332,293	(777)	26,331,516	25,315,529	96.14%	936,653	26,252,182	99.70%	79,334
2005	26,616,925	(17,412)	26,599,513	25,793,768	96.97%	720,626	26,514,394	99.68%	85,119
2006	28,738,644	(3,753)	28,734,891	27,985,510	97.39%	639,172	28,624,682	99.62%	110,209
2007	29,564,326	1,688	29,566,014	28,769,796	97.31%	692,978	29,462,774	99.65%	103,240
2008	29,582,951	174,698	29,757,649	28,616,818	96.17%	846,590	29,463,408	99.01%	294,241
2009	30,553,586	(15,214)	30,538,372	29,616,908	96.98%	521,489	30,138,397	98.69%	399,975
2010	31,362,309	(122,326)	31,239,983	30,151,757	96.52%	0	30,151,757	96.52%	1,088,226

Source: City of Kingsport Finance Department

Table 11

**CITY OF KINGSPORT, TENNESSEE
LOCAL OPTION SALES TAX COLLECTIONS
Last Ten Fiscal Years**

FISCAL YEAR ENDED JUN 30	TOTAL LOCAL OPTION SALES TAX COLLECTIONS	GENERAL FUND	REGIONAL SALES TAX FUND
2001	\$ 15,461,997	\$ 12,701,266	\$ 2,760,731
2002	15,859,370	13,040,584	2,818,786
2003	15,970,648	13,110,702	2,859,946
2004	16,621,795	13,649,100	2,972,695
2005	16,669,868	13,685,614	2,984,254
2006	17,103,371	14,019,410	3,083,961
2007	17,833,634	14,618,999	3,214,635
2008	17,854,873	14,640,220	3,214,653
2009	17,634,903	14,478,441	3,156,462
2010	17,067,113	14,009,678	3,057,435

Source: City of Kingsport Finance Department

Note: The Local Option Sales Tax rate for sales within the corporate limits of the City of Kingsport is 2.50% in the Sullivan County portion of the municipality. One-quarter percent (0.25%) is distributed directly to the Regional Sales Tax Fund and is used to offset the costs related to the City's MeadowView Conference Resort and Convention Center and related facilities, and the Aquatics Center and Water Park.

Table 12

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			
2001	\$ 58,416,000	\$ 911,000	\$ 64,017,000	\$ 330,000	\$ 8,625,000	\$ 132,299,000	11.53%	\$ 2,975
2002	54,766,000	554,000	61,743,000	300,000	11,419,000	128,782,000	11.04%	2,903
2003	48,434,000	4,450,000	61,394,000	270,000	13,046,000	127,594,000	11.37%	2,876
2004	49,288,000	346,000	63,890,000	240,000	7,920,000	121,684,000	11.01%	2,751
2005	44,395,000	241,000	63,045,000	225,000	6,293,000	114,199,000	9.85%	2,591
2006	38,931,000	3,932,000	60,303,000	210,000	5,829,000	109,205,000	9.11%	2,475
2007	63,481,000	6,302,000	53,665,000	195,000	5,423,000	129,066,000	10.23%	2,921
2008	74,292,500	6,419,174	47,477,500	180,000	5,591,065	133,960,239	10.68%	3,015
2009	86,349,375	5,872,283	66,339,999	160,000	15,578,624	174,300,281	12.81%	3,809
2010	111,818,918	5,323,392	72,989,778	140,000	22,190,263	212,462,351	15.09%	4,486

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.

Table 13

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

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Obligation Bonds	Estimated Actual Taxable Value of Property	Per Capita
2001	\$ 58,416,000	\$ 0	\$ 58,416,000	1.84%	\$ 1,314
2002	54,766,000	15,000	54,751,000	1.57%	1,234
2003	48,434,000	0	48,434,000	1.38%	1,092
2004	49,288,000	71,000	49,217,000	1.33%	1,113
2005	44,395,000	33,000	44,362,000	1.19%	1,007
2006	38,931,000	92,000	38,839,000	0.96%	880
2007	63,481,000	422,000	63,059,000	1.50%	1,427
2008	74,292,500	392,347	73,900,153	1.79%	1,663
2009	86,349,375	169,995	86,179,380	2.03%	1,883
2010	111,818,918	137,041	111,681,877	2.18%	2,358

