NEW ISSUE
BOOK-ENTRY-ONLY

Ratings: Fitch: "AAA"
Moody's: "Aa1"
Standard & Poor's: "AA+"

PRELIMINARY OFFICIAL STATEMENT

$31,650,000*

CITY OF KNOXVILLE, TENNESSEE

General Obligation Bonds, Series 2014

OFFERED FOR SALE NOT SOONER THAN

Wednesday, September 17, 2014 at 10:15 A.M. E.D.T.
Through the Facilities of ***PARITY***®
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

September 5, 2014

*Preliminary, Subject to Change

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 5, 2014

NEW ISSUE
BOOK-ENTRY-ONLY

Ratings: Fitch: "AAA"
Moody's: "Aa1"
Standard & Poor's: "AA+"
(See MISCELLANEOUS-Rating)

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Municipality, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS - Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "LEGAL MATTERS - Tax Matters" herein).

$31,650,000*
CITY OF KNOXVILLE, TENNESSEE
General Obligation Bonds, Series 2014

Dated: Date of Delivery (assume October 10, 2014) Due: May 1 (as indicated below)

The $31,650,000* General Obligation Bonds, Series 2014 (the "Bonds") shall be issued as book-entry-only Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on May 1, 2015 and thereafter on each May 1 and November 1 by check or draft mailed to the owners thereof as shown on the books and records of the Registration Agent. In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the principal corporate trust office of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent").

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.

Bonds maturing May 1, 2022 and thereafter are subject to redemption prior to maturity on or after May 1, 2021.

Maturity (May 1)	Amount*	Interest Rate	Yield	CUSIP No.**	Maturity (May 1)	Amount*	Interest Rate	Yield	CUSIP No.**
2016	$1,150,000				2026	$ 1,700,000			
2017	1,200,000				2027	1,750,000			
2018	1,250,000				2028	1,850,000			
2019	1,300,000				2029	1,900,000			
2020	1,350,000				2030	1,950,000			
2021	1,400,000				2031	2,050,000			
2022	1,500,000				2032	2,100,000			
2023	1,550,000				2033	2,150,000			
2024	1,600,000				2034	2,250,000			
2025	1,650,000								

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire PRELIMINARY OFFICIAL STATEMENT to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued by the City, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from Charles Swanson, Law Director to the City. It is expected that the Bonds, will be available for delivery through the facilities of The Depository Trust Company, New York, New York, on or about October __, 2014.

Cumberland Securities Company, Inc.
Financial Advisor

September __, 2014 *Preliminary, Subject to Change

This Preliminary Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Preliminary Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Preliminary Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Preliminary Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Preliminary Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Bond Resolution.

The Bonds have not been registered under the Securities Act of 1933, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Issuer, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer, the Financial Advisor or the Underwriter. Except where otherwise indicated, all information contained in this Preliminary Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Preliminary Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

** These CUSIP numbers have been assigned by Standard & Poor’s CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The City is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the bonds or as indicated herein.

CITY OF KNOXVILLE, TENNESSEE

MAYOR

Madeline Rogero

CITY COUNCIL

Nick Pavlis, *Vice Mayor*

Daniel Brown	Finbarr Saunders
Mark Campen	Marshall Stair
Duane Grieve	Nick Della Volpe
Brenda Palmer	George C. Wallace

CITY JUDGE

John Rosson

CITY RECORDER

Cindy Mitchell

PRINCIPAL DIRECTORS

Deputy to the Mayor – Chief Operating Officer ..... Christi Branscom
Deputy to the Mayor – Chief Policy Officer ..... William Lyons
Director of Community Relations ..... Thomas Strickland
Department of Law ..... Charles Swanson
Department of Fire ..... Stan Sharp
Department of Police ..... David Raush
Department of Finance ..... Jim York

REGISTRATION, PAYING AGENT

The City of Knoxville
Knoxville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Preliminary Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Preliminary Official Statement*.

Issuer	City of Knoxville, Tennessee (the "City", "Municipality" or "Issuer") See APPENDIX B contained herein.
The Bonds	$31,650,000* General Obligation Bonds, Series 2014 (the "Bonds").
Security	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.
Purpose	The Bonds are being issued for the purpose of financing (i) the acquisition, construction, improvements, renovation and/or equipping of public buildings, parks, greenways, roads, streets, sidewalks, bridges, drainage systems, urban renewal projects, law enforcement equipment and parking facilities in and for the Municipality; (ii) the acquisition of all property, real and personal, appurtenant to the foregoing (collectively, the "Projects"0; (iii) the payment of legal, fiscal, administrative, architectural and engineering costs incident to the Projects; (iv) reimbursement to the Municipality for any funds expended for any of the foregoing prior to the issuance of the bonds referred herein; (v) the payment of capitalized interest during construction of the Projects; and (vi) the payment of the costs related to the issuance sale of the Bonds.
Optional Redemption	The Bonds are subject to optional redemption prior to maturity on or after May 1, 2021, at the redemption price of par plus accrued interest. See section entitled "SECURITIES OFFERED - Optional Redemption".
Tax Matters	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS-Tax Matters" and APPENDIX A (form of opinion) included herein.
Ratings	Fitch: "AAA"; Moody's: "Aa1"; and Standard & Poor's: "AA+". See the section entitled "MISCELLANEOUS - Ratings" for more information.
Registration and Paying Agent	The City of Knoxville, Knoxville, Tennessee (the "Registration Agent").
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee See the section entitled MISCELLANEOUS - Financial Professionals, herein.
Underwriter	_____.
Book Entry Only	The Bonds will be issued under the Book-Entry-System except as otherwise described herein. For additional information, see the section entitled "BASIC DOCUMENTATION – Book-Entry-System".

*Preliminary, Subject to Change

General .....The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See the section entitled SECURITIES OFFERED herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of the Depository Trust Company, New York, New York.

Disclosure .....In accordance with rule 15c2-12 of the Securities and Exchange Commission as amended, the City will provide the Municipal Securities Rulemaking Board ("MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State information depository ("SID"), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled "MISCELLANEOUS-Continuing Disclosure."

Other Information.....The information in the PRELIMINARY OFFICIAL STATEMENT is deemed "final" within the meaning of Rule 15c2-12 of the Securities and Exchange Commission as of the date which appears on the cover hereof except for the omission of certain pricing and other information. For more information concerning the City, or the PRELIMINARY OFFICIAL STATEMENT, contact Mr. Jim York, Director of Finance, City County Building, P.O. Box 1631, Knoxville, Tennessee 37902, (865) 215-2000; or the City's Financial Advisor, Cumberland Securities Company, Inc., S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919, Telephone: (865) 988-2663 Additional information regarding BiDCOMP™/PARITY™ may be obtained from PARITY™, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850-7422.

GENERAL FUND

Summary of Changes In Fund Balances
For the Fiscal Year Ended June 30

	2009	2010	2011	2012	2013
Beginning Fund Balance	$49,555,994	$52,339,224	$60,881,561	$65,263665	$59,724,492
Revenues	162,707,784	167,412,603	169,444,015	171,602,342	185,695,971
Expenditures	133,795,078	137,604,131	142,058,469	159,307,972	152,200,464
Other Financing Sources:					
Transfers In	4,570,630	5,684,113	5,028,938	3,965,145	2,936,680
Transfers Out	(30,700,106)	(27,168,117)	(28,032,380)	(21,798,688)	(26,001,720)
Over (Under) Expenditures	$2,783,230	$8,324,468	$4,382,104	($5,539,173)	$10,430,467
Ending Fund Balance	**$52,339,224**	**$60,881,561**	**$65,263,665**	**$59,724,492**	**$70,154,959**

Source: Comprehensive Annual Financial Reports of the City of Knoxville, Tennessee.

SUMMARY NOTICE OF SALE

$31,650,000*

CITY OF KNOXVILLE, TENNESSEE
General Obligation Bonds, Series 2014

NOTICE IS HEREBY GIVEN that the Mayor of the City of Knoxville, Tennessee (the "City") will receive electronic or written sealed bids until **10:15 a.m. E.D.T.** on **Wednesday, September 17, 2014** for the purchase of all, but not less than all, of the City's $31,650,000* General Obligation Bonds, Series 2014 (the "Bonds"). Electronic bids must be submitted through ***PARITY***® as described in the "Detailed Notice of Sale". In case of written sealed bids, bids will be received at the office of the City's Financial Advisor, Cumberland Securities Company, Inc., S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY***® System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the ***PARITY***® System.

Electronic bids must be submitted through ***PARITY***® via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by ***PARITY***® shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in ***PARITY***® conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Bonds will be issued in book-entry form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume October 10, 2014). The Bonds will mature on May 1 in the years 2016 through 2034, inclusive, with term bonds optional, with interest payable on May 1 and November 1 of each year, commencing May 1, 2015, and will be subject to prior redemption on May 1, 2021. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and ten percent (110%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the City by Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the Mayor of the City on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through www.prospectushub.com or from the City's Financial Advisor, Cumberland Securities Company, Inc., 813 S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919, Telephone: (865) 988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF KNOXVILLE, TENNESSEE
By: Madeline Rogero, Mayor

*Preliminary, subject to change.

DETAILED NOTICE OF SALE

$31,650,000*

CITY OF KNOXVILLE, TENNESSEE
General Obligation Bonds, Series 2014

NOTICE IS HEREBY GIVEN that the Mayor of the City of Knoxville, Tennessee (the "City") will receive electronic or written sealed bids until **10:15 a.m. E.D.T.** on **Wednesday, September 17, 2014** for the purchase of all, but not less than all, of the City's $31,650,000* General Obligation Bonds, Series 2014 (the "Bonds"). Electronic bids must be submitted through ***PARITY***® as described in the "Detailed Notice of Sale". In case of written sealed bids, bids will be received at the office of the City's Financial Advisor, Cumberland Securities Company, Inc., S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY***® System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the ***PARITY***® System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each May 1 and November 1, commencing May 1, 2015, be issued, or reissued upon transfer, in $5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as followings:

Maturity (May1)	Amount*	Maturity (May1)	Amount*
2016	$1,150,000	2026	$ 1,700,000
2017	1,200,000	2027	1,750,000
2018	1,250,000	2028	1,850,000
2019	1,300,000	2029	1,900,000
2020	1,350,000	2030	1,950,000
2021	1,400,000	2031	2,050,000
2022	1,500,000	2032	2,100,000
2023	1,550,000	2033	2,150,000
2024	1,600,000	2034	2,250,000
2025	1,650,000		

Registration and Depository Participation. The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the "Book-Entry-Only System"). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The book-entry system will evidence beneficial ownership interests of the Bonds in the principal amount of $5,000 for the Bonds and any integral multiple of $5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to

*Preliminary, subject to change.

delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The City will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use the Book-entry system is not required.

In the event that the book-entry-only system for the Bonds is discontinued and a successor securities depository is not appointed by the City, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of $5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the City and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

Security Pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.

Purpose. The Bonds are being issued for the purpose of financing (i) the acquisition, construction, improvements, renovation and/or equipping of public buildings, parks, greenways, roads, streets, sidewalks, bridges, drainage systems, urban renewal projects, law enforcement equipment and parking facilities in and for the Municipality; (ii) the acquisition of all property, real and personal, appurtenant to the foregoing (collectively, the "Projects"); (iii) the payment of legal, fiscal, administrative, architectural and engineering costs incident to the Projects; (iv) reimbursement to the Municipality for any funds expended for any of the foregoing prior to the issuance of the bonds referred herein; (v) the payment of capitalized interest during construction of the Projects; and (vi) the payment of the costs related to the issuance sale of the Bonds.

Optional Redemption. The Bonds maturing on and after May 1, 2022 will be subject to redemption prior to maturity at the option of the City on or after May 1, 2021 at the redemption price of par plus accrued interest as provided herein.

If less than all the Bonds shall be called for redemption, the City, in its discretion, shall designate the maturity or maturities which will be redeemed. If less than all of the Bonds within a single maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest

rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the City at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The City will receive electronic or sealed written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and ten percent (110%) of par.

Bidders may designate consecutive serial maturities of the Bonds as one or more Term Bond maturities equal in aggregate principal amount to, and with mandatory redemption requirements corresponding to, such designated serial maturities.

Electronic bids must be submitted through ***PARITY***® via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by ***PARITY***® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in ***PARITY***® conflict with the terms of the Detailed Notice of Sale, this Notice shall prevail. An electronic bid made through the facilities of ***PARITY***® shall be deemed an offer to purchase in response to the Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, sealed written bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by ***PARITY***®. The use of ***PARITY***® facilities are at the sole risk of the prospective bidders.

For further information regarding ***PARITY***®, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the City's Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The City and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written sealed bids should be submitted in sealed envelope marked "Bid for Bonds" at the offices of the City's Financial Advisor, 813 S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The City reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted. Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the City to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the Mayor of the City to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the Mayor shall determine in her sole discretion which of the bidders shall be awarded the Bonds.

After receipt of the bids, the City reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the City's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the Mayor reserves the right, in her sole discretion, to adjust the original par amount of the Bonds by up to $3,000,000. Among other factors the Mayor may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the City. Additionally, the Mayor reserves the right to change the dated date of the Bonds.

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Daylight Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the City's Financial Advisor (wire transfer or certified check) the amount of two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the City's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc., Account No. 183302631, for further credit to Good Faith Trust Account.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the City as liquidated damages.

In the event of the failure of the City to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the City to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);

2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);

3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and

4. Any other material information necessary to complete the *Official Statement* in final form but not known to the City.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the City a certificate acceptable to Bond Counsel stating: (i) the reoffering prices (as shown in the bidder's winning bid); (ii) that the successful bidder will make a bona fide public offering of the Bonds at such reoffering prices; and (iii) that the successful bidder reasonably expects that the Bonds (or at least 10% of each maturity of the Bonds) will be sold to the public (excluding bond houses, brokers and other intermediaries) at those reoffering prices.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the City confirming that nothing has come to the bidder's attention that would lead it to believe that its certification with respect to the reoffering prices of the Bonds given in connection with the award of the Bonds is inaccurate, and addressing such other matters as to the reoffering prices of the Bonds as bond counsel may request.

Legal Opinion. The approving opinion of Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the City. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the Council will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to City by not later than twelve months after each of City's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by City to be material under applicable federal securities laws. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system (the "EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If City is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of material events will be filed by City either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of material events will be summarized in City's *Official Statement* to be prepared and distributed in connection with the sale of the Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days notice will be given to the successful bidder. Delivery will be made in book-entry form through the facilities of The Depository Trust Company, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the City. The City will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The City has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The City will furnish the successful bidder at the expense of the City a reasonable number of copies of *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the City and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, the Detailed Notice of Sale and the Official Bid Form, may be obtained from the City's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, Telephone: 865-988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF KNOXVILLE, TENNESSEE
By: Madeline Rogero
Mayor

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BID FORM – BONDS

The Honorable Madeline Rogero Mayor
City County Building
P.O. Box 1631
Knoxville, Tennessee 37902

September 17, 2014

Dear Mayor Rogero:

For your legally issued, properly executed $31,650,000* General Obligation Bonds, Series 2014 (the "Bonds") of City of Knoxville, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of _____ _____ ($_____).

The Bonds shall be dated the date of issuance (assume October 10, 2014) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on May 1 and bear interest at the following rates:

Maturity (May 1)	Amount*	Rate	Maturity (May 1)	Amount*	Rate
2016	$1,150,000	___	2026	$ 1,700,000	___
2017	1,200,000	___	2027	1,750,000	___
2018	1,250,000	___	2028	1,850,000	___
2019	1,300,000	___	2029	1,900,000	___
2020	1,350,000	___	2030	1,950,000	___
2021	1,400,000	___	2031	2,050,000	___
2022	1,500,000	___	2032	2,100,000	___
2023	1,550,000	___	2033	2,150,000	___
2024	1,600,000	___	2034	2,250,000	___
2025	1,650,000	___			

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

Term Bond 1: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.
Term Bond 2: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.
Term Bond 3: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.
Term Bond 4: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.
Term Bond 5: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.
Term Bond 6: Maturities from May 1, 20_____ through May 1, 20_____ @ _____%.

It is our understanding that the Bonds are offered for sale subject to the final approving opinion of Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Bonds, will be furnished by the City without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for 2% of the Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Bonds on which we have bid.

Accepted for and on behalf of the
City of Knoxville, Tennessee, this
17th day of September, 2014.

_____
Madeline Rogero, Mayor

Respectfully submitted,

_____
_____

Total interest cost from
October 10, 2014 to final maturity $_____
Less: Premium /plus discount, if any $_____
Net Interest Cost ..... $_____
True Interest Rate ..... _____%

The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.

*Preliminary, Subject to Change

$31,650,000*
CITY OF KNOXVILLE, TENNESSEE
General Obligation Bonds, Series 2014

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Knoxville, Tennessee (the "City", "Municipality" or "Issuer") of its $31,650,000* General Obligation Bonds, Series 2014 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions adopted by the City Council (the "Council"). The detailed bond resolution (the "Resolution") was adopted by the Council on October 15, 2013.

The Bonds are being issued for the purpose of financing (i) the acquisition, construction, improvements, renovation and/or equipping of public buildings, parks, greenways, roads, streets, sidewalks, bridges, drainage systems, urban renewal projects, law enforcement equipment and parking facilities in and for the Municipality; (ii) the acquisition of all property, real and personal, appurtenant to the foregoing (collectively, the "Projects"); (iii) the payment of legal, fiscal, administrative, architectural and engineering costs incident to the Projects; (iv) reimbursement to the Municipality for any funds expended for any of the foregoing prior to the issuance of the bonds referred herein; (v) the payment of capitalized interest during construction of the Projects; and (vi) the payment of the costs related to the issuance sale of the Bonds.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume October 10, 2014). Interest on the Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2015. The Bonds are issuable in registered book-entry form only and in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the Mayor, and shall be attested by the City Recorder. No Bond shall be valid until it has been authenticated by the manual signature of an authorized representative of the Registration Agent and the date of authentication noted thereon.

*Preliminary, subject to change.

SECURITY

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the Municipality. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged.

The City through its governing body, shall annually levy and collect a tax on all taxable property within the City, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the City and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected.

The Bonds will not be obligations of the State of Tennessee.

OPTIONAL REDEMPTION

Bonds maturing May 1, 2022, and thereafter, shall be subject to redemption prior to maturity at the option of the City on May 1, 2021 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date.

MANDATORY REDEMPTION

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the City shall redeem Bonds maturing May 1, 20__, and May 1, 20__ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed shall be selected by lot or in such other random manner as the Registration Agent in its discretion may designate.

The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

Maturity	Redemption Date	Principal Amount of Bonds Redeemed

*Final Maturity

At its option, to be exercised on or before the forty-fifth (45) day next preceding any such redemption date, the City may (i) deliver to the Registration Agent for cancellation Bonds of the maturity to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation for any Bonds of the maturity to be redeemed which prior to

said date have been purchased or redeemed (otherwise than through the operation of this section) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation. Each Bond so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the City on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation shall be accordingly reduced. The City shall on or before the forty-fifth (45) day next preceding each payment date furnish the Registration Agent with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) of this subsection are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

NOTICE OF REDEMPTION

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the Municipality not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the Municipality nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the Municipality pursuant to written instructions from an authorized representative of the Municipality (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, City of Knoxville, Tennessee, or its successor will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as described below. However, if the winning bidder certifies to the City that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry System is not required.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. For additional information, see the following section.

BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, or its successor will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry-system maintained by DTC (the "Book Entry Only System"). One fully registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over

100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates rep resenting their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

Payments of Principal and Interest. Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to

Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds f or their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NONE OF THE ISSUER, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

Transfers of Bonds. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation, legal or otherwise, to any party other than to the registered owners of any Bond on the registration books of the Registration Agent.

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified

securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City, the Bond Counsel, the Registration Agent, the Financial Advisor and the Underwriter do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the beneficial owners of the Bonds. None of the City, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds shall be applied by the City as follows:

(a) all accrued interest, if any, shall be deposited to the appropriate fund of the City to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds; and

(b) the remainder of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund known as the 2014 Construction Fund (the "Construction Fund"), or such other designation as shall be determined by the Mayor to be kept separate and apart from all other funds of the Municipality. The Municipality shall disburse funds in the Construction Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. Notwithstanding the foregoing, costs of issuance of the Bonds may be withheld from the good faith deposit or purchase price of the Bonds and paid to the Financial Advisor to be used to pay costs of issuance of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Projects and to reimburse the Municipality for any funds previously expended for costs of the Projects. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Fund shall be invested at the

direction of the Finance Director of the City in such investments as shall be permitted by applicable law to the extent permitted by applicable law.

DISCHARGE AND SATISFACTION OF BONDS

If the City shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

(a) By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers ("an Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving or such notice); and

(c) By delivering such Bonds to the Registration Agent for cancellation by it; and if the City shall also pay or cause to be paid all other sums payable hereunder by the City with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such escrow agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the City to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the City shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations (defined herein) deposited as aforesaid.

Except as otherwise provided in this section, neither Defeasance Obligations nor moneys deposited with the Registration Agent nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date

thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Registration Agent. For the purposes hereof, Defeasance Obligations shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described herein, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

REMEDIES OF BONDHOLDERS

Under Tennessee law, any Bondholder has the right, in addition to all other rights:

(1) By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce its rights against the Municipality, including, but not limited to, the right to require the Municipality to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the Municipality to carry out any other covenants and agreements, or

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such Bondholder.

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LEGAL MATTERS

LITIGATION

The City, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The City, after reviewing the current status of all pending and threatening litigation with its counsel, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits which have been filed and of any actions or claims pending or threatening against them or their officials in such capacity are adequately covered by insurance or sovereign immunity or will not have a material adverse effect upon the financial position or results of operations of the City.

There is no litigation now pending or, to the knowledge of the City, threatened which restrains or enjoins the issuance or delivery of the Bonds, the power of the City to levy and collect taxes to pay the Bonds, or the use of the proceeds of the Bonds or which questions or contests the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, nor the existence of the City, nor the title of the present officials of the City to their respective offices, is being contested or questioned.

TAX MATTERS

Federal

General. Bass, Berry & Sims PLC, Knoxville, TN is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code"),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the City must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,

- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also "Proposed Legislation and Other Matters" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Original Issue Discount. A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Bond. Bond Counsel's opinion is that any original issue discount on these Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup

withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

State Taxes

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

CHANGES IN FEDERAL AND STATE TAX LAW

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to Bonds issued prior to enactment. For example, the Fiscal Year 2014 Federal Budget proposed on April 10, 2013 and the fiscal year 2015 federal budget proposed March 4, 2014, by the Obama Administration both recommend a 28% limitation on itemized deductions and "tax preferences," including "tax-exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Bonds. On February 26, 2014, the House Ways and Means Committee Chairman proposed federal income tax reform which includes a provision that would eliminate bank-qualified bonds for bonds issued after February 26, 2014. The proposal also would add a 10% tax surcharge on certain individuals based on income, including tax-exempt income. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Bass, Berry & Sims PLC, Knoxville, Tennessee, bond counsel. Bond counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, bond counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled "LEGAL MATTERS - Tax Matters." The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled MISCELLANEOUS – "Competitive Public Sale", "Additional Information" and "Continuing Disclosure."

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MISCELLANEOUS

RATINGS

Fitch Ratings ("Fitch"), Moody's Investor Services, Inc. ("Moody's") and Standard & Poor's Corporation ("Standard & Poor's") has given the Bonds the ratings of "AAA", "Aa1" and "AA+", respectively.

There is no assurance that such ratings will continue for any given period of time or that the ratings may not be suspended, lowered or withdrawn entirely by Fitch, Moody's and Standard & Poor's, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the ratings may have an adverse effect on the secondary market price of the Bonds.

Any explanation of the significance of the ratings may be obtained only from Fitch, Moody's and Standard & Poor's.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on September 17, 2014. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated September 5, 2014.

The successful bidder for the Bonds was an account led by _____, _____, _____ (the "Underwriters") who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of $_____ (consisting of the par amount of the Bonds, less an underwriter's discount of $_____ and less an original issue discount of $_____) or ____% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by the City to serve as its Financial Advisor. The Financial Advisor is an independently owned financial advisory firm.

Regions Bank. Regions Bank (the "Bank") is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent or filing agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds.

In instances where the Bank serves the City in other normal commercial banking capacities, it will be compensated separately for such services.

Official Statements. Certain information relative to the location, economy and finances of the Issuer is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the City and may do so again in the future.

Other. Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company's roll as serving as the City's Dissemination Agent. If the City chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

DEBT RECORD

There is no record of default on principal or interest payments of the Issuer. Additionally, no agreements or legal proceedings of the Issuer relating to securities have been declared invalid or unenforceable.

CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2014 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State

Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule"). The City is in compliance with the undertakings required under the Rule.

Five-Year Filing History. In the past five years, the City has filed its Annual Reports at www.emma.msrb.org under the base CUSIP Number 499731 which is the base CUSIP Number for the City; however, the City inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the City was an obligated person. The City has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. The Fiscal Year 2013 Annual Report was filed on time to some of the outstanding bonds but not all of the outstanding bonds. As of August 2014 the Fiscal Year 2013 has been filed on all of the City's outstanding bonds. While it is believed that all appropriate filings were made with respect to the ratings of City's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transactions were made or made in a timely manner as required by SEC Rule 15c2-2. With the exception of the foregoing, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with SEC Rule 15c2-12.

Content of Annual Report. The City's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the City for the fiscal year, prepared in accordance with generally accepted auditing standards, provided; however, if the City's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in APPENDIX B entitled "SUPPLEMENTAL INFORMATION STATEMENT."

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-7;

2. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on pages B-8 and B-9;

3. Information about the Bonded Debt Service Requirements - General Fund as of the end of such fiscal year as shown on page B-10;

4. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-11;

5. Property tax collections of the County for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-13;

6. The estimated assessed value of property in the County for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-14;

7. Property tax rates and the ten largest taxpayers as shown on page B-15;

Any or all of the items listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the City or related public entities, which have been submitted to each of the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is an OFFICIAL STATEMENT, in final form, it will be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The City will file notice regarding material events with the MSRB and the SID, if any, as follows:

(A) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on any credit enhancements reflecting financial difficulties;

(iv) substitution of any credit or liquidity providers, or their failure to perform;

(v) issuance by the Internal Revenue Service of a proposed or final determination of taxability with respect to the Tax-Exempt Bonds; a Notice of Proposed Issues on IRS Form 5701-TEB with respect to the Tax-Exempt Bonds; adverse tax opinions or events affecting the Build America Bond or Recovery Zone Economic Development Bond status of the Taxable Bonds; other material notices or determination with respect to the tax status of the Bonds; or other event affecting the tax status of the Bonds;

(vi) defeasances;

(vii) rating changes;

(viii) tender offers; and

(ix) bankruptcy, insolvency, receivership or similar proceeding by the City;

(B) within ten (10) Business Days following the occurrence of an event, notice of any of the following events with respect to the Bonds, if material:

(i) non-payment related defaults;

(ii) modification to the rights of the beneficial owners of the Bonds;

(iii) bond calls, other than bond calls relating to mandatory sinking fund redemption;

(iv) release, substitution or sale of any property securing repayment of the Bonds;

(v) mergers, consolidations, acquisition and sales of assets (other than in the ordinary course of business); and

(vi) appointment of a successor or additional trustee or a change in the name of the trustee; and

(C) within ten (10) Business Days following the occurrence of a failure, notice of a failure of the City to provide the Annual Report or the required annual financial information on or before the date specified.

Termination of Reporting Obligation. The City's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized Bond Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized Bond Counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate, any Bondholder, or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in this Official Statement in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the City and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The City has deemed this PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12(b) of the Securities and Exchange Commission except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12(b).

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CERTIFICATION OF ISSUER

On behalf of the City, we hereby certify that to the best of our knowledge and belief, the information contained herein as of this date is true and correct in all material respects, and does not contain an untrue statement of material fact or omit to state a material fact required to be stated where necessary to make the statement made, in light of the circumstance under which they were made, not misleading.

/s/_____
Mayor

ATTEST:

/s/_____
City Recorder

APPENDIX A

FORM OF LEGAL OPINIONS

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Knoxville, Tennessee (the "Issuer") of the $_____ General Obligation Bonds, Series 2014 (the "Bonds") dated _____, 2014. We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolution of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with their terms.

3. The Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the Issuer.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, it should be noted that for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolutions authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

CITY OF KNOXVILLE, TENNESSEE

SUPPLEMENTAL INFORMATION STATEMENT

In addition to providing audited financial information as of and for the year ending June 30, 2013, the City of Knoxville, Tennessee intends that this Supplemental Information Statement will be used, together with information specifically provided by the City for that purpose, in connection with the offering and issuance by the City of its securities.

The City has prepared a Comprehensive Annual Financial Report containing additional financial statements and other information for the periods covered by this Supplemental Information Statement.

Please contact Mr. Jim York, Finance Director, City/County Building, 400 Main Avenue, Room 681, Knoxville, Tennessee 37902 (865/215-2013) regarding information in this Supplemental Information Statement, copies of Annual Financial Reports, or placement on the mailing list for the Supplemental Information Statement.

The date of this Supplemental Information Statement is June 30, 2013 unless otherwise noted.

No person, except as noted on the cover page, has been authorized by the City to give any information or to make any representations not contained in this Supplemental Information Statement or any supplement which may be issued hereto, and if given or made, such other information or representations must not be relied upon as having been authorized.

The information, estimates, and expressions of opinion in this Supplemental Information Statement are subject to change without notice. The delivery of this Supplemental Information Statement shall not, under any circumstances, create any implication that there has been no material change in the affairs of the City since the date of this Supplemental Information Statement.

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CITY OF KNOXVILLE, TENNESSEE

INTRODUCTION

The City of Knoxville ("Knoxville" or the "City") was founded in 1791 and incorporated in 1815. Knoxville is the largest incorporated municipality in Knox County (the "County") and is the county seat. Knoxville has a land area of approximately 99.4 square miles within its corporate limits and is located on the Tennessee River near the geographic center of East Tennessee, a highly industrialized section of the State. The City of Knoxville is has a 2010 U. S. Census population of approximately 178,874 persons. The only other municipality within the County, Farragut, has a 2010 U.S. Census population of approximately 20,676 persons.

To the north, Union and Grainger Counties border the County. Jefferson and Sevier Counties make up the County's eastern border, while the County's southern border is provided by Blount and Loudon Counties. To the immediate west of the County lies Anderson County. The City is located approximately 50 miles west of the North Carolina state line. Total land area of the County is approximately 528 square miles. It has a 2010 U.S. Census population of 432,226, which ranks it as the third largest county in Tennessee.

Knoxville serves as the health, educational, trade and governmental center of East Tennessee. The economic health of the City is strong as shown by its relatively low unemployment rate compared to the rest of the state, which is a result of its diverse economy. It has been rated as the eighth fastest growing economy in the Nation and has been cited nationally for its low tax rate. The City is centrally located at the intersection of two and close to the terminus of a third major interstate highway and is within 650 miles of approximately half of the Nation's population. The City is the gateway to the Great Smoky Mountain National Park, the most visited park in the Nation. It is the home of the University of Tennessee with over 27,000 students on the Knoxville campus. The headquarters of the Tennessee Valley Authority is in Knoxville. The Department of Energy facilities in Oak Ridge along with the facilities managed by UT-Battelle and BWXT-Bechtel are the largest employers in the area with over 13,000 employees.

In 2004, Knoxville was designated a Metropolitan Statistical Area (the "MSA") that had a population of 693,826 according to the 2010 US Census. The MSA includes Knox (Knoxville and Farragut), Anderson (Oak Ridge and Clinton), Blount (Maryville and Alcoa), Campbell (LaFollette), Grainger (Rutledge), Loudon (Loudon), Morgan (Wartburg), Roane (Harriman) and Union (Maynardville) Counties. The City is also part of the Knoxville-Sevierville-Harriman-LaFollette Combined Statistical Area (the "CSA"). According to the 2010 Census, the CSA had a population of 1,674,191. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties.

GOVERNMENTAL STRUCTURE

The City has operated under a Charter since 1923. Said Charter was totally revised, consolidated and rearranged in 1982. Policymaking and legislative authority are vested in the Mayor (the Executive Branch of the City) and the City Council (the Legislative Branch of the City). The City Council is responsible, among other things, for passing ordinances, adopting the budget and appointing committees. The Mayor is responsible, among other things, for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the government, and for appointing the heads of many of the City's departments. The executive and administrative powers are vested in the Mayor, who is elected at large for a four-year term. The Mayor is authorized to administer, supervise and control all departments and to appoint all members of boards and commissions created by the City Charter or by ordinance enacted pursuant to the City Charter unless otherwise accepted. A two-thirds vote of the City Council is required to override the Mayor's veto. The Charter also provides for a Vice-Mayor who is elected by the City Council for a one-year term. The City Council is the legislative body of the City government and is composed of nine members who are elected for four-year terms with three members elected at large and six members elected from districts.

The City and its Component Units, which are separate entities for which the City is financially accountable, provide a full range of services including, but not limited to, the construction and maintenance of highways, streets and infrastructure; fire and police protection; air and public transportation; community services; electric, gas, water and wastewater utilities; sanitation services; recreation and cultural events.