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, 2010

<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	<u>\$ 128,636,532 *</u>	<u>100.00%</u>	<u>\$ 128,636,532</u>
Total Direct Debt	<u>128,636,532</u>	<u>100.00%</u>	<u>128,636,532</u>
Overlapping Debt:			
Sullivan County	63,225,000	43.29%	27,367,669
Hawkins County	<u>84,855,943</u>	<u>6.85%</u>	<u>5,815,564</u>
Subtotal, Overlapping Debt	<u>148,080,943</u>		<u>33,183,233</u>
Total Direct and Overlapping Debt	<u><u>\$ 276,717,475</u></u>		<u><u>\$ 161,819,765</u></u>

* Includes MeadowView Conference Center General Obligation Debt

Sources:

-City of Kingsport Finance Department
 -County Governments

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

Table 15

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt Limit	\$ 190,215,313	\$ 215,352,722	\$ 217,194,786	\$ 229,939,433	\$ 232,288,806	\$ 252,821,477	\$ 262,717,827	\$ 257,199,126	\$ 264,465,541	\$ 319,894,747
Total Net Debt Applicable to Limit	58,416,000	65,906,000	62,796,000	56,978,000	50,275,000	43,335,000	65,910,000	74,655,000	101,870,000	128,636,532
Legal Debt Margin	<u>\$ 131,799,313</u>	<u>\$ 149,446,722</u>	<u>\$ 154,398,786</u>	<u>\$ 172,961,433</u>	<u>\$ 182,013,806</u>	<u>\$ 209,486,477</u>	<u>\$ 196,807,827</u>	<u>\$ 182,544,126</u>	<u>\$ 162,595,541</u>	<u>\$ 191,258,215</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	<u>30.71%</u>	<u>30.60%</u>	<u>28.91%</u>	<u>24.78%</u>	<u>21.64%</u>	<u>17.14%</u>	<u>25.09%</u>	<u>29.03%</u>	<u>38.52%</u>	<u>40.21%</u>

Legal Debt Margin Calculation for Fiscal Year 2010

Total Taxable Assessed Value	<u>\$ 1,599,473,736</u>
Debt Limit (20% of Taxable Assessed Value)	319,894,747
Debt Applicable to Limit:	
General Obligation Debt	111,818,918
Add: Solid Waste General Obligation Debt	621,529
Add: MeadowView Conference Center General Obligation Debt	<u>16,196,085</u>
Total Net Debt Applicable to Limit	<u>128,636,532</u>
Legal Debt Margin	<u>\$ 191,258,215</u>

Limitation on Borrowing Power

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

Bond Rating: "Standard & Poor's" AA-

Source: City of Kingsport Finance Department

Table 16

**CITY OF KINGSPORT, TENNESSEE
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years**

Fiscal Year	Operating Revenue	(1) Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
		Principal		Interest	Total		
Water and Sewer Revenue Bonds:							
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
2009	26,063,481	11,109,643	14,953,838	4,967,220	1,309,336	6,276,556	2.38
2010	25,131,017	10,772,806	14,358,211	5,643,153	1,007,724	6,650,877	2.16

(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 17

**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
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%
2009	45,763	1,360,533,990	29,730	*	*	6,392	9.4%
2010	47,356	1,407,893,880	29,730	*	*	6,439	8.8%

* Information was not available.

Source:

City of Kingsport Planning Department
U.S. Census Bureau

Table 18

**CITY OF KINGSPORT, TENNESSEE
PRINCIPAL EMPLOYERS
For the Fiscal Years Noted**

Employer	2010			2001		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	6,569	1	9.5%	8,500	1	11.9%
Wellmont Health Systems	3,000	2	4.4%	1,922	3	2.7%
Kingsport City Schools	1,041	3	1.5%	962	5	1.3%
Mountain States Health	845	4	1.2%	680	7	1.0%
Holston Medical Group	830	5	1.2%	N/A	-	-
Wal-Mart	806	6	1.2%	N/A	-	-
City of Kingsport	734	7	1.1%	700	6	1.0%
BAE SYSTEMS Ordnance Systems, Inc.	510	8	0.7%	N/A	-	-
AGC Flat Glass	450	9	0.7%	1,299	4	1.8%
Domtar	325	10	0.5%	N/A	-	-
Quebecor World	N/A	-	-	2,000	2	2.8%
Willamette Industries	N/A	-	-	424	8	0.6%
Chiquola Fabrics	N/A	-	-	370	9	0.5%
ICG Holliston	N/A	-	-	300	10	0.4%
	<u>15,110</u>		<u>22.0%</u>	<u>17,157</u>		<u>24.0%</u>
Total Sullivan County Employment:						
	FYE 2010	68,920				
	FYE 2001	71,510				