CITY COUNCIL

Nick Pavlis, Vice-Mayor and Council Member for the First District (term ends December 2017)

Mr. Pavlis graduated from Central High School in 1973 and from the University of Tennessee Chattanooga in 1977. He spent the first 26 years of his career in his family business managing a wholesale gourmet food distributor. Nick is currently employed at Charter Communications as the Director of Government and Media Relations. In this capacity he serves as the liaison between state, local and media outlets for 260 cities and counties throughout the states of Tennessee and Louisiana. Nick has been active in leadership roles in the City of Knoxville his entire adult life.

Duane Grieve, Council Member for the Second District (term ends December 2017)

Brenda Palmer, Council Member for the Third District (term ends December 2017)

Nick Della Volpe, Council Member for the Fourth District (term ends December 2017)

Mark Campen, Council Member for the Fifth District (term ends December 2015)

Daniel Brown, Council Member for the Sixth District (term ends December 2017)

George C. Wallace, Council Member-At-Large, Seat A (term ends December 2015)

Marshall Stair, Council Member-At-Large, Seat B (term ends December 2015)

Finbarr Saunders, Council Member-At-Large, Seat C (term ends December 2015)

ADMINISTRATION

The following are brief personal resumes of City's Administration Officials:

Madeline Rogero, Mayor

Ms. Rogero was elected to serve a four-year term for Knoxville from 2011 to 2015. Mr. Rogero is the first woman to be elected Mayor of the City. Mayor Rogero has served Knoxville as a community development director, county commissioner, non-profit executive, urban and regional planner, community volunteer, and neighborhood champion. Mayor Rogero has a B.A. in Political Science from Furman University in Greenville, South Carolina, and a Master's degree in Urban and Regional Planning from The University of Tennessee.

Jim York, Finance Director

Mr. York was first appointed Finance Director of the City of Knoxville, Tennessee in December, 2007. He had previously served as Deputy Finance Director since 1988.

Charles Swanson, Law Director

Mr. Swanson joined the City as Law Director on December 30, 2011. For twenty six years prior to that, he served as Special Counsel to the City Council. He was an Assistant City Attorney from 1981-1983. He was in private practice for thirty years, most recently with the firm of Sheppeard, Swanson & Mynatt.

FINANCIAL MANAGEMENT SYSTEM

DEPARTMENT OF FINANCE

The Department of Finance is responsible for all fiscal affairs, financial management and related systems of the City. The Director of the Department is in charge of overall City financial policy and reports directly to the Mayor. The Director is the primary administrative officer responsible for accounting, financial reporting, debt policy and financial support systems. The activities of the department are currently organized into the following sections: Accounting, Purchasing, Print Shop, Mail Services, Administration, Management/Budget, Revenue Collection and Enforcement, Treasury and City Hall at the Mall.

The Mayor appoints the Director.

FISCAL YEAR

The City operates on a fiscal year that commences July 1 and ends June 30.

FINANCIAL REPORTING

The City maintains a financial reporting system which provides timely and accurate reports on the City's financial position and the results of its operation. The City's financial statements are audited annually by independent certified public accountants. The reports of such accountants with respect to the City's financial statements for the fiscal year ended June 30, 2013, are included in this Official Statement. The City is required to undergo this annual single audit in conformity with the provision of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's, Circular A-133, *Audits of State and Local Governments*. The financial reporting entity (the "Government") includes all the funds and the account group of the primary government (i.e. the City) as well as all of its Component Units. Component Units are legally separate entities for which the Primary Government is financially accountable. Component Units are discretely presented in separate columns in the combined financial statements to emphasize that they are legally separate from the Primary Government and to differentiate their financial position, results of operations and cash flows from those of the Primary Government. The Component Units for the City of Knoxville include the Knoxville Utilities Board ("KUB"), the Metropolitan Knoxville Airport Authority ("MKAA"), the Knoxville Area Transit ("KAT") and the Knoxville Pension System ("Pension"). They are reported as discretely presented Component Units in the City's annual financial statements.

ACCOUNTING SYSTEM

The City's accounting system is maintained by the Finance Department. Each of the Component Units, with the exception of KAT, maintains separate accounting systems. KAT is included in the City's accounting system.

BASIS OF ACCOUNTING

The City follows accounting principles set forth in Audits of State and Local Governmental Units, published by the American Institute of Certified Public Accountants and in statements and interpretations issued by the Governmental Accounting Standards Board ("GASB"). The City of Knoxville has received the Certificate of Achievement for Excellence in Financial Reporting for every year since 1986 and the Distinguished Budget Presentation Award every year since 1989, both given by the Government Finance Officers Association. Accounting records for general governmental operations are maintained on a modified accrual basis. Under this system, revenues are recorded when susceptible to accrual, that is, both measurable and available. Expenditures, other than interest on long term debt, are recorded when the liability is incurred, if measurable and if the liability will be paid from expendable available financial resources. Interest and principal on long-term indebtedness is not accrued, but is recorded as an expenditure on its due date. Budgetary control is maintained at each of the appropriate funds by a formal appropriation and encumbrance system.

A comprehensive statement of the City's accounting policies, including significant changes in accounting practices during the fiscal year ended June 30, 2013 is presented in the Notes to Financial Statements located herein.

FUND STRUCTURE

The City has the following fund types:

1. **Governmental** Funds are used to account for the City's general government activities.
2. **Proprietary** Funds are used to account for ongoing activities and organizations that are similar to private enterprises.
3. **Fiduciary** Funds are used to account for assets held by the City in a trustee capacity or as an agent on behalf of others.
4. **General Long Term Debt Account Group** is used to account for outstanding long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.
5. **General Fixed Assets Account Group** is used to maintain control and cost information on capital assets owned by the City, other than those of the proprietary funds.

See Notes of Financial Statements located herein for further information on the fund structure.

CASH MANAGEMENT SYSTEM

The City's Cash Management System is maintained in the Finance Department by the Treasurer. The objective of the system is to maximize both the cash available for investment and the earnings from such investment

while minimizing the risk. The City or Component Unit classifies investments and deposits in three categories of risk:

Category 1: Insured or registered for which securities are held by the City or its agent in the City's name.

Category 2: Uninsured or Unregistered for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3: Uninsured or Unregistered for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

As of June 30, 2013, the City and its Component Units had no investments in Category 1 or 3 with most of the investments in Category 2. For additional information, see Notes to Financial Statements located herein.

Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances and the state Treasurer's investment pool. The Pension Trust Fund has broader allowable investments which in addition to the City's allowed investments include repurchase agreements, "A" rated bonds and notes and common stocks.

The City's banking relationship is designed to capture the gains possible through external float management and utilizes techniques such as master disbursement accounts and lock-box services. Depository services are awarded to the lowest bidder providing the most comprehensive services. Currently, Bank of America serves as depository for City funds.

The concept of cash management had been expanded from the traditional functions of maximizing collection efficiency and the investing of idle funds to include all working capital functions: inventories, payables, receivables and all other types of receipts and disbursements, including payroll.

Cash flow planning is continuously updated to provide timely forecasting of cash requirements. This not only enhances investment opportunities, but also provides for long range debt planning. It should be noted that the City's major funds traditionally have a favorable cash flow due to the timing of receipts and disbursements. Property taxes, the largest revenue source in the general fund, are due and substantially collected in the second quarter of the fiscal year. Most disbursements are evenly distributed throughout the year. The short-term investment of this positive cash flow is a significant source of revenue.

BOND AUTHORIZATION

Bonds are authorized on behalf of the City by an initial resolution of the City Council, which requires a simple majority (subject to the Mayor's veto power). The initial resolution must be published one time in a newspaper of general circulation in the City. Unless ten percent of the registered voters of the City protest the issuance of the bonds within 20 days of publication, the bonds may be issued as authorized.

BUDGETING AND APPROPRIATIONS PROCEDURES

The City's financial plans are embodied in the annual capital and operating budgets. These budgets reflect the projection of all receipts from and disbursements to all sources, and present the level of government services and the method of distributing costs to the various segments of the community through the collection of taxes and fees.

The City is required by its Charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes the general fund, debt service fund, internal service funds, certain special revenue funds, certain enterprise funds, and certain capital projects' funds.

The Mayor is required by the City Charter to propose a balanced budget to the City Council on or before May 1 for the fiscal year commencing the following July 1. The proposed budget includes anticipated expenditures by department and sources of financing the expenditures.

Public hearings are conducted to allow taxpayers an opportunity to comment on the proposed budgets before they become law.

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year end. Encumbered appropriations are reappropriated in the ensuing year's budget. Actual expenditures and operating transfers out may not legally exceed budget

appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level for the general fund and at the individual fund level for all other budgeted funds.

The City prepares its budget on a basis of accounting consistent with Generally Accepted Accounting Principles ("GAAP"). The actual results of operations are presented in the combined financial statement of revenues, expenditures and changes in fund balance-budget and actual on the budgetary basis to provide a meaningful comparison of actual results with the budget because all funds are not budgeted.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The capital budget and capital improvement program are prepared annually to detail the capital expenditure plan for each of the five ensuing fiscal years. The total cost of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The capital improvement program is prepared and recommended by the Mayor and is transmitted to the City Council for adoption. The capital improvement program authorizes in detail the capital expenditures to be made or incurred in the five ensuing fiscal years and is adopted by the City Council concurrently with the capital budget. The capital improvement program is approved prior to the operating budget in order to take advantage of the warmer months for construction and to be able to incorporate the operating expenses of the capital improvements into the operating budget.

RETIREMENT PLANS AND OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The City maintains a single-employer defined benefit pension plan (City of Knoxville Pension System), administered by the City of Knoxville Pension Board, which is comprised of three divisions of current membership and a membership of certain former City School employees. All participants are fully vested in the plan after 5 years of service. The plan includes employees of the City of Knoxville.

Retirees of the City may elect to participate in the City of Knoxville Employees Health Insurance Plan, a single-employer defined benefit healthcare plan, until the retiree reaches the age of 65 at which time they become Medicare eligible. The Plan is administered by the Health Insurance Fund and provides medical benefits. Post-employment benefits of the City's employees may be authorized by the City's charter and code. The Plan does not issue a stand-alone financial report.

For additional information on the funding status, trend information and actuarial status of the City's retirement programs and OPEB, please refer to the appropriate Notes to Financial Statements located in the General Purpose Financial Statements of the City attached herein.

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CITY OF KNOXVILLE, TENNESSEE

SUMMARY OF BONDED INDEBTEDNESS

As of September 01, 2014

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)		As of 6-30-14 (1) OUTSTANDING
$ 45,000,000	(2)	Loan Agreement, Series VI-L-1	June 2020	Synthetic Fixed / Variable	(3)&(4)	$ 19,230,000
59,970,000	(2)	Loan Agreement, Series A-4-A	June 2032	Variable	(3)	59,970,000
13,725,000		General Obligation Refunding Bonds, Series 2005A	May 2020	Fixed		7,610,000
84,150,000	(5)	General Obligation Bonds, Series 2012	May 2025	Fixed		72,625,000
$ 202,845,000		**TOTAL BONDED DEBT**				$ 159,435,000
$ 31,650,000		General Obligation Bonds, Series 2014	May 2034	Fixed		$ 31,650,000
$ 234,495,000		**NET BONDED DEBT**				$ 191,085,000

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.

(2) Revenue-supported bonds (Convention Center Debt).

(3) The City budgets to account for interest rate and/or basis risk.

(4) The Series VI-L-1 Bonds have been swapped to an synthetic fixed rate. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.

(5) $38,280,000 of this issuance are also Revenue-supported bonds (Convention Center Debt).

CITY OF KNOXVILLE, TENNESSEE

Indebtedness and Debt Ratios

INTRODUCTION

The information set forth in the following table is based upon information derived in part from the GENERAL PURPOSE FINANCIAL STATEMENTS which are included herein and the table should be read in conjunction with those statements.

	For Fiscal Year Ending June 30				Unaudited	After Issuance
INDEBTEDNESS	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
TAX SUPPORTED						
General Obligation Bonds & Notes	$ 188,465,000	$ 180,170,000	$ 178,390,000	$168,895,000	$ 159,435,000	$ 191,085,000
TOTAL TAX SUPPORTED	$ 188,465,000	$ 180,170,000	$ 178,390,000	$ 168,895,000	$ 159,435,000	$ 191,085,000
REVENUE SUPPORTED						
Water & Sewer Revenue Bonds & Notes	$ 419,680,000	$ 481,700,000	$ 495,980,000	$ 560,445,000	$ 573,435,000	$ 611,435,000
Gas System Revenue Bonds & Notes	84,760,000	92,725,000	87,360,000	92,350,000	112,365,000	112,365,000
Electric Revenue Bonds & Notes	142,620,000	167,515,000	158,870,000	186,510,000	178,940,000	218,940,000
TOTAL REVENUE SUPPORTED	$ 647,060,000	$ 741,940,000	$ 742,210,000	$ 839,305,000	$ 864,740,000	$ 942,740,000
TOTAL DEBT	$ 835,525,000	$ 922,110,000	$ 920,600,000	$ 1,008,200,000	$ 1,024,175,000	$ 1,133,825,000
Less: Revenue Supported Debt	$ (647,060,000)	$ (741,940,000)	$ (742,210,000)	$ (839,305,000)	$ (864,740,000)	$ (942,740,000)
Less: Debt Service Fund	(38,644,135)	(42,531,990)	(45,810,605)	(46,832,834)	(46,832,834)	(46,832,834)
NET DIRECT & OVERLAPPING DEBT	$ 149,820,865	$ 137,638,010	$ 132,579,395	$ 122,062,166	$ 112,602,166	$ 144,252,166
PROPERTY TAX BASE						
Estimated Actual Value	$ 13,166,596,880	$ 12,808,607,733	$ 13,367,700,627	$ 13,501,262,886	$ 14,030,558,769	$ 14,030,558,769
Appraised Value	13,166,596,880	12,808,607,733	13,336,954,916	13,470,209,981	14,030,558,769	14,030,558,769
Assessed Value	4,182,776,941	4,067,505,967	4,241,643,208	4,304,187,360	4,509,225,350	4,509,225,350

Source: General Purpose Financial Statements, City Officials and Tax Aggregate Reports for the State of Tennessee.

DEBT RATIOS	For Fiscal Year Ending June 30 2010	2011	2012	2013	Unaudited 2014	After Issuance 2014
TOTAL DEBT to Estimated Actual Value	6.35%	7.20%	6.89%	7.47%	7.30%	8.08%
TOTAL DEBT to Appraised Value	6.35%	7.20%	6.90%	7.48%	7.30%	8.08%
TOTAL DEBT to Assessed Value	19.98%	22.67%	21.70%	23.42%	22.71%	25.14%
NET DIRECT DEBT to Estimated Actual Value	3.58%	3.38%	3.13%	2.84%	2.50%	3.20%
NET DIRECT DEBT to Appraised Value	1.14%	1.07%	0.99%	0.91%	0.80%	1.03%
NET DIRECT DEBT to Assessed Value	3.58%	3.38%	3.13%	2.84%	2.50%	3.20%
PER CAPITA RATIOS						
POPULATION (1)	178,765	180,813	182,200	183,270	183,270	183,270
PER CAPITA PERSONAL INCOME (2)	$37,354	$39,555	$41,127	$41,127	$41,127	$41,127
Estimated Actual Value to POPULATION	73,653	70,839	73,368	73,669	76,557	76,557
Assessed Value to POPULATION	23,398	22,496	23,280	23,485	24,604	24,604
Total Debt to POPULATION	4,674	5,100	5,053	5,501	5,588	6,187
Net Direct Debt to POPULATION	838	761	728	666	614	787
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	12.51%	12.89%	12.29%	13.38%	13.59%	15.04%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	2.24%	1.92%	1.77%	1.62%	1.49%	1.91%

(1) Per Capita computations are based upon POPULATION data according to the 2000 Census and the City.

(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the U. S. Department of Commerce.

CITY OF KNOXVILLE, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - General Obligation

As of September 01, 2014

F.Y. Ended 6/30	Existing Debt - General Obligation (1) Principal	Existing Debt - General Obligation (1) Interest (2)	Existing Debt - General Obligation (1) TOTAL	General Obligation Bonds, Series 2014 Principal	General Obligation Bonds, Series 2014 Interest (3)	General Obligation Bonds, Series 2014 TOTAL	% 2014 Principal Repaid	Total Bonded Debt Service Requirements (1) Principal	Total Bonded Debt Service Requirements (1) Interest (2)	Total Bonded Debt Service Requirements (1) TOTAL	% All Principal Repaid
2015	$ 9,720,000	$ 6,662,600	$ 16,382,600	$ -	$ 646,188	$ 646,188	0.00%	$ 9,720,000	$ 7,308,788	$ 17,028,788	5.09%
2016	10,095,000	6,234,050	16,329,050	1,150,000	1,107,750	2,257,750		11,245,000	7,341,800	18,586,800	
2017	8,955,000	5,729,300	14,684,300	1,200,000	1,067,500	2,267,500		10,155,000	6,796,800	16,951,800	
2018	8,850,000	5,281,550	14,131,550	1,250,000	1,025,500	2,275,500		10,100,000	6,307,050	16,407,050	
2019	9,205,000	4,967,600	14,172,600	1,300,000	981,750	2,281,750	15.48%	10,505,000	5,949,350	16,454,350	27.07%
2020	9,730,000	4,507,350	14,237,350	1,350,000	936,250	2,286,250		11,080,000	5,443,600	16,523,600	
2021	8,720,000	4,068,100	12,788,100	1,400,000	889,000	2,289,000		10,120,000	4,957,100	15,077,100	
2022	9,225,000	3,632,100	12,857,100	1,500,000	840,000	2,340,000		10,725,000	4,472,100	15,197,100	
2023	9,490,000	3,447,600	12,937,600	1,550,000	787,500	2,337,500		11,040,000	4,235,100	15,275,100	
2024	9,800,000	3,162,900	12,962,900	1,600,000	733,250	2,333,250	38.86%	11,400,000	3,896,150	15,296,150	55.52%
2025	6,730,000	2,868,900	9,598,900	1,650,000	677,250	2,327,250		8,380,000	3,546,150	11,926,150	
2026	7,460,000	2,651,175	10,111,175	1,700,000	619,500	2,319,500		9,160,000	3,270,675	12,430,675	
2027	7,760,000	2,315,475	10,075,475	1,750,000	560,000	2,310,000		9,510,000	2,875,475	12,385,475	
2028	8,070,000	1,966,275	10,036,275	1,850,000	498,750	2,348,750		9,920,000	2,465,025	12,385,025	
2029	8,390,000	1,603,125	9,993,125	1,900,000	434,000	2,334,000	66.82%	10,290,000	2,037,125	12,327,125	80.25%
2030	8,725,000	1,225,575	9,950,575	1,950,000	367,500	2,317,500		10,675,000	1,593,075	12,268,075	
2031	9,075,000	832,950	9,907,950	2,050,000	299,250	2,349,250		11,125,000	1,132,200	12,257,200	
2032	9,435,000	424,575	9,859,575	2,100,000	227,500	2,327,500		11,535,000	652,075	12,187,075	
2033	-	-	-	2,150,000	154,000	2,304,000		2,150,000	154,000	2,304,000	
2034	-	-	-	2,250,000	78,750	2,328,750	100.00%	2,250,000	78,750	2,328,750	100.00%
	$ 159,435,000	$ 61,581,200	$ 221,016,200	$ 31,650,000	$ 12,931,188	$ 44,581,188		$ 191,085,000	$ 74,512,388	$ 265,597,388	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.

(2) The City budgets to account for interest rate and/or basis risk.

(3) Estimated Interest Rates. Estimated Average Coupon of 3.50%.

CITY OF KNOXVILLE, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes In Fund Balances - General Fund
For the Fiscal Year Ended June 30

	2009	2010	2011	2012	2013
Revenues:					
Taxes, Assessments, Interest& Penalities	$ 137,638,281	$ 136,823,048	$ 140,927,670	$ 147,600,858	$ 152,320,929
Licenses and Permits & Inspection Charges	312,654	323,026	338,082	338,762	354,213
Intergovernmental Revenue	1,526,225	1,443,152	1,115,948	20,400,989	29,242,836
Charges for Services	1,103,310	1,387,431	1,839,405	1,649,258	1,664,729
Fines and Forfeits	20,572,185	25,121,324	23,097,349	648,282	874,641
Other Revenues	1,555,129	2,314,622	2,125,561	964,193	1,238,623
Total Revenues	$ 162,707,784	$ 167,412,603	$ 169,444,015	$ 171,602,342	$ 185,695,971
Expenditures and Other Uses:					
Administration	$ 2,283,325	$ 2,262,997	$ 2,592,821	$ 2,834,258	$ 3,188,682
Finance & Accountability	7,268,549	6,900,607	7,323,887	3,570,456	3,574,785
Information Systems	-	-	-	3,998,585	3,910,390
Community Development	-	-	-	12,208,597	2,634,852
South Knoxville Waterfront	-	-	-	520,006	439,023
Parks & Recreation	-	-	-	6,711,986	6,562,705
Mass Transit	8,793,720	9,029,820	9,885,810	10,564,220	11,295,470
Engineering	5,356,761	5,394,456	5,310,995	5,534,471	5,313,084
Public Service	-	-	-	22,671,990	21,857,205
Law	1,570,666	1,574,709	1,521,669	1,618,864	1,583,175
Police	-	-	-	48,528,072	49,138,929
Fire	-	-	-	33,662,860	35,576,327
Legislative	30,882,491	30,600,823	32,515,414	1,018,606	1,140,484
Civil Service	999,136	890,991	791,358	889,184	933,790
City Elections	925,272	931,793	881,916	230,870	
Knoxville Partnership	$0	248,422	5,383	619,100	618,725
Metropolitan Planning Commission	655,786	651,300	634,925	905,000	905,000
Knoxville Zoological Park	763,430	800,000	905,000	1,009,570	1,057,825
Community Agency Grants	907,100	906,250	906,660	714,938	746,706
Other Nondepartmental	-	-	-	74,856	90,510
Community Action Committee	493,842	577,839	570,636	636,252	690,640
Tax Increment Payments	-	-	-	785,231	942,157
Public Safety	43,514,523	45,168,331	45,893,863	-	-
Waterfront	1,166,200	1,173,940	818,607	-	-
Community & Neighborhood Services	27,696,907	29,949,323	30,918,902	-	-
Reserve	517,370	542,530	580,623	-	-
Total Expenditures	$ 133,795,078	$ 137,604,131	$ 142,058,469	$ 159,307,972	$ 152,200,464
Excess of Revenues & Over (under) Expenditures	$ 28,912,706	$ 29,808,472	$ 27,385,546	$ 12,294,370	$ 33,495,507
Other Financing Sources (Uses):					
Transfers - In	$ 4,570,630	$ 5,684,113	$ 5,028,938	$ 3,965,145	$ 2,936,680
Transfers - Out	(30,700,106)	(27,168,117)	(28,032,380)	(21,798,688)	(26,001,720)
Total Other Financing Sources (Uses)	$ (26,129,476)	$ (21,484,004)	$ (23,003,442)	$ (17,833,543)	$ (23,065,040)
Excess of Revenue and Other Sources over (Under) Expenditures and Other Sources	$ 2,783,230	$ 8,324,468	$ 4,382,104	$ (5,539,173)	$ 10,430,467
Fund Balance July 1	$ 49,555,994	$ 52,339,224	$ 60,663,692	$ 65,263,665	$ 59,724,492
Prior Period Adjustment	-	-	$ 217,869	$ -	
Fund Balance June 30	**$ 52,339,224**	**$ 60,663,692**	**$ 65,263,665**	**$ 59,724,492**	**$ 70,154,959**

Source: Comprehensive Annual Financial Report for City of Knoxville, Tennessee

TAXES

PROPERTY ASSESSMENTS

The property tax (Real Estate and Personal Property) provides the City with a major source of revenue for a variety of functions. The property tax levy is without legal limit.

The City Council reserves and allocates a portion of the property tax rate among general government, the repayment of the debt service on obligations which are not repaid from various enterprise funds, and street paving.

All real estate and personal property, including some utilities not under the jurisdiction of the Tennessee Regulatory Authority ("TRA"), are assessed by the Knox County Assessor of Property. Utilities and carriers (railroads, truck lines, airlines, bus lines, etc.) are assessed by the TRA, and some intangible personal property assessments related to banks are assessed by the State Division of Property Assessments. The County completed a complete reappraisal of all properties in the City for the 2009 tax year. The 2009 appraised value is approximate market value. The ratio of assessment under the Property Assessment and Classification Act of 1973, provides for assessing farm and residential real property at 25% of the current market value, commercial and industrial real property at 40% of the current market value, personal property at 30% of the current market value and real and personal property of public utilities at 55% of the current value with corresponding reductions in tax rates.

With the 2009 appraisal completed, new appraisal changes in real estate will occur only when improvements are made to existing structures, demolition of existing structures occur, or when improvements are made on vacant property. Reappraisal does not occur based on property sales. Personal property assessments are made annually based upon returns submitted by the taxpayers and are, therefore, maintained on a current basis. Appraisals by the TRA for utilities and carriers are made annually based upon returns and are also maintained at current market value. The City plans to revise all assessments every four years in the future based on current market values.

Public utilities are assessed by the TRA and are automatically reviewed by the State Board of Equalization. These assessments include real estate and personal property on the basis of location and usage. Currently, under a ruling by the State Board of Equalization, the appraised value of public utilities is being reduced by multiplying it by a factor computed by dividing the appraised valuation for tax purposes of all real property within the City by the current market value. The assessed value is based on this reduced appraised value.

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PROPERTY TAX LEVIES AND COLLECTIONS

Fiscal Year Ended June 30	Total Tax Levy[1]	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		Collections in Subsequent Years	TOTAL COLLECTION TO DATE	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	$79,603	$75,122	$94.37%	$4,365	$79,340	99.67%
2005	91,075	85,989	94.42%	4,218	90,719	99.61%
2006	93,804	90,406	96.38%	3,031	93,437	99.61%
2007	95,423	91,412	95.80%	3,540	94,952	99.51%
2008	98,233	93,938	95.63%	3,761	97,699	99.46%
2009	101,436	96,102	94.74%	4,538	100,640	99.22%
2010	102,836	96,600	93.94%	5,139	101,739	98.93%
2011	103,350	96,738	93.60%	5,058	101,796	98.50%
2012	104,330	99,236	95.12%	2,544	101,780	97.56%
2013	106,471	103,636	97.34%	-	103,636	97.34%

Source: 2013 City of Knoxville, Tennessee Comprehensive Annual Financial Report.

Property Taxes are normally due on October 1 and become delinquent on the following March 1 each year. A penalty of 1% accrues the first of each month taxes remain delinquent and interest accrues at ½% per month until paid.

1 Tax levies are the product of the assessed values and tax rate. Assessed values are determined on a calendar year basis and the relationship to a fiscal year is one year in arrears (i.e. 2013 fiscal year is based on 2012 tax year).

ASSESSED AND ACTUAL VALUE OF TAXABLE PROPERTY

	REAL PROPERTY		PERSONAL PROPERTY		PUBLIC UTILITY PROPERTY	
Tax Year*	**Assessed Value**	**Actual Value**	**Assessed Value**	**Actual Value**	**Assessed Value**	**Total Assessed Value**
2004	$2,525,477	$7,929,640	$302,688	$1,008,959	$157,887	$2,986,052
2005	2,862,056	9,221,949	315,752	1,052,507	161,364	3,339,172
2006	2,920,636	9,422,786	329,685	1,098,949	145,503	3,395,824
2007	3,047,010	9,844,269	307,481	1,024,933	148,366	3,502,857
2008	3,156,234	10,219,342	305,026	1,016,750	148,615	3,609,875
2009	3,687,218	12,051,711	334,782	1,115,939	167,422	4,189,422
2010	3,714,127	12,149,043	316,571	1,055,236	147,792	4,178,490
2011	3,762,386	11,925,940	321,529	1,073,580	157,728	4,241,643
2012	3,840,853	12,125,426	299,628	999,935	163,707	4,304,188
2013	4,000,414	12,497,475	352,994	1,176,112	155,818	4,509,225

Source: Tax Aggregate Reports of Tennessee prepared by the State Board of Equalization for the Tax Years 2004 through 2013.

* The Tax Year coincides with the calendar year; therefore, Tax Year 2013 is actually Fiscal Year 2013-2014.

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PROPERTY TAX RATE DISTRIBUTION

	Fiscal Year Ended June 30,				
	2009[(1)]	**2010**	**2011**	**2012**	**2013**
General Operations	$2.06	$1.80	$1.80	$1.80	$1.80
Debt Service	0.75	0.66	0.66	0.66	0.66
Total Tax Levy	**$2.81**	**$2.46**	**$2.46**	**$2.46**	**$2.46**

Source: 2013 City of Knoxville, Tennessee Comprehensive Annual Financial Report.
[1] Reappraisal done in 2009

TAX RATE LIMITATIONS

The Ad Valorem (Real Estate Personal Property) tax levy is without legal limit as to rate or amount.

TEN LARGEST TAXPAYERS

Taxpayer	Industry	Assessed Property Valuation	% Total Assessed Property Valuation
Fort Sanders Regional Medical Center	Medical Services	$109,736	2.58%
West Town Mall	Retail	93,009	2.19%
Scripps Howard Broadcasting	Media	82,477	1.94%
Bellsouth	Communications	80,680	1.90%
Wal-Mart	Retail	75,569	1.78%
Metro Knoxville HMA (Formerly St Marys)	Medical Services	73,384	1.73%
Pilot	Oil Marketing & Retail	67,859	1.60%
Hart TC (Formerly Parkside Dr. LLC)	Property Management	63,689	1.50%
First American National	Financial Services	49,078	1.15%
AT&T	Communications	48,729	1.15%
FY 2013 Assessed Property Valuation for ten largest payers		**$744,210**	**17.52%**

Source: 2013 City of Knoxville, Tennessee Comprehensive Annual Financial Report.

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OTHER REVENUE

While the property tax is the single largest source of revenue for the City's General Fund, other major sources of revenue are shown below:

	Fiscal Year Ended June 30, 2013 (In thousands of dollars)	Percentage of Total
Taxes	$152,321	82.1%
Licenses & Permits	354	0.2%
Intergovernmental	29,243	15.8%
Charges for Services	1,665	0.9%
Fines & Forfeits	875	0.5%
Other	1,239	0.7%
Total	**$185,596**	**100.0%**

Source: 2013 City of Knoxville, Tennessee Comprehensive Annual Financial Report.

LOCAL SHARED SALES TAX

The City of Knoxville, located in Knox County, has one of the lowest sales tax rates in the state. Authorized by state law to levy up to 2.75%, the combined city/county rate is only 2.25%. Approximately seventy four percent of the taxable sales within the County occur inside the corporate limits of Knoxville. Approximately seventy-two percent of the taxes collected within the City are distributed to the Knox County School System with the remainder flowing to the City's general fund. The following table displays the City's portion of local sales tax collections (in thousands) over the past five years.

Local Option Sales Tax

Fiscal Year	Knoxville
2009	$34,186,373
2010	32,654,022
2011	33,848,744
2012	36,378,928
2013	35,028,097

Source: City of Knoxville, Tennessee Comprehensive Annual Financial Reports.

STATE TAX REVENUE (LOCAL SHARE)

The City receives funds from the State of Tennessee which are briefly described below:

(1) State income tax - This is a tax on dividends on stock and interest on bonds. The tax rate is 6% on dividends and 4% on bond interest.

(2) State sales tax - A 6% sales tax is imposed on the gross proceeds from retail sale or use of tangible personal property and some services.

(3) Gasoline taxes - The City's General Fund receives a portion of a $.20 per gallon on all petroleum products.

(4) Other state taxes - The City receives state revenues derived from the state beer tax, state excise tax, alcoholic beverage tax, liquor by the drink tax and TVA in lieu of tax payments.

BEER SALES TAX

This tax is 17% on the wholesale price of beer containing not more than 5% alcohol. It is collected by the wholesaler and remitted monthly, less a collection fee.

BUSINESS TAX

The business tax is a privilege tax imposed upon all businesses which sell tangible personal property either at wholesale or retail and businesses which render services except those specifically exempted by law. The tax has two parts: (i) an annual license fee of $15.00 plus a recording fee and (ii) a tax on gross sales. The tax rate varies from 1/60 to 1/8 of 1%, depending on business activity.

ECONOMICS

THE ECONOMY

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-third of the population of the United States. The City for many years has been known as one of the south's leading wholesale markets. Located within the County and City are approximately 885 wholesale and distribution houses and more than 1,630 retail establishments and 5,472 service industries.

As published in the 2012 Forbes magazine list of Best Mid-Sized Cities for Jobs, Knoxville is 6th out of the 398 mid-sized metropolitan areas in the nation. The ranking was based on job growth for 2012 in the Knoxville area shifted from government-related employment to the energy, technology and manufacturing sectors. Also in 2012 Knoxville was ranked tenth in economic-growth potential and eighth on the nation’s fastest-growing cities in the Business Facilities publication.

These recognitions are characteristic of a diverse market. Commerce and industry vary from the media success of Scripps Television Networks (HGTV, DIY, Food Network, GAC, Cooking, and Travel), to Sysco Corporation’s (largest food service marketer and distributor in North America) regional warehouse and distribution center.