Source:

-NETWORKS/Sullivan Partnership & Employers

Table 19

CITY OF KINGSFORT, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
For the Fiscal Years Noted

Function	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government	80	81	79	80	81	80	92	96	96
Public Safety	234	233	235	237	237	243	254	257	262
Public Works	103	105	105	109	106	113	119	120	122
Development	49	49	46	47	47	36	25	24	25
Recreation	53	53	54	56	57	57	58	59	58
Education	913	924	945	961	970	978	982	993	1,010
Water	78	78	78	80	80	80	78	78	76
Sewer	46	46	45	40	40	40	40	41	40
Solid Waste	37	36	36	36	35	31	30	30	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>	<u>1,698</u>	<u>1,719</u>

Sources:

- City of Kingsport Finance Department
- Kingsport City School System

Note:

- Information prior to FY2002 was not readily available.

Table 20

CITY OF KINGSPORT, TENNESSEE
OPERATING INDICATORS BY FUNCTION
For the Fiscal Years Noted

Function	Fiscal Year	
	2009	2010
Education:		
Student Transportation:		
Miles	355,694	371,912
Average Daily Ridership	1,754	1,717
Public Safety:		
Police:		
Physical Arrests	3,587	4,584
Parking Citations	2,804	1,814
Traffic Citations	12,030	7,579
Calls for Service	46,249	57,153
Fire:		
Calls for Service	6,515	6,468
Inspections	3,378	3,378
Fire Loss	\$ 1,909,032	\$ 3,390,231
Public Works:		
Potholes Repaired	1,102	2,762
Streets Swept (linear miles)	6,247	6,456
Traffic Signal Maintenance Calls	598	599
Leaves Collected (Tons)	1,907	1,497
Parks and Recreation:		
Civic Auditorium Rentals	881	1,349
Civic Auditorium Attendance	72,773	147,764
Pool Attendance	18,120	22,886
Participation in Athletic Division events	198,544	201,225
Participation in Cultural Arts Division events	13,088	10,057
Participation in Community Services Division events	78,918	141,772
Renaissance Center Rentals	2,135	2,110
Renaissance Center Attendance	222,294	211,738
Allandale Rentals	274	342
Allandale Visitors	22,598	27,435
K - Play Games Played	1,560	1,768
K - Play Attendance	124,728	172,930
Lynn View Rentals	n/a	36
Lynn View Attendance	n/a	18,116
Senior Center:		
Active Members	2,673	2,591
Average Daily Attendance	241	247
Bays Mountain Park:		
Total Programs	2,090	1,771
Total Attendance	192,529	176,813
Library:		
Total Circulation	241,239	244,735
Building Attendance	209,234	213,379
Water:		
Average Daily Consumption in Gallons	15.2 mgd	15.1 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd
Water Taps	256	219
Sewer:		
Average Daily Treatment in Gallons	8.6 mgd	9.3 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	12.4 mgd
Sewer Taps	165	84
Solid Waste:		
Landfill Material Accepted (Tons)	26,958	25,077
Household Refuse Collected (Tons)	15,924	16,437
Recyclables Collected (Tons)	2,728	1,715
Golf Course:		
Rounds of Golf	26,233	24,225

Source: Various City Departments

Table 21

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
For the Fiscal Years Noted

Function	Fiscal Year	
	2009	2010
Education:		
Student Transportation:		
Buses	38	38
Public Safety:		
Police:		
Stations	1	1
Patrol Units	109	109
Motorcycle Units	1	1
Fire:		
Stations	6	7
Fire Trucks/Rescue Units	14	15
Public Works:		
Streets (Miles)	450	453
Street Lights	9,114	9,219
Traffic Signals	101	101
Leisure Services:		
Parks and Recreation:		
Park Sites	18	18
Park Acreage	237	237
Swimming Pools	1	1
Splash Pad	1	1
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
Allandale - Acreage	25	25
Civic Auditorium - Acreage	5	5
Dogwood Park Facility - Acreage	3	3
Lynn View Facility - Acreage	14	14
Renaissance Center - Acreage	5	5
Legion Pool - Acreage	5	5
School System:		
Elementary Schools	7	8
Middle Schools	2	2
High Schools	1	1
Water and Sewer:		
Water Mains (Miles)	826	828
Fire Hydrants	1,754	1,794
Sanitary Sewers (Miles)	518	524
Storm Sewers (Miles)	209	209
Solid Waste:		
Collection Trucks	15	15
Golf Courses	1	1
Cattails Golf Course - Acreage	192	192