The County has 11 business parks and a Technology Corridor to meet a wide range of corporate facility needs. The Forks of The River Industrial Park has 1,460 acres with only 14 acres still available. EastBridge Business Park has 807 acres with about 207 left for development. WestBridge Business Park has 252 acres with about 25 acres left. Pellissippi Corporate Center has about 159 acres with 25 acres left. Hardin Business Park is a new light industrial park with the total 95 acres still available. CenterPoint Business Park is a commercial park full with about 56 acres. The 44-acre I-275 Business Park was sold to Sysco Corp.

The County had about 10,891 businesses and the MSA had 17,498 businesses operating in 2012. In 2012, 1,687 building permits totaled $579,432,000. There were 611 industrial buildings totaling over 32.8 million in square feet in 2009 (*the last year reported). The vacancy rate for these buildings was 14.1%. The County had 404 manufacturing facilities in 2012 and the MSA had 799 for the same period.

Knoxville-Oak Ridge Innovation Valley Inc. is an investor-directed program for five counties designed to recruit, retain and expand business growth throughout the Innovation Valley region. The organization is focused on technology-led economic development, as well as education and workforce development. These two areas of focus represent key differentiators in this plan of work.

The quality of life, low cost of living and excellent transportation facilities are among the factors that attract firms to the Knoxville area. Telecommunications is a field that is rapidly growing in the area. Five national firms, Bell and Howell Corporation, Hospitality Franchise Systems (Days Inn), Talbots, Whirlpool and Sears have established telecommunication centers in Knoxville. The City has put significant emphasis on attracting companies to the area and on the expansion of existing facilities. Companies which have their corporate headquarters in Knoxville include Pilot Flying J, Clayton Homes, Brunswick Boat Group, Scripps Networks, Anchor Advanced Products, Inc., Regal Cinemas and Bandit Lites.

Source: Knox News Sentinel and Knox County Metro Planning Commission 2013.

TRADE AREA

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. Fifty-three percent (53%) of the United States population lives within 650 miles of the County and approximately one-third of the population of the United States (70 million people) live within one day’s drive.

The area is the trade center for a 42-county area in East Tennessee, Kentucky, Virginia and North Carolina, which serves over 2 million persons. It is also the cultural, tourist and professional center for this area.

RETAIL

Knox County is the major wholesale and retail center for eastern Tennessee, southeastern Kentucky, southwestern Virginia and western North Carolina. Four regional malls and 201 shopping centers and factory outlets comprise the retail landscape of the Knoxville area. Total retail sales in Knox County grew 3.4 percent from 2011 to 2012 with over $8.9 billion, while the Knoxville MSA grossed over $13.2 billion.

RETAIL SALES
(In thousands)

Year	Knox County
2004	$ 7,754,997
2005	8,202,638
2006	8,910,315
2007	9,181,773
2008	8,693,886
2009	7,963,468
2010	N/A
2011	8,661,782
2012	8,926,164

Source: Knox County Metro Planning Commission 2013 and the Tennessee Department of Economic and Community Development.

HOUSING AND CONSTRUCTION

HOUSING UNITS

Year	Total Units	Owner Units	Renter Units	Vacancy Rate
1980	125,777	74,569	43,382	6.0%
1990	143,582	85,369	48,270	5.1%
2000	171,439	105,562	52,310	7.9%
2010	192,729	119,078	58,097	8.1%

Source: U.S. Bureau of Census 1980, 1990, 2000, 2010.

TOTAL BUILDING PERMITS
IN THE KNOXVILLE & KNOX COUNTY

FY Ending June 30	Number	Valuation
2007	4,296	$911,858,039
2008	2,333	626,249,241
2009	1,584	446,477,297
2010	1,836	424,175,000
2011	1,066	383,118,000
2012	1,687	579,432,000

Source: Knox County Metropolitan Planning Commission.

AGRIBUSINESS

In addition to being a manufacturing and distribution center, the County ranks second among the five metropolitan counties of Tennessee in agricultural production. The County's principal crops are barley, tobacco, corn, wheat, hay, vegetables and fruits. Cattle farming and dairying are also important farming activities. Meat packing and preparation of other food products have shown a steady increase in the County in the last several years.

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LEISURE BOAT MANUFACTURING

Leisure Boat Manufacturing. Due to the Tennessee Valley Authority system of lakes and rivers, East Tennessee is an excellent place to test boats without worrying about hurricanes while being near the Interstate crossroads. Channelization of the Tennessee River to a 9-foot minimum navigable depth from its junction with the Ohio River at Paducah, Kentucky to Knoxville, Tennessee gives the surrounding communities the benefits of year round, low cost water transportation and a port on the nation's 10,000 mile-inland waterway system. It takes a week to deliver the yachts too large for the interstate from the reservoir down the series of locks on the Tennessee River, along the Tennessee-Tombigbee Waterway, then on to the Gulf of Mexico and beyond. This system formed largely by the Mississippi River and its tributaries, effectively links the River with the Great Lakes to the north and the Gulf of Mexico to the south.

Brunswick Boat Group, with $2.8 billion in revenue in recent years, moved its corporate headquarters to Knoxville from Chicago in 2002. The company, which owns more than two dozen boat brands, is the largest boat builder in the region. The aim is to improve quality and serviceability with a new closed-mold production method and acquisition of companies that will allow it to service boats faster, control quality better and make owning a boat as easy as owning a car. In 2012 the company announced it would close the Sea Ray plant in the Forks of the River Industrial Park in East Knox County. (See “Recent Developments” for more information on the company.)

West coast-based Christensen Shipyards has started construction on a $20 million dollar, 450,000 square foot plant that could employ up to 1,200 workers. The new plant is to build large “superyachts” ranging from 170 feet to 225 feet that cost $40 million to $70 million. The Christensen site is across the lake from the Sea Ray plant. Christensen Yachts chose to build a shipyard in Loudon County to be closer to European markets, good interstate access, a deep harbor for launching its boats, low taxes and a highly skilled work force. The plant’s construction is on hold as of 2009. Despite the delay, plans are still positive for the plant to continue on course for building superyachts.

The Yamaha jet boat plant located in Monroe County is expanding, the third expansion in ten years. The $3 million dollar expansion will add 7 acres to the existing site and will create up to 100 jobs. There are 340 employees working before the expansion.

Source: News Sentinel.

Boat manufactures in the area listed by county are below:

Knox County:	Bullet Boats, and Sailabration Houseboats
Monroe County:	Sea Ray Boats, Mastercraft Boats, Yamaha-TWI and Bryant Boats
Blount County:	Skier's Choice, Allison and Stroker Boats
Loudon County:	Malibu Boats and Christensen Shipyards
Cumberland County:	Leisure Kraft Pontoons
Campbell County:	Norris Craft Boat Company

SCIENCE AND ENERGY

History

The City of Oak Ridge has a unique history. This area was selected by the United States government in 1942 as the location for its production plants for uranium 235, a component of the first atomic bomb. The original town site was built during World War II to house and furnish necessary facilities for the employees of the uranium plants. This project (known as the "Manhattan Project") was transferred to the Atomic Energy Commission in 1947, and the community was operated by contractors under the control of the Atomic Energy Commission. In 1955 the Atomic Energy Commission sold the homes and land to the residents. By 1959 the residents voted in favor of incorporation under a modified city manager-council form of government.

Since the 1940's, the nuclear industry has been the largest employer for the City of Oak Ridge and Roane and Anderson Counties when a weapons fabrication division was built by the U.S. Corps of Engineers. As part of the secret World War II "Manhattan Project", the early task of the plant was the separation of fissionable uranium-235 from the more stable uranium-238 by an electro-magnetic process to be utilized in the world's first atomic bomb. Some 80,000 workers were hired for emergency construction of the laboratories and offices on the 56,000 acre site. At the peak of production during the war, 23,000 employees kept the separation units working at a cost of $500 million for the entire project.

Today, the DOE occupies approximately 33,000 acres and almost 1,200 buildings within the Oak Ridge city limits, and employs over 13,000 in engineering, skilled and semi-skilled crafts, technical and administrative support. Since October 1999 The DOE has contracted with the University of Tennessee and Battelle to manage the ORNL. UT-Battelle began management of the lab on June 1, 2000. Consolidated Nuclear Security, a Bechtel-led contractor team, took over management of the Y-12 nuclear weapons plant effective July 1, 2014 (BWXT, Inc. was the appointed contractor for the Y-12 Plant). DOE awarded its environmental cleanup contract to Bechtel Jacobs from 1997 to 2011. URS-CH2M Oak Ridge took over the cleanup contract in 2011.

Research

The extensive energy research and development conducted by private and public agencies make the city one of the world's great research centers. The presence of the University of Tennessee, the ORNL, Oak Ridge Associated Universities and the Tennessee Valley Authority (the "TVA") makes Oak Ridge a prime location for research facilities, as well as technology-based and conventional manufacturing industries. Science is a worldwide business, and the facilities at the DOE in the City have attracted a large number of technical people and their families. The City is well prepared to accommodate families from abroad and the school system is equipped to ease language and cultural differences.

Oak Ridge National Lab. The ORNL is a multiprogram science and technology laboratory managed for the DOE by UT-Battelle, LLC. Scientists and engineers at ORNL conduct basic and applied research and development to create scientific knowledge and technological solutions that strengthen the nation's leadership in key areas of science; increase the availability of clean, abundant energy; restore and protect the environment; and contribute to national security. ORNL also performs other work for the DOE, including isotope production, information management, and technical program management, and provides research and technical assistance to other organizations. The laboratory is a program of DOE's Oak Ridge Field Office.

ORNL also boasts having the Spallation Neutron Source accelerator project and three supercomputers for scientific purposes. These unique projects bring about 3,000 scientists to visit each year for varying periods of time, and numerous small industries to be spun off from the experiments and findings. Each job created is expected to have an impact on housing, retail banking, automobile and transportation, hotels, restaurants, hospitals, and business services.

The world's most powerful neutron science project is the *Spallation Neutron Source* (the "SNS") at ORNL. The giant research complex, spread across 75 acres on Chestnut Ridge a couple of miles from the main ORNL campus, is the world's top source of neutrons for experiments. The SNS is an accelerator-based neutron source built in Roane County by the DOE. The SNS provides the most intense pulsed neutron beams in the world for scientific research and industrial development. At a total cost of $1.4 billion, construction began in 1999 and was completed in 2006. In 2009, SNS reached full power when it set the world record in producing beam power three times more powerful than the previous world record. More neutrons are produced with a higher beam power.

ORNL is also completing a series of upgrades at the *High Flux Isotope Reactor*. This ORNL facility is sometimes referred to as the lab's "other" billion-dollar machine. It is the world's most powerful research reactor, and it is used to perform experiments similar to - but different from - those to be done at the Spallation Neutron Source.

Neutron-scattering research has a lot to do with everyday lives. For example, things like jets; credit cards; pocket calculators; compact discs, computer disks, and magnetic recording tapes; shatter-proof windshields; adjustable seats; and satellite weather information for forecasts have all been improved by neutron-scattering research. Neutron research also helps researchers improve materials used in high-temperature superconductors, powerful lightweight magnets, aluminum bridge decks, and stronger, lighter plastic products. The medical field will also be impacted with new drugs and medicines expected from experiments at the SNS.

ORNL's *Supercomputers* are housed in a recently constructed 170,000-square-foot facility that includes 449 staff and 40,000 square feet of space for computer systems and data storage. The National Oceanic and Atmospheric Administration's (the "NOAA") sponsor the newest supercomputer funded with Recovery Act money. The DOE and the National Science Foundation (the "NSF") sponsors the original two supercomputers, one of which is now replaced.

NOAA awarded Cray and ORNL a $47 million contract to provide a third supercomputer, the "Titan", to work on climate research. The NSF awarded the University of Tennessee, ORNL and other institutions a $65 million grant in 2007 to build "Kraken". The DOE awarded ORNL and its development partners – Cray Inc., IBM Corp.

and Silicon Graphics Inc. - $25 million in funding to build both “Jaguars”, which are now obsolete and replaced as of 2012.

The newest Cray supercomputer, the “Titan”, was online in late 2012 after several years of development to replace the two “Jaguar” supercomputers at ORNL. The “Titan” was listed as the world’s fastest computer in late 2012 (the fourth time a computer from ORNL has achieved that distinction since 1953). Its purpose is to support research in energy, climate change, efficient engines and materials science. “Titan” has been billed as a 17.5-petaflops machine, which means it is capable of a peak performance of about 17,500 trillion (or 17.5 quadrillion) mathematical calculations per second. That speed is about 10 times the capability of the first “Jaguar”, which at one time was the world's fastest computer. The total cost of the “Titan” is estimated to be about $100 million, but about $20 was saved by reusing much of the “Jaguar” structure. Another petaflops machine, known as the “Kraken”, came online in early 2009 to work on a range of scientific challenges, such as climate change and new medicines. UT’s “Kraken” is housed with the ORNL’s “Titan”.

The new machines will work on breakthrough discoveries in biology, fusion energy, climate prediction, nanoscience and many other fields that will fundamentally change both science and its impact across society.

A dedicated effort by the DOE to transfer technology to the private sector that was heretofore held as proprietary to the U.S. Government alone has led to an unparalleled growth in new business development in the area. Licenses have been granted to existing firms as well as start-up firms to manufacture for commercial use products using state-of-the-art technology in robotics, ceramics and nuclear medicine.

Through interagency agreements, DOE's Oak Ridge facilities have launched a highly successful "work for others" program. Local firms contract with numerous federal agencies to provide services and products. The value of these contracts have grown from approximately $50 million in 1983 to $270 million in recent years.

BioEnergy Sciences Center (the “BESC”) is one of only three sites in the country operated by one of the DOE’s new bioenergy research centers. It opened in ORNL in 2007. BESC works to accelerate research in the development of cellulosic ethanol and other biofuels, and make biofuel production cost competitive on a national scale. The new site received $135 million in federal funding. The University of Tennessee serves as one of the academic partners, providing specialized instrumentation, plant breeding technologies and new microbe discovery. Energy crops like switchgrass, which can be grown on marginal crop land, can produce affordable, domestic renewable fuel without raising food or feed costs. The BESC is dedicated to studying how to economically break down the cellulose in those sources to convert it into usable sugars for ethanol production.

Roane and Anderson Counties are also able to benefit from many other advanced technology and research and development based companies located in the area. The University of Tennessee, the Technology 2020 project and TVA are some of these companies that are in the area.

Technology 2020. The Technology 2020 project was initiated in 1993 to capitalize on the unique resources of the East Tennessee region: the presence of the ORNL, UTK, the headquarters of the TVA, and a significant number of both large and small technology companies in the region. A $4.5 million investment has been made by DOE, South Central Bell, the Tennessee Public Service Commission and Lockheed-Martin to set up a regional telecommunications laboratory and has been termed the area's "on-ramp to the information highway". This economic development resource center is located in Oak Ridge's Commerce Park. An 18,000 square foot facility has been constructed on the 5.2 acre site. The facility is used for testing and demonstrating new communications technologies and applications. It offers video conferencing, training and multi-media presentation capabilities and a new business incubator for emerging companies. The facility is expected to be particularly important to rural communities that might not otherwise have access to advanced communications resources.

Tennessee Valley Authority (the “TVA”). TVA provides support, technology, expertise, and financial resources to existing businesses and industries in the Valley to help them grow and be more efficient and profitable. These resources include technical assistance, low-interest loans, and other tools needed by businesses for successful operation.

University of Tennessee. The University of Tennessee's flagship campus in Knoxville is home to a wide array of vigorous programs doing research on issues vital to the community, the state, the nation, and the world. The university has collaborative relationships with public and private agencies including ORNL, Battelle Memorial Institute (forming UT-Battelle), St. Jude Children's Research Hospital, the Memphis Bioworks Foundation, and the Boston-Baskin Cancer group (forming UT Cancer Institute).

National Institute for Mathematical and Biological Synthesis (NIMBioS) is a first-of-its-kind institute dedicated to combining mathematics and biology to solve problems in both scientific fields. The center is funded by a 2008 $16 million award from the National Science Foundation and is located at the University of Tennessee. A unique aspect of NIMBioS will be its partnership with the Great Smoky Mountains National Park. The park and its Twin Creeks Science Center play a key role in the institute's work, with the park serving as a testing ground for many of the ideas that come from NIMBioS. Partners in NIMBioS include the US Department of Agriculture and the US Department of Homeland Security, IBM and ESRI, a developer of software and technology related to geographic information systems. It draws over 600 researchers each year to Knoxville.

Source: City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

Nuclear

Y-12 National Security Complex. The Y-12 National Security Complex is another large federal plant in Oak Ridge. The ongoing functions of the Y-12 plant are to support the DOE's weapons design labs, recover U-235 from spent nuclear weapons and provide support to other government agencies.

Y-12 has been undergoing a major modernization program. Y-12 is a key facility in the U.S. Nuclear Weapons Complex and is responsible for ensuring the safety, reliability, and security of the nuclear weapons stockpile and serves as the nation's primary repository of highly enriched uranium. Y-12 houses the country's stockpile of bomb-grade uranium, builds uranium bomb parts and dismantles nuclear weapon systems as needed to support a much smaller nuclear arsenal. National Nuclear Security Administration's (the "NNSA") is planning to transform the nuclear weapons complex to be smaller, more efficient and more cost effective. The goal is by 2020 to have only two facilities where there used to be 700 buildings.

Contractors have already demolished dozens of World War II era buildings at Y-12, about a million square feet since 2001, to reduce the surveillance and maintenance costs, and to support the new programs. Some new office buildings already have been built, including the Jack Case Center that holds about a third of the workforce, or around 1,500 employees. This $58 million, 420,000-square-foot office building was completed in the summer of 2007. A new 137,000-square-foot visitor's center and auditorium, for about $18 million, was also completed in 2007.

A planned $120 Million water treatment plant to capture Y-12 mercury runoff is expected to begin construction in 2017 and begin filtering 1,500 gallon a minute of water by 2020.

The $549 million *Highly Enriched Uranium Materials Facility* at Y-12, a storage complex for weapons-grade uranium, was completed in late 2008. This storage facility replaced multiple aging facilities and allows for storage of its uranium stocks in one central location that represents maximized physical security with minimal vulnerabilities and operating costs. It is designed to protect the large cache of U-235 against any type of terrorist assault. The facility is currently over 85% storage capacity of bomb-grade uranium.

The *Uranium Processing Facility* (the "UPF") Project, cornerstone of Y-12's new modernization strategy, will replace current enriched uranium and other processing operations. It will replace Y-12's main production center and cost billions of dollars. The design phase began in 2006, construction began in 2009, and should be operation by 2015. Construction of the UPF will accelerate consolidation of aging facilities, bringing production operations currently housed in multiple buildings together, reducing the size of the plant's highest security area by 90 percent, improving the overall security posture, making the plant more secure and saving millions of dollars in annual operating costs.

Source: City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

Solar

Tennessee has seen unprecedented growth in the solar business with the introduction of state and federal incentives for solar power generation (the *Volunteer State Solar Initiative*) and an expansion of the TVA's buy-back program for the power generated by solar and other renewable technologies. The nationwide solar industry grew 69 percent during 2011. In Tennessee the amount of solar energy being generated went from about one megawatt in 2009 to over 55 megawatts in 2012.

Located in Knoxville, the *Tennessee Solar Institute* is part of the new Volunteer State Solar Initiative with The University of Tennessee and Oak Ridge National Laboratory. The objective of the Initiative will be to find ways of reducing the cost of producing solar energy and ways to store energy until needed. Among other purposes, it brings together scientists, engineers and technical experts with business leaders, policy makers and industry

workers to help speed the deployment of solar photovoltaic technology. It is designed to be a home for regional and state initiatives that foster the creation of new businesses.

Tennessee has attracted a several large solar manufactures to the state. A 2011 report by the Tennessee Solar Institute identified more than 200 organizations making up the state's solar industry, including 174 for-profit and 62 nonprofit businesses. Thirty-three of those businesses joined since 2009, with 15 setting up shop in 2010. There are also several more multi-megawatt solar farms either completed or under construction in the state.

East Tennessee has several manufacturing plants. In East Knoxville *Efficient Energy* built a 1.2 megawatt solar panel site with Natural Energy Group to be used for local research and education (see "RECENT DEVELOPMENTS"). In Roane County near the *Oak Ridge National Lab* a smaller array of 200-kilowatts was online in 2012 with plans to expand into the Brightfeld One Project. *AGC Flat Glass* is a solar glass manufacturer with two primary glass plants in Sullivan County and Hawkins County. In Bradley County the $1 billion *Wacker Polysilicon* plant will create 650 jobs to produce silicon used for the solar energy industry. It is expected to be completed by the end of 2015. Also in Bradley County a new $30 million, 9.5 megawatts solar park is providing power to the *Volkswagen Plant* in Chattanooga. It is the state's largest solar array when it went on line in late 2012.

In Middle Tennessee, construction has begun on the $1.2 billion dollar Hemlock Semicondutor in Montgomery County. The facility will produce a primary component used in the manufacture of solar panels and other energy equipment. The original job estimation of 400 people has been lowered to just 100 employees in response to a significant oversupply in the polysilicone industry and the threat of protective tariffs on its products sold into China. Hemlock was expected to be in production by early 2013, but now the production date has been delayed.

In West Tennessee Sharp Electronics in Shelby County (Memphis) has a large array consisting of nearly 4,160 solar panels for $4.3 million that cover the plant's roof to generate about 200 kilowatts of power. Sharp Electronics also has produced over 2 million solar panels since 2003 and has over 480 employees. The West Tennessee Solar Farm in Haywood County has two solar arrays that came online in 2012: a $31 million, five megawatt generating facility uses more than 21,000 panels, and another solar array that generates 1 megawatts of energy.

Source: Memphis Commercial Appeal, the News Sentinel and the University of Tennessee.

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EMPLOYMENT

For the month of February 2014, the unemployment rate for Knoxville stood at 6.6% with 82,000 persons employed out of a labor force of 87,780. For the month of February 2014, the unemployment rate for Knox County stood at 5.7% with 211,760 persons employed out of a labor force of 224,620.

The Knoxville MSA's unemployment for February 2014 was at 6.1% with 331,770 persons employed out of a labor force of 353,470. As of February 2014, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 7.2%, representing 482,440 persons employed out of a workforce of 519,940.

Unemployment

	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	2009	**2010**	**2011**	**2012**	**2013**
National	9.3%	9.6%	8.9%	8.1%	7.4%
Tennessee	10.5%	9.7%	9.2%	8.0%	8.2%
Knoxville	**9.3%**	**8.8%**	**8.3%**	**7.4%**	**7.8%**
Index vs. National	100	92	93	91	105
Index vs. State	89	91	90	92	95
Knox County	**8.0%**	**7.6%**	**6.9%**	**6.3%**	**6.6%**
Index vs. National	86	79	77	78	89
Index vs. State	76	78	75	79	80
Knoxville MSA	**8.7%**	**7.9%**	**7.3%**	**6.6%**	**6.9%**
Index vs. National	94	82	82	82	93
Index vs. State	83	81	79	83	84
Knoxville-Sevierville-Harriman CSA	**9.7%**	**8.9%**	**8.3%**	**7.5%**	**7.7%**
Index vs. National	104	93	93	93	104
Index vs. State	92	92	90	94	94

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

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TEN LARGEST EMPLOYERS

The major areas of employment in Knox County are the services, retail trade and government. Comparatively, both the State and the Nation show a heavier concentration in manufacturing than does Knox County.

Ten Largest Employers in Knox County

Name	County	Industry	Employment
Covenant Health Alliance[1]	Knox	Health Care	9,122
Knox County Public Schools	Knox	Education	7,066
The University of TN, Knoxville	Knox	Education	6,550
University of TN Medical Center	Knox	Health Care	4,061
K-VA-T Food Stores (Food City)	Knox	Retail	3,857
Tennova Health System[2]	Knox	Health Care	3,124
Knox County	Knox	Government	2,991
State of Tennessee	Knox	Regional Government	2,808
City of Knoxville	Knox	Government	2,546
East TN Children's Hospital	Knox	Health Care	1,992

[1] Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.
[2] Includes all Tennova Health System hospitals in the area.
Source: Greater Knoxville Chamber of Commerce and the News Sentinel – 2014.

EMPLOYMENT BY MAJOR INDUSTRY

A diversified economy is credited for the stability of local employment and wages. Employment by industry (excluding self-employed) for the Knoxville MSA in 2012:

Industry	Employment Number	Percentage
Goods Producing	**52,647**	**16.0%**
Natural Resources, Mining, Construction	1,443	0.4%
Construction	15,635	4.7%
Manufacturing	35,450	10.7%
Service Providing	**242,142**	**73.4%**
Trade, Transportation, Utilities	70,899	21.5%
Information	5,478	1.7%
Financial Activities	16,562	5.0%
Professional, Business Services	52,682	16.0%
Educational, Health Services	48,809	14.8%
Leisure and Hospitality	37,889	11.5%
Other Services	9,670	2.9%
Unclassified	65	0.0%
Government	**35,107**	**10.6%**
Federal	5,686	1.7%
State	11,462	3.5%
Local	17,959	5.4%
TOTAL	**329,896**	

Source: Knoxville-Knox County Metropolitan Planning Commission.

DEMOGRAPHICS

POPULATION

Between 2000 and 2010 the population of the nation is estimated to have increased by approximately 9.7%, the state of Tennessee by 11.5% and Knox County by 13.1%.

	Population (In Thousands)			Percent Change	
	2010	2000	1990	2000-2010	1990-2000
Knox County	432	382	336	13.1%	13.79%
Tennessee	6,346	5,689	4,877	11.5%	16.65%
United States	308,745	281,422	248,710	9.7%	13.15%

Source: U.S. Bureau of the Census

The median age of the County's population is 37.0 years. The breakdown of population by age and sex based on the 2010 census for the Knoxville MSA is shown below.

2010 U.S. Census
Population by Age

Age	Total	Percent of Total
<20	108,133	25.1%
20-29	67,602	15.7%
30-39	56,906	13.1%
40-49	60,026	13.8%
50-64	83,068	19.2%
>65	56,491	13.1%
Total	**432,226**	**100.0%**

Source: Bureau of the Census, U.S. Department of Commerce.

PER CAPITA PERSONAL INCOME COMPARISONS

	Per Capita Personal Income				
	2008	2009	2010	2011	2012
National	$40,873	$39,357	$40,163	$42,298	$43,735
Tennessee	$35,061	$34,412	$35,431	$37,129	$38,752
Knox County	**$37,015**	**$36,335**	**$37,354**	**$39,555**	**$41,127**
Index vs. National	91	92	93	94	94
Index vs. State	106	106	105	107	106
Knoxville MSA	**$34,278**	**$33,699**	**$34,704**	**$36,537**	**$37,864**
Index vs. National	84	86	86	86	87
Index vs. State	98	98	98	98	98
Knoxville-Sevierville-Harriman CSA	**$33,016**	**$32,485**	**$33,461**	**$35,175**	**$36,400**
Index vs. National	81	83	83	83	83
Index vs. State	94	94	94	95	94

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

NUMBER OF FAMILIES BY INCOME RANGE
In Knox County

	Number of Families			Percentage of Families		
	2010	**2000**	**1990**	**2010**	**2000**	**1990**
Under $10,000	15,739	5,983	9,735	8.7%	6%	10%
$10,000 - $14,999	9,724	4,370	7,705	5.4%	5%	8%
$15,000 - $24,999	25,141	11,424	16,094	13.9%	11%	18%
$25,000 - $49,999	50,339	29,507	33,171	27.9%	29%	37%
$50,000 and over	79,768	49,625	24,652	44.1%	49%	27%
Total	**180,711**	**100,909**	**91,357**	**100%**	**100%**	**100%**
Median Income	$45,380	$49,182	$32,614			

TRANSPORTATION

Interstate. Two of the nation's most heavily traveled interstates converge in Knoxville--Interstates 40 and 75. Interstate 640 circles the City to the north, and Interstate 140 connects the County to McGhee Tyson Airport in Blount County. This strategic junction allows 53% of the nation's marketplace to be within a 650 miles radius (one day tractor trailer driving distance) of Knoxville.

Motor Freight Carriers. There are 125 regular route common carrier motor lines with terminals throughout Knox County as well as many irregular routes and special contract carriers supplying Knoxville with efficient motor freight services. Thirty-eight moving and storage companies serve the area. Private terminal facilities are available.

Rail Service. Main rail service in Knoxville is provided by Norfolk Southern Railway System and CSX Transportation. Knoxville is at the junction of major east/west and north/south Southern Railway System lines. Approximately 172 miles of track cross Knox County. Direct one-line service is available to most large and small cities in the Southeast. Freight service is provided by the railroads, and both systems have division freight offices in Knoxville.

McGhee Tyson Airport. The McGhee Tyson Airport is the principal commercial airport in East Tennessee, serving the commercial airline industry, air cargo, military aviation and general aviation. With parallel 9,000 feet runways, McGhee Tyson Airport can accommodate any size aircraft. The Airport is located within the city limits of Alcoa 12 miles south of downtown Knoxville. The airport occupies more than 2,000 acres of land with space for additional air cargo facilities or economic development. This facility is owned and managed by the Metropolitan Knoxville Airport Authority. About 2,700 people work at the airport.

According to a 2012 study by the University of Tennessee's Center for Transportation Research, the airport contributes over $616 million to the local economy (including Anderson, Blount, Knox, Loudon and Sevier Counties) every year. The report examined the employment, business and tax impacts of the airport, including the Downtown Island Airport.

The Metropolitan Knoxville Airport Authority (MKAA) was established in 1978 as an independent nonprofit agency to own and operate McGhee Tyson Airport and Downtown Island Airport. The Authority's nine-member Board of Commissioners is appointed by the Mayor of Knoxville and confirmed by City Council. This board determines the policies for the current Airport Authority staff of 150 employees in six departments. The board appoints a President who serves as the chief administrator and executive officer. All of the revenues are generated by user fees and rental income so no taxpayer dollars are used to support airport operations.

Five air cargo services provide daily service. In addition, six passenger airlines carry air cargo on most flights. More than 80,000,000 pounds of airfreight annually pass through its cargo facilities. Federal Express, United Parcel Service and DHL are the main curriers.

McGhee Tyson Airport has several major airlines serving 21 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Miami, Myrtle Beach, New York, Chicago, Denver and Washington D.C. With more than 120 arrivals and departures each day and more than 4,000 seats available, McGhee Tyson Airport is one of the most convenient and accessible regional airports in the nation.

The airport is served by several low fare carriers: Allegiant Air, AirTran Airways, and Frontier Airlines. Allegiant Travel Company is focused on linking travelers in small cities to world-class leisure destinations such as Las Vegas, NV, Myrtle Beach, NC, Orlando, Fla., Ft. Lauderdale, Fla., Sarasota/Fort Meyers, Fla. and Tampa/St. Petersburg, Fla. Through its subsidiary, Allegiant Air, the Company operates a low-cost, high-efficiency, all-jet passenger airline offering air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. AirTran Airways returned to the airport after a nine-year absence to offer new low air fares. Flights began in summer of 2009, but it was announced that in the summer of 2012 the company would leave Knoxville again. Vision Airlines is a Suwannee, Georgia based airline that started flights in early 2011 to beach communities in Northwest Florida. However a few months later in August of 2011 those flights were suspended until the economy improves. Frontier Airlines started flight in the summer of 2011 from Knoxville to its hub in Denver, Colorado and to Chicago, Illinois, Provo, Utah and Sioux Falls, South Dakota.

McGhee Tyson is served by major and regional carriers including:

Major Airlines:		***Regional Carriers:***	
Allegiant Air	AirTran Airways	American Eagle	United Express
Delta Airlines	Frontier Airlines	USAirways Express	

Source: Metropolitan Knoxville Airport Authority.

These airlines connect passengers with service to several hub airports across the nation on more than 120 flights daily.

McGhee Tyson Airport

Year	**Total Commercial Passengers**	**Total Air Cargo in Pounds**
2004	1,607,077	78,691,534
2005	1,846,794	84,346,541
2006	1,674,877	92,219,596
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942

Source: Metropolitan Knoxville Airport Authority.

McGhee Tyson Airport has undergone many improvements in the past few years:

2008 West Aviation Area $50.7 million
2008 Airport Rescue and Fire Fighting Facility $11.3 million
2009 New Food Court in Terminal $615,000
2014 Runway and Taxiway System Upgrade $108 million

Source: Metropolitan Knoxville Airport Authority.

TACAir is McGhee Tyson Airport's general aviation services provider. In addition to providing fuel and services to commercial carriers, they also accommodate the general aviation industry, which includes corporate aviation, charter flights, flight schools and people who fly as a hobby.

The Tennessee Air National Guard's 134th Air Refueling Group operates 10 aircraft at McGhee Tyson Airport. The Guard's KC-135E tankers provide refueling to the country's military aircraft. In addition, the Army Aviation Support Facility, the 110th and 119th Tactical Control Squadrons and the 228th Combat Communications Squadron operate on the base.

The direct and indirect economic impact of McGhee Tyson Airport, including payroll, local spending, transportation cost savings, capital spending and induced benefits is estimated at $1 billion annually. The jobs formed by the aviation industry are perhaps the most important direct benefit that McGhee Tyson Airport offers East

Tennessee. Approximately 2,700 people are now employed at McGhee Tyson Airport.