Source: Various City Departments

Table 22

CITY OF KINGSPORT, TENNESSEE
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS
June 30, 2010

Water Rates:

Inside City			
First	2,000 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	\$ 15.65	per 1000 gal
Next	9,000 gallons	\$ 6.79	per 1000 gal
Next	10,000 gallons	\$ 6.14	per 1000 gal
Next	70,000 gallons	\$ 5.70	per 1000 gal
Next	100,000 gallons	\$ 4.66	per 1000 gal
Over	190,000 gallons	\$ 4.39	per 1000 gal

Sewer Rates:

Inside City			
Minimum charge	\$ 13.64	2,000 gal	
Additional gallons	\$ 6.82	per 1000 gal	
Outside City			
Minimum charge	\$ 18.94	2,000 gal	
Additional gallons	\$ 9.47	per 1000 gal	

Number of Customers:

	Inside City	Outside City
Water	20,228	13,900
Sewer	18,935	1,747

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER
June 30, 2010
(All amounts in gallons)

Water Treated and Purchased:

Water Pumped (potable)	5,344,785,000	
Water Purchased	<u>2,890,000</u>	
Total Water Treated and Purchased		5,347,675,000

Accounted for Water:

Water Sold	3,129,907,900	
Metered for Consumption	306,618,920	
Fire Department(s) Usage	2,306,103	
Flushing	35,747,549	
Tank Cleaning/Filling	0	
Street Cleaning	2,730,950	
Bulk Sales	0	
Water Bill Adjustments	0	
Total Accounted for Water		<u>3,477,311,422</u>

Unaccounted for Water	<u>1,870,363,578</u>
------------------------------	----------------------

Percent Unaccounted for Water	34.980%
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Other

Line Breaks	263,811,915	
Meter Inaccuracy	65,384,396	
Unauthorized Use / Water Theft	<u>667,686,053</u>	
Total		<u><u>996,882,364</u></u>

The method for determining the Unaccounted for Water percentage as defined by the State of Tennessee Comptroller's Office and reported above, does not allow the inclusion of line breaks, meter inaccuracy, or unauthorized use/water theft. Based upon the City of Kingsport Public Works Department internal statistical monitoring and reporting, the Unaccounted for Water percentage is 16.29% when these factors are considered.

Table 24

**CITY OF KINGSPORT, TENNESSEE
TOP TEN WATER CUSTOMERS
For the Year Ended June 30, 2010**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY10 Water Sales</u>
Eastman Chemical Company	690,229,000	\$ 1,020,553	8.67%
Wellmont Health System	77,754,100	112,983	0.96%
Royal Ordnance of North America, Inc.	52,766,400	76,502	0.65%
Domtar Paper Company, LLC	46,111,500	81,295	0.69%
Kingsport Housing Authority	28,364,600	48,527	0.41%
AGC	25,468,100	48,654	0.41%
Allandale Falls Apt, LLC	17,801,500	25,979	0.22%
Indian Path Hospital	16,227,000	23,728	0.20%
Model City II, L.P.	13,637,900	24,996	0.21%
Warriors Path State Park	13,236,200	61,491	0.52%
	<u>981,596,300</u>	<u>\$ 1,524,708</u>	<u>12.94%</u>

Source: City of Kingsport Finance Department

Table 25

**CITY OF KINGSFORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
For the Year Ended June 30, 2010**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY10 Sewer User Fees</u>
Eastman Chemical Company	189,807,700	\$ 1,295,019	10.77%
Wellmont Health Systems	69,534,100	474,306	3.78%
Kingsport Housing Authority	28,364,600	196,165	1.56%
Allandale Falls Apt, LLC	17,801,500	121,406	0.97%
Domtar Paper Company, LLC	16,437,700	112,182	0.89%
Model City II, L.P.	13,637,900	93,032	0.74%
Warriors Path State Park	12,123,000	114,805	0.91%
Sullivan County Dept. of Education	11,547,900	78,770	0.63%
Cross Creek, LLC	10,743,900	73,273	0.58%
Boys & Girls Club of Kingsport	10,727,400	72,838	0.58%
	<u>380,725,700</u>	<u>\$ 2,631,796</u>	<u>21.41%</u>

Source: City of Kingsport Finance Department

Table 26

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF BONDS PAYABLE - FUTURE REQUIREMENTS
JUNE 30, 2010

REVENUE AND GENERAL OBLIGATION BONDS

Fiscal Year	General Obligation Bonds Public Improvement Industrial Park		City of Kingsport South and East Kingsport and Tri-county Water Bonds		Sewage Disposal Bonds		MeadowView Convention Center Bonds and Cattails Golf Course Bonds		Combined Bonds and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 4,670,000	\$ 4,577,913	\$ 1,992,244	\$ 1,051,140	\$ 3,467,756	\$ 1,249,542	\$ 1,153,500	\$ 701,156	\$ 18,863,251
2012	4,815,000	4,183,560	2,042,244	938,247	3,607,756	1,065,792	705,000	653,912	18,011,511
2013	6,278,079	4,010,334	2,134,260	851,306	3,635,925	917,972	771,737	633,661	19,233,274
2014	6,473,866	3,793,037	2,205,792	762,505	3,778,222	773,521	794,121	612,103	19,193,167
2015	6,155,438	3,555,014	2,049,796	668,509	3,626,875	616,743	815,891	586,433	18,074,699
2016	6,004,905	3,331,429	1,569,567	579,961	2,731,676	462,930	843,852	559,882	16,084,202
2017	6,000,158	3,109,779	1,399,927	518,048	2,019,716	362,218	872,198	532,240	14,814,284
2018	6,225,411	2,895,116	1,194,054	462,391	1,643,989	293,143	761,545	501,862	13,977,511
2019	5,672,519	2,668,804	1,138,289	411,853	1,267,841	233,177	786,352	471,953	12,650,788
2020	5,620,665	2,456,287	1,024,415	363,037	737,029	188,519	817,891	441,049	11,648,892
2021	5,846,705	2,232,495	1,066,306	317,967	757,367	162,705	854,622	408,858	11,647,025
2022	5,791,958	2,005,012	1,001,666	270,744	415,407	135,825	885,968	375,170	10,881,750
2023	6,012,998	1,782,766	1,068,558	225,851	425,744	121,988	922,699	340,195	10,900,799
2024	6,262,717	1,545,430	992,747	177,459	439,528	107,544	960,007	300,474	10,785,906
2025	6,482,718	1,289,803	992,747	132,193	439,528	92,651	1,000,007	259,147	10,688,794
2026	6,743,758	1,024,131	922,834	81,642	449,865	77,468	1,041,738	214,847	10,556,283
2027	7,035,585	744,394	273,062	39,576	462,500	61,559	1,088,854	167,413	9,872,943
2028	4,707,412	446,795	262,648	29,920	393,972	44,889	1,140,960	117,774	7,144,370
2029	3,495,024	240,706	272,602	20,320	408,903	30,486	1,198,470	61,610	5,728,121
2030	2,145,531	87,519	283,323	10,355	424,984	15,537	71,173	2,604	3,041,026
	<u>\$ 112,440,447</u>	<u>\$ 45,980,324</u>	<u>\$ 23,887,081</u>	<u>\$ 7,913,024</u>	<u>\$ 31,134,583</u>	<u>\$ 7,014,209</u>	<u>\$ 17,486,585</u>	<u>\$ 7,942,343</u>	<u>\$ 253,798,596</u>
							Principal	Interest	Total
General Obligation							\$ 112,440,447	\$ 45,980,324	\$ 158,420,771
Revenue and General Obligation							72,508,249	22,869,576	95,377,825
TOTAL							<u>\$ 184,948,696</u>	<u>\$ 68,849,900</u>	<u>\$ 253,798,596</u>

Source: City of Kingsport Finance Department

Table 27

CITY OF KINGSPORT, TENNESSEE
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2010

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
John Campbell	City Manager	\$ 155,368	\$ 5,000
J. Michael Billingsley	City Attorney	114,796	-
James H. Demming	City Recorder/Chief Financial Officer/ City Treasurer	105,560	385,000
Richard Kitzmiller	Director of Schools	143,875	-
Gale Osborne	Chief of Police	90,096	-
Dennis R. Phillips	Mayor	3,000	-
Benjamin K. Mallicote	Vice-Mayor	2,400	-
Larry Munsey	Alderman	2,400	-
C. Ken Marsh, Jr.	Alderman	2,400	-
Valerie Joh	Alderman	2,400	-
Jantry Shupe	Alderman	2,400	-
Tom C. Parham	Alderman	2,400	-

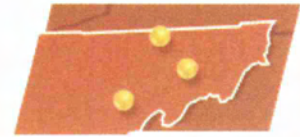
Source: City of Kingsport Finance Department