Downtown Island Home Airport. Knoxville's Downtown Island Home Airport, located five minutes from downtown, serves as another home base for smaller and privately owned airplanes. The Island Home Airport is a 150 acre general aviation facility with a 3,500 foot runway. It is home to more than 100 private and corporate aircraft, with 24 hour a day service available. Construction of three additional private aircraft hangars was completed in 2008. Future projects include a taxiway for new T-Hangars, secondary containment for the fuel depot and mobile fueling equipment and a planning study for future development. These projects are to be funded with a combination of federal grant funds, state grant funds and Airport Authority revenues.

Waterways. Fifteen miles away is the head of the Tennessee River navigation channel in Knoxville. This river is part of the Interconnected Inland Water System that links Knoxville with 21 states, the Mississippi River and the Great Lakes. Linkages may be made to the entire inland waterway system, allowing shipments to be made by water to Houston, Tampa, Pittsburgh, Minneapolis and Little Rock.

Six active river terminals handle barge shipments throughout the area. The Tennessee-Tombigbee Waterway links East Tennessee with 13 other states and the Gulf of Mexico. This 234-mile canal connects 16,000 miles of waterways throughout Tennessee, Mississippi and Alabama leading to the Port of Mobile and the Gulf of Mexico. This Waterway shortens the shipping between Tennessee and the Gulf of Mexico by 882 miles and enables East Tennessee products to arrive at their Gulf destination from eight to nine days earlier. The development of the Tennessee-Tombigbee Waterway has been a catalyst for the development of industry and agriculture throughout the area. Barge shipping has always been a popular alternative to rail in East Tennessee because of the existence of the Inland Water System.

Knoxville also has a Foreign Trade Zone and is an inland Port of Entry with a U.S. Customs Office. In 1988, Knoxville was given its Foreign Trade Zone designation by the U.S. Department of Commerce. This designation allows manufacturers to ship foreign raw materials and components to parts of Knoxville and store them duty free in Knoxville until used. In May 1991, the Foreign Trade Zone was activated.

Bus Lines and Freight Service. Greyhound/Trailways offers passenger and freight terminals. City transportation is provided by Knoxville Area Transit (the "KAT"), which also provides free Trolley service to downtown and the University of Tennessee Campus. KAT provides around 24 public bus routes, operating 80 vehicles and carrying around 3.7 million passengers a year in the city. In 2004, KAT garnered the prestigious American Public Transportation Association's Outstanding Achievement Award. In 2010 Kat moved into the $29 million downtown Knoxville Station Transit Center near the James White Parkway. It has a 20-bus bay facility and state-of-the-art customer amenities to serve as the major transportation hub for metropolitan Knoxville. The facility is the City's first Silver LEED-certified government building.

EDUCATION

Knox County School System. The County operates 49 elementary (including primary and intermediate), 14 middle, 14 high schools, and 11 non-traditional/adult education centers. Included are five magnet schools offering enhanced arts and science curriculum and a new Science, Technology, Engineering, and Mathematics (STEM) Academy. In fall 2013, total public school enrollment was 58,940, while the system employed 3,529 teachers. In addition to public education, there are 51 private and parochial schools offering elementary and secondary instruction in Knox County.

Source: Tennessee Department of Education and Knox Metropolitan Planning Commission.

Post-secondary education is available at 10 public and private four year institutions in Knox County and the surrounding area. The University of Tennessee's main campus is in Knoxville. Pellissippi State Technical Community College and Roane State Community College offer two-year programs for technical and associate degrees along with four other vocational/technical institutions. There are four business colleges located in the area.

The University of Tennessee, Knoxville (the "UTK") is one of the oldest land-grant universities in the nation. There are 220 buildings on a 550 acre campus. Blount College, the UTK's forerunner, was established in Knoxville in 1794, two years before Tennessee became a state. With a fall 2013 enrollment of more than 27,171 students, UTK is the largest campus in the UT System. The University of Tennessee System is a statewide institution governed by a 26-member Board of Trustees appointed by the governor of Tennessee. Institutions of the UT system are UTK, UT Health Science Center in Memphis, UT Chattanooga, UT Martin, UT Space Institute in Tullahoma, and UT Institute for Public Service in Knoxville. In addition to the primary campus, the Agricultural Campus houses the UT Institute of Agriculture, a statewide administrative unit that includes the College of

Veterinary Medicine, the College of Agricultural Sciences and Natural Resources, the Agricultural Extension Service and the Agricultural Experiment Stations.

UTK is a major research institution, attracting more than $150 million in externally sponsored programs annually. The Division of Aeromedical Services is one of the country's most respected and comprehensive aeromedical programs. The university is a co-manager with Battelle of the nearby ORNL. UT-Battelle, LLC, was established in 2000 as a private not-for-profit company for the sole purpose of managing and operating the ORNL for the DOE. Formed as a 50-50 limited liability partnership between the University of Tennessee and Battelle Memorial Institute, UT-Battelle is the legal entity responsible delivering the DOE's research mission at ORNL. Faculty and students experience unparalleled research and learning opportunities at the DOE's largest science and energy lab.

The University conducts externally-funded research totaling more than $300 million annually, including some $17.3 million annually in research sponsored by ORNL. Areas of joint research with ORNL include the Bioenergy Science Center's work on cellulosic ethanol; the Center for Computational Sciences partnership with the National Science Foundation; and the Science Alliance, with divisions in biological, chemical, physical, and mathematical/computer science. UT/ORNL Joint Institutes and Centers include Biological Sciences, Computational Sciences, Neutron Sciences, Heavy Ion Research and the National Transportation Center.

To meet the growing demand for pharmacists, a second UT College of Pharmacy building opened on the Knoxville campus in fall 2007 and enrolled an additional 225 students. The three-story building is adjacent to the Health Science Center's Graduate School of Medicine. The UT College of Pharmacy will extend its reach across the state by adding Clinical Education Centers in Chattanooga, Jackson, Kingsport and Nashville.

In 2008, the University and its statewide campuses brought in at least $2.5 billion annually in income to the State and supported more than 53,600 jobs. The University also generates an estimated $237.6 million in State and local tax revenue per year. Students and visitors attending athletic events at each campus spent approximately $348 million, accounting for $147.3 million in income and 4,879 jobs.

Source: University of Tennessee, UT-Battelle and the News Sentinel.

Johnson University is a private, coeducational institution of higher learning offering associate, bachelor's and master's degrees about 6 miles from Knoxville. Founded in 1893, Johnson University is the second oldest continuing University in America. The purpose of the College is to educate students for specialized Christian ministries with emphasis on the preaching ministry. In the fall of 2012 total enrollment reached 956 for the 175 acre campus (a record enrollment).

Source: Johnson University.

Oak Ridge Associated Universities is a consortium of 98 colleges and universities and a contractor for the U.S. Department of Energy (DOE) located in Oak Ridge, Tennessee. Founded in 1946, ORAU works with its member institutions that include the University of Tennessee and its satellite campuses. The purposes are to help their students and faculty gain access to federal research facilities throughout the country; to keep its members informed about opportunities for fellowship, scholarship, and research appointments; and to organize research alliances among its members. Through the Oak Ridge Institute for Science and Education (ORISE), the DOE facility that ORAU operates, undergraduates, graduates, postgraduates, as well as faculty enjoy access to a multitude of opportunities for study and research. A pioneer in technology transfer, with historic contributions in nuclear medicine and health physics, ORAU today conducts specialized training in nuclear related areas of energy, health and the environment.

Source: Oak Ridge Associated Universities, University of Tennessee at Chattanooga.

Pellissippi State Technical Community College. Since its founding in 1974 as State Technical Institute at Knoxville, Pellissippi State has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2012 was listed as 10,681. The Community College continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing education opportunities for the citizens of Knox, Blount, and surrounding counties. Pellissippi State Technical Community College (PSTCC) has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. The College has released a 2012 report showing the school has pumped an average of $244 million annually into the Knoxville-area economy over the last 5 years.

Several campuses make up the Community College. The main campus is the Pellissippi Campus in west Knoxville. The Division Street Campus and the newer Magnolia Avenue Campus, which opened in 2000, are also in Knoxville. Finally, a new $22 million campus was completed in late 2010 in Blount County.

Source: Pellissippi State Technical Community College and TN Higher Education Commission.

Roane State Community College in West Knoxville. Roane State Community College, which began operation in 1971 in Harriman, Tennessee, is a two-year higher education institution which serves a fifteen county area. Fall 2012 enrollment was 6,659 students. Designed for students who plan to transfer to senior institutions, the Roane State academic transfer curricula include two years of instruction in the humanities, mathematics, natural sciences, and social sciences. Approximately 21 college transfer programs and/or options are offered by the college.

Roane State's 104-acre main campus is centrally located in Roane County where a wide variety of programs are offered. Roane State has nine locations across East Tennessee – the Roane County flagship campus; an Oak Ridge campus; campuses in Campbell, Cumberland, Fentress, Loudon, Morgan and Scott Counties; and a center for health science education in west Knoxville.

Source: Roane State Community College.

South College. South College, formerly Knoxville Business College, is a private institution that has been a part of Knoxville since 1882. The main campus facility is located on Lonas Drive. In 2010, the College opened a second campus in the old Goody's headquarters in Parkside Centre. It has a total enrollment of about 650 students. Throughout its history South College has endeavored to meet the demands of the East Tennessee business community. South College offers a Master's of Health Science in Physician Assistant Studies and baccalaureate degree programs including Pharmaceutical Science (Pre-Pharmacy), Nursing, Health Science (Radiography/Nuclear Medicine), Elementary Education, Business Administration, and Legal Studies. Current associate degree programs include Radiography, Physical Therapist Assistant, Paralegal Studies, Business Administration, Accounting, and Medical Assisting. Nuclear Medicine and Post-Baccalaureate Program (Elementary Education K-6) are the certificate programs offered.

Source: South College.

The Tennessee Technology Center at Knoxville. The Tennessee Technology Center at Knoxville is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Knoxville serves the central east region of the state including Knox and Blount Counties. The Technology Center at Knoxville began operations in 1966, and the main campus is located in Knox County. Fall 2011 enrollment was 1,446 students.

Source: Tennessee Technology Center at Knoxville.

Tusculum College Graduate and Professional Studies Program. Tusculum maintains offices in Knoxville for its Graduate and Professional Studies Program, in addition to other class sites across East Tennessee. Located in Greeneville, Tusculum College is a private college affiliated with the Presbyterian Church. The College was founded in 1794, making it the oldest college in Tennessee and the twenty-eighth oldest college in the nation. Fall 2012 enrollment for Professional Studies was 988. The wooded 140-acre Tusculum College campus has eight buildings and the Tusculum Arch that are listed on the National Register of Historic Places. The College is one of three colleges in the country to operate on a focused calendar, in which courses are scheduled one at a time.

Source: Tusculum College.

MEDICAL FACILITIES

Knoxville serves as a regional medical center for 27-counties in East Tennessee and Kentucky. The available technology, the specialized institutions, and a reputation for quality health care bring people into Knoxville from a 200-mile radius. There are over 2,680 beds in eight acute care hospitals in the County, including three healthcare systems (Covenant Health Care, Tennova Health System and University of Tennessee).

Construction and renovations to existing facilities in the area have made a substantial impact on the local economy. From in the early 2000's Knox County saw two new hospitals open along with several renovations and expansions of other existing hospitals.

Source: Knox Metropolitan Planning Commission and the News Sentinel.

Covenant Health. Covenant Health is a comprehensive health system established in 1996 by the consolidation of Fort Sanders Health System, Knoxville, Tennessee, and MMC HealthCare System, parent company of Methodist Medical Center of Oak Ridge, Tennessee. With headquarters located in Knoxville, the system provides comprehensive services throughout East Tennessee. It is also the largest employer in the area. The organization is governed by a voluntary board of directors composed of community leaders and medical professionals.

Covenant Health includes 30 member organizations, eight of which are acute care hospitals in East Tennessee: Fort Sanders Regional Medical Center and Parkwest Medical Center in Knoxville, Methodist Medical Center of Oak Ridge, Fort Loudoun Medical Center in Loudon, LeConte Medical Center in Sevierville, Roane Medical Center in Harriman, Morristown-Hamblen Healthcare System in Morristown, and the newest facility Cumberland Medical Center in Crossville. It also includes Peninsula Hospital, a psychiatric hospital in East Tennessee's Blount County. Covenant Health also operates numerous other healthcare facilities for outpatient clinics, cancer centers, breast centers, behavioral health, rehabilitation, home health and weight management to name a few. The system also owned its own health insurance carrier until a merger with Humana in 2008 for $22 million.

Over the last few years, the largest hospital operator in the area has built new or expanded facilities in Sevier, Loudon, Anderson, Cumberland and Knox counties. It recently finished construction for a $75 million expansion project at Fort Sanders Regional Medical Center in Knoxville as well as finished a new $50 million hospital in Roane County. See "RECENT DEVELOPMENTS" for new information on the system.

Fort Sanders Regional Medical Center. Part of Covenant Health, Fort Sanders is a 541-bed full-service acute care hospital with about 584 doctors located in the Fort Sanders community of downtown Knoxville. The hospital was built in 1919 and has about 1,900 employees. In 2013 Fort Sanders received national recognition as a comprehensive stroke center, the second Tennessee Hospital to receive that award. The certification from the Joint Commission on Accreditation of Healthcare Organizations means that the medical center is recognized as having the infrastructure, staff and training to receive and treat complex cases. Fort Sanders is a regional referral center for neurosurgery, neurological disorders, orthopedics, oncology, cardiology, obstetrics and rehabilitation medicine. The hospital offers a variety of specialized services such as a 24-hour Chest Pain Center, one-day surgery, electrodiagnostics, a Sleep Disorders Center, a Diabetes Center, prenatal education, and sports medicine. A new $150 million expansion was completed for the facility in 2010. See "RECENT DEVELOPMENTS" for new construction on the facility.

Parkwest Medical Center. Part of Covenant Health, Parkwest is region's only Top 100 Heart Hospital (which the hospital has been named seven times). Parkwest has 462 beds with 611 doctors on staff. The total employment is 2,202, and there were 23,933 admissions in 2011. The campus includes one of the area's first all-digital catheterization laboratories and a comprehensive breast center with a multidisciplinary approach to women's health. Peninsula Behavioral Health is a division of Parkwest Medical. See "RECENT DEVELOPMENTS" for new construction on the facility.

Tennova Healthcare. Mercy Health Partners named changed to Tennova Healthcare after it was sold in October of 2011 to Health Management Associates Inc. Tennova Healthcare is a profit based healthcare system, which is a change from the charity based history of Mercy. Mercy Health Partners, whose parent company was Catholic Healthcare Partners, had seven acute care hospitals. Catholic Healthcare Partners announced in early 2011 that Mercy Health Partners was up for sale due to the down economy. Previously in 2008, St. Mary's Health System had merged with Baptist Health System to create Mercy Health Partners.

The hospitals have all undergone a name change as of 2011: Physicians Regional Medical Center (previously Mercy Medical Center, St. Mary's in Knox County), Turkey Creek Medical Center (previously Mercy Medical Center, West in Knox County), North Knoxville Medical Center (previously Mercy Medical Center, North in Knox County), Jefferson Memorial Hospital (previously St. Mary's Jefferson Memorial Hospital in Jefferson County), Newport Medical Center (previously Baptist Hospital of Cocke County), and LaFollette Medical Center (previously St. Mary's Medical Center of Campbell County). The seventh hospital, St. Mary's Medical Center of Scott County, was not part of the sale since its lease with Mercy is scheduled to end in 2012. See "RECENT DEVELOPMENTS" for new information on the system.

Physicians Regional Medical Center (Mercy Medical Center, St. Mary's). Part of Tennova Healthcare, Physicians Regional Medical Center is a 370-bed facility with 810 physicians on staff near downtown Knoxville. There are a total of 1,189 employees, and the Center had 16,999 admissions in 2011. Built in 1930, Physicians Regional has five areas of special expertise: Women's Services, Cancer Care, Orthopedics, Cardiac Care and

Neurosciences.

North Knoxville Medical Center (Mercy Medical Center, North). Part of Tennova Healthcare, North Knoxville Medical Center opened in the fall of 2007 in north Knox County. The full service facility has 108 beds with 811 physicians on staff. A total of 497 people are employed at the Center, and in 2011 there were 3,026 admissions. See "RECENT DEVELOPMENTS" for more information on the construction of the new facility.