Table 28

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2010**

<u>Type of Coverage/ Insurance Carrier</u>	<u>Policy Number</u>	<u>Policy Period</u>	<u>Details of Coverage</u>	<u>Claim Limits</u>	<u>Annual Premiums</u>
<u>Comprehensive General Liability</u> TML Risk Management Pool	TML-21300	7/1/09-7/1/11 Annual Renewal 7/1/10-7/1/11	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000,000 3,000,000 Replacement 3,000,000	\$ 99,597
Safety National Casualty Corporation	AGC-2U79-TN (reinsurance agreement)	1/1/10-1/1/11	Worker's Compensation	Statutory	111,886
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	104703171	1/1/10-1/1/11	Employee Blanket Dishonesty (City)	500,000	1,539
Travelers Insurance Co.	105012751	07/01/09- 07/01/10	Employee Blanket Dishonesty (Schools)	510,000	6,484
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty</u> Continental Casualty Company	RMP2071010211	12/31/09-12/31/10	Buildings and Contents	301,116,369	140,502
Travelers Insurance Co.	I-660-710X3600-TIL07	2/13/10-2/13/11	Justice Center Commercial/ Gen Property	7,217,881	10,281
Hartford Insurance Co.	20MSCYQ7488	5/26/10-5/26/11	Grand Piano - Allandale		534
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	1/1/10-1/1/11	Boilers and Machinery	100,000	4,284
<u>Public Officials Bond</u> St. Paul / U.S. Fidelity & Guarantee Co.	400MQ3028	8/1/09-8/1/10	Bond - Treasurer (K. Smith)	200,000	473
Travelers Insurance Company	105376299	11/1/09-11/1/10	Bond - Treasurer (J. Demming) (State of Tennessee Schools)	1,277,000	1,920
Travelers Insurance Company	400NS5672	3/15/10-3/15/11	Bond - Recorder (J. Demming)	385,000	1,536
Travelers Insurance Company	104224291	10/1/09-10/1/10	Bond - City Manager (J. Campbell)	5,000	100
Travelers Insurance Company	104476426	12/31/09-12/31/10	Bond - City Judge (J.R. Boatwright)	1,000	100
Western Surety Company	58368775	4/4/10-4/4/11	Blanket Notary Errors and Omissions	25,000	780
<u>Other</u> Stadium General Liability/ Hunter Wright Property - D.B. High School Montgomery Insurance Company	CBP9566738	3/8/10-3/8/11	General Liability/ Scoreboard/ Public Address system	2,000,000	1,333
Total Premium					<u>\$ 381,349</u>

Source: City of Kingsport



American Institute of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the City), as of and for the fiscal year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2010. Our report includes a reference to 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. Other auditors audited the financial statements of the Emergency Communications District (the ECD), a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

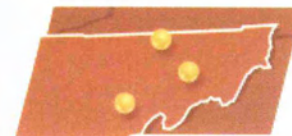
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City in a separate letter dated December 14, 2010.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Mayor and Alderman, others within the City, 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 & Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC

December 14, 2010



Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, the Audit Committee, Board of Mayor and Alderman, others within the City, 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 & Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC

December 14, 2010

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditors' Results

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 20 percent, 24 percent, and 30 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. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the financial statements of the City which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies in internal control over 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 that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Justice Assistance Grants	16.579
Justice Assistance Grants – ARRA	16.804
COPS Hiring Program – ARRA	16.710
Federal Highway Administration Projects	20.205
Surface Transportation Program – ARRA	20.205
Surface Transportation Program	20.219
Urban Mass Transit Authority	20.507
Urban Mass Transit Authority – ARRA	20.507
Title I, Part A	84.010
Title I, Part A – ARRA	84.389
IDEA, Part B	84.027
IDEA, Part B – ARRA	84.391
Pre-School	84.173
Pre-School – ARRA	84.392
State Fiscal Stabilization Funds – Educational - ARRA	84.394
State Fiscal Stabilization Funds – Government Services – ARRA	84.397

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2010**

Section I - Summary of Auditors' Results (Continued)

8. The threshold for distinguishing Types A and B programs was \$398,761.
9. The City was determined to be a low-risk auditee.

Section II - Findings – Financial Statement Audit

Current Year Findings

There were no findings.

Prior Year Findings Implemented

There were no prior year findings.

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

Current Year Findings

There were no findings.

Prior Year Findings Implemented

There were no prior year findings.