Turkey Creek Medical Center (Mercy Medical Center, West). Part of Tennova Healthcare, Turkey Creek Medical Center has 101 beds with 799 physicians on staff in west Knoxville. There are 526 people employed at the hospital, and in 2011 there were 4,081 admissions. Turkey Creek has a 24-hour, full-service, all-digital campus, completely staffed emergency department that cares for men, women and children of all ages. Every patient room is a private room. An intensive care unit, state-of-the-art surgical suites, imaging services, rehabilitation services and specialized staff and physicians bring groundbreaking, comprehensive treatment. The hospital had merged with the neighboring Baptist Hospital for Women. The merged hospital offers labor, delivery, recovery and postpartum suites, backed up by the latest technology. Surgery, mammography, wellness and general care services are all focused on a woman's needs. In the summer of 2008 the open-heart program from Baptist Hospital of East Tennessee moved to Turkey Creek. The hospital is also home to the Stokely Heart Pavilion and the Baptist Regional Cancer Center. The hospital opened in the summer of 2003 and employs about 400. See "RECENT DEVELOPMENTS" for more information on the construction of the new facility.

East Tennessee Children's Hospital. Located in Knoxville, East Tennessee Children's Hospital is a private, independent, not-for-profit pediatric medical center. There are 152 beds with 428 doctors on staff, of which more than 90 are pediatric subspecialists. A total of 1,900 people are employed at the hospital, and there were 5,941 admissions in 2012. The hospital originally opened in 1937, and is the only Comprehensive Regional Pediatric Center in East Tennessee certified by the State. Pediatric services offered include ICUs, emergency services, outpatient clinics for oncology, hematology, diabetes, cystic fibrosis and a rehabilitation center. See "RECENT DEVELOPMENTS" for new construction on the facility.

University Health Center. The University of Tennessee Medical Center is part of University Health System Inc. (the "UHS"), a regional health system that comprises the UT Medical Center, the new UT Heart Hospital, UT Health Network and various partnerships and joint ventures with physicians and healthcare companies. UHS is affiliated with the University of Tennessee Graduate School of Medicine and numerous regional hospitals and physician organizations. UHS supports and collaborates with the UT Graduate School of Medicine and other academic endeavors as part of its commitment to excellence in education and research.

The *UT Medical Center* in Knoxville is an acute care teaching hospital with 581 beds and about 456 doctors. The hospital employs about 3,986 people and had 25,588 admissions for 2011. Designated as the region's Level I adult and pediatric Trauma Center by the state of Tennessee, the Medical Center provides the highest level of programs and emergency services. Critically ill patients are transported to the Medical Center via one of LIFESTAR'S two helicopters.

Special care units such as cardiac care, open heart, medical intensive care, neuro-respiratory, and trauma surgical intensive care are available for patients who require maximum medical attention. A Level IV Intensive Care Nursery, a Pediatric Intensive Care Unit, a newborn nursery and many other programs comprising Children's Health Services enable the hospital to provide the region's most comprehensive medical services for infants and children. University Hospital also serves as the Regional Perinatal Center. The new Heart Hospital was opened in 2010. The Cancer Institute has finished construction in 2012. See "RECENT DEVELOPMENTS" for new construction on the facility.

Source: Covenant Health, Mercy Health Partners, East TN Children's Hospital, University Health Center and the News Sentinel.

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KNOXVILLE AREA HOSPITALS

Hospital	Beds	Employees	Type	Service
East Tennessee Children's	152	1,900	Non-Govt/Non-profit	Child Care
Fort Sanders Parkwest Medical Center	462	2,202	Non-Govt/Non-profit	Gen. Med/Surg.
Fort Sanders Regional Medical Center	541	1,911	Non-Govt/Non-profit	Gen. Med/Surg.
North Knoxville Medical Center (Mercy Medical Center, North)	108	497	Non-Govt/Non-profit	Gen. Med/Surg.
Physicians Regional Medical Center (Mercy Medical Center)	370	1,189	Non-Govt/Non-profit	Gen. Med/Surg.
Turkey Creek Medical Center (Mercy Medical Center, West)	101	526	Non-Govt/Non-profit	Gen. Med/Surg.
University of Tennessee Medical Center	581	3,986	Non-Govt/Non-profit	Gen. Med/Surg.
Total	**2,315**	**12,211**		

Source: Tennessee Hospital Association.

UTILITIES

Electricity. In Knoxville, the most used energy sources are electricity and natural gas. The Knoxville Utilities Board (KUB) distributes electrical power generated by the Tennessee Valley Authority (TVA).

TVA was created by an act of Congress in 1933 to control floods and to produce electrical power along the Tennessee River and its tributaries.

TVA's install generating capacity of 32.2 million kilowatts consists of 55% coal-fired, 18% nuclear, 14% hydroelectric, 8% gas combustion turbines, and 5% hydroelectric pumped storage. Additional nuclear capacity of approximately 5 million kilowatts is in various stages of completion for meeting future needs.

Electrical power is available with few restrictions to suit the customer's needs. The region enjoys an abundance of power at competitive rates. The electrical power supply is very reliable. Occurrences of small area outages are rare and most are caused by severe thunderstorms.

Natural Gas. Knoxville Utilities Board provides natural gas to Knoxville and Knox County. KUB distributes natural gas supplied by East Tennessee Natural Gas.

Water. Water service within the City of Knoxville is provided by KUB from Fort Loudon Lake, which is fed by two major rivers and is an unlimited source for the area's treated water supply. KUB has rated treatment capacity of 60 million gallons per day. Sewer service within the City limits is provided by the Knoxville Utilities Board, Bureau of Water/Waste Water. Currently sewer service operates with a full treatment capacity of 60 million gallons per day. In Knox County, outside the City of Knoxville limits, water service is supplied by six utility districts.

LIBRARIES

Knox County Public Library System. The System operates the main branch, Lawson-McGhee Library, in downtown Knoxville, as well as 18 other branches. The size of the collection is 1,224,272.

Other libraries in the area are the Calvin Morgan McClung Historical Collection, the Knox County Archives, University of Tennessee Libraries and TVA Library. Medical libraries and nearby libraries of Oak Ridge, Maryville and special libraries of federal agencies, and Oak Ridge National Laboratories all combine to make Knoxville a major learning center with information easily accessible to everyone.

COMMUNICATIONS

Knoxville has one daily newspaper, *The Knoxville News-Sentinel* that is published every morning. In 2013 the Daily Circulation was more than 85,611 readers and Sunday Circulation was 114,572 readers throughout a 27-county area. *USA Today*, the *New York Times*, and the *Wall Street Journal* are among the many nationwide newspapers available on Knoxville's newsstands and by same-day subscription service.

Knoxville is served by nine television stations including four national television networks, one public broadcasting service and one independent station.

There are 17 radio stations serving Knoxville.

Bell South and three additional operating telephone companies provide local telephone service. AT&T and five other private companies offer long distance service.

Digital cable and high speed Internet access are provided by Comcast, Knology, and Charter. BellSouth provides a high capacity fiber optic network.

The U.S. Postal Service operates a main office in West Knoxville and nine branch stations throughout the community. It offers overnight service along with 12 other courier services.

FINANCIAL INSTITUTIONS

There are several banks and credit unions with offices in Knox County. The following table provides a listing of the banks operating in Knox County as presented in the Bank Directory of Tennessee:

KNOX COUNTY BANKS
as of June 2014

American Trust Bank	First Tennessee Bank
B B & T Bank	First Volunteer
Bank East	FSG Bank
Bank of America	Home Bank of Tennessee
Branch Banking & Trust	Home Federal Bank of Tennessee
CBBC	New South Credit Union
Citizens National Bank	Regions Bank
Citizens Savings & Loan	SunTrust Bank
Clayton Bank & Trust	Tennessee State Bank
Community South Bank	Tennessee Teacher's Credit Union
Fidelity Bank	The Trust Company
First Century Bank	Pinnacle National Bank
First People's Bank	UT Federal Credit Union
First National Bank	Wells Fargo Bank

TOURISM

RECREATION AND CULTURAL ACTIVITIES

Although industry is frequently considered the core of an economic base, secondary and tertiary activities also make important contributions to economic development. The convention and tourist business contribute to the City's economic base in the sense that income is drawn into the region resulting in employment and investment opportunities in tourist-related facilities.

This influx in tourist related income provides stimulus to economic development in the area. In recognition of the important role tourism plays in the economy of the County, local authorities created the Knoxville Tourism and Sports Corporation. The organization's purpose is to encourage tourism and tourist-related activity.

Sports. Knox County has over 6,000 acres of park and recreation space, including 25 recreation centers, six senior citizen centers, three skateparks, 10 public golf courses, and approximately 74 miles of greenway and walking trails. Two big attractions for both young and old are the Knoxville Zoological Gardens and Ijams Nature Center. The Tennessee Smokies provide AA minor league baseball in neighboring Sevier County. The Knoxville Ice Bears provide professional hockey at the Coliseum October through March. National championship UT sports teams, including the 2007 and 2008 NCAA National Champions Lady Vols, draw thousands of enthusiasts to games each year. The city is also home to the Women's Basketball Hall of Fame.

State and National Parks. The County is the principal gateway area to the Great Smoky Mountains National Park (GSMNP), located 40 miles to the southeast. The beauty of the Great Smoky Mountains has always attracted visitors to this region. There are over 500,000 acres that make up the nation's most visited National Park,

extending over the States of Tennessee and North Carolina. The GSMNP received over 9 million visitors in 2010, more than twice the number of any other national park in the country. Major attractions in the Smokies are Gatlinburg (40 miles southeast of the City), a tourist town in the mountains with overnight accommodations for 60,000 people, and Pigeon Forge (20 miles southeast of the City), and a tourist town at the foothills of the mountain with overnight accommodations for 40,000 people. Numerous restaurants, gift and craft shops, along with ski lodge, ski lifts and tramway, make Gatlinburg a year-round resort town. Pigeon Forge is known for being home to hundreds of retail outlets and Dollywood, a theme park named for the country music singer, Dolly Parton.

Other parks and recreational areas in the Greater Knoxville area include: Big South Fork National River and Recreational Area 100,000 acres; Frozen Head State Natural Area 11,562 acres; Norris Dam State Resort Park 4,000 acres; Big Ridge State Park 3,687 acres; Cumberland Mountain State Park 1,720 acres; Panther Creek State Park 1,400 acres; Cove Lake State Recreational Area 667 acres; Roan Mountain State Resort Park 600 acres; Fort Loudon State Historical Area 500 acres; Indian Mountain State Park 213 acres; Warriors' Path State Recreational Park 500 acres; Trail of the Lonesome Pine: State Scenic Trail 35 miles; and Cumberland Trail: Section II: Tennessee Scenic Trails System Act 31 miles.

Lakes and Wildlife. Seven TVA lakes surround Knoxville and provide year-round fishing and boating. There are no closed seasons on TVA waterways. Area lakes provide over 3,425 miles of shoreline and 266 square miles of water surface.

Alpine Skiing. Ober Gatlinburg Ski Resort in Sevier County and Cumberland Gardens Resort in nearby Cumberland County offer convenient facilities for winter skiing.

Conventions and Exhibitions. The 1982 World's Fair left a legacy of buildings and events. The 109,000 square foot Convention Center on the World's Fair Site offers exhibit, ballroom and meeting spaces for conventions.

Events and Festivals. Special seasonal events include the Dogwood Arts Festival in the spring, Sundown in the City during summer months, Boomsday in the fall, and December's celebration, Christmas in the City. Knoxville supports an active tourism and convention trade with a 500,000-square foot convention center located downtown at World's Fair Park. Other local facilities are a large civic coliseum/auditorium, two exhibition halls, and a 25,000-seat arena.

Cultural Activities. The General James White Memorial Civic Auditorium and Coliseum Complex hosts the Knoxville Symphony Orchestra, touring Broadway productions, ice shows, circuses and concerts of all types and the professional hockey team, The Knoxville Ice Bears. The historic Tennessee Theatre and the Bijou Theater offer a variety of live entertainment.

The University of Tennessee Theaters continues to provide a wealth of entertainment and culture to Knoxvillians. The Clarence Brown Theater, the University's premier performance space seats 600 in a proscenium theater. The Clarence Brown Theater Company is dedicated to the classics of the stage and produces three full scale and one or two touring productions each season. The Carousel Theater is the University's smaller theater which holds 250-300 people.

The Knoxville Museum of Art features changing exhibits throughout the year. Many libraries, historic sites, and museums, such as the Museum of Appalachia, add to the cultural value of the Knoxville area

Other popular events in Knoxville are presented by the Knoxville Symphony, Knoxville Chamber Orchestra, Knoxville Community Bank, Knoxville Opera Company, the City Ballet, the Appalachian Ballet, Metropolitan Dance Theater, the Knoxville Ballet, the Tennessee Stage Company, the Community Theater, the Knoxville Choral Society, Sidewalk Dance Company and the Children's Dance Ensemble, the only professional dance troupe for children in the country.

Ijams Nature Center. Ijams Nature Center is a nonprofit environmental education and resource center located on eighty acres on the banks of the Tennessee River in South Knoxville. The area encompasses woods, meadows, sinkholes, a spring-fed pond, and informal perennial gardens connected by a series of trails. The park has been developed to display East Tennessee's ecological systems at work and provide a conservation area for wildlife indigenous to the park. A number of high-quality programs, events, and environmental information are available to schools, the media and the general public.

The Knoxville Zoo. The Knoxville Zoological Gardens is recognized as one of the top 20 zoos in America. It is located on 80 acres and has more than 1,000 species of animals. The Knoxville Zoo has the largest "big cat" collection in the United States and is home to the first African Elephant birth in the United States and the newly

developed Gorilla Valley. This zoo has a collection of red pandas and is the world leader in captive breeding of this rare breed.

Source: Knoxville News Sentinel and the Knox County Metro Planning Commission.

RECENT DEVELOPMENTS

Following are some recent developments within the boundaries of the City and County and the Knoxville MSA that have had a direct economic impact on the area. The source for statistical information below is the Knoxville Area Chamber Partnership, the City of Knoxville, the Knoxville-Knox County Metropolitan Planning Commission, the Knoxville News Sentinel and The Daily Times.

EAST KNOX COUNTY

American Book Company. Wholesale book distributor American Book Co. closed its operation in Knoxville in 2010. 250 jobs were eliminated. The Company is the largest wholesale distributor of closeout or bargain-priced books and was headquartered in Knoxville.

Brunswick Boat Group. The Brunswick Boat Group closed the Sea Ray production plant in the Forks of the River Industrial Park in 2012. Production was moved to other Brunswick plants in nearby Monroe County, TN and Florida. About 225 jobs at the plant were lost due to the closing. However, the company will keep the Sea Ray Boat's headquarters at the Forks of the River Park, and the Brunswick Boat Group's headquarters will remain in downtown Knoxville. A decline in boat sales led to the layoffs at many East Tennessee plants, totaling 1,000 employees within the company to be let go. Sea Ray Boats moved to the Forks of the River Park in 1978 and in Monroe County in 1983. At one point the company had as many as 2,000 workers in Knox County.

East Tennessee Zinc Co. As of 2009, East Tennessee Zinc Co. has sold its three zinc mines in Jefferson and Knox Counties to the Belgium company Nyrstar NV for $126 million. East Tennessee had idled the mines in early 2009 due to zinc prices plummeting to about 52 cents a pound. 320 workers were laid off with about 70 staying on to maintain the mines. As of October 2010, Nyrstar has reopened the Coy mine with a limited employment and production. No date has been announced yet when all three mines will be back in full operation again.

The Young mine in New Market opened in 1956; the Coy mine in Strawberry Plains was started in 1957; and the Immel mine in East Knox County's Mascot community opened in 1965. Zinc from the Young, Coy and Immel mines is widely used to galvanize steel.

Efficient Energy of Tennessee. Efficient Energy, in partnership with Natural Energy Group, built a solar panel site in East Knoxville in 2010. The site has more than one megawatt worth of solar panels on a five-acre lot. The 4.608 solar panels can produce nearly 1.2 megawatts of electricity, enough to power about 125 homes. The site will also be a resource for local research and educational organizations, such as the Oak Ridge National Lab, Cleveland State Community College and Pellissippii State community College.

Fresenius Medical Care. The German company Fresenius Medical Care announced plans to locate its East Coast manufacturing facility in Knoxville. The company is a renal services provider. The $140 million project will begin to build a dialysis production plant in 2016 in the city's old Panasonic building. It is expected to create about 665 jobs.

Green Mountain Coffee. Green Mountain Coffee Company will begin a $4 million expansion of its Knox County operation to boost efficiency, without many jobs created. The company started production in late 2008 at a new 334,000-square-foot facility in Forks of the River Industrial Park. The company invested about $55 million dollars on the plant and had a staff of about 25. An $8 million coffee roasting equipment was installed and coffee silos were built in 2009. The company shares have spiked in value recently due to the success of the company's K-Cup business, which is individual coffee packs for single cup servings. In 2011 it was announced a partnership with Starbucks to sell individual coffee packs of the Starbucks brand coffee. The company bought three large acquisitions in 2009: Tully's Coffee Brand for $40.3 million, Timothy's Coffees of the World Inc. for $157 million and Diedrick Coffee Inc. for $290 million. Green Mountain's Knoxville operation employs about 900 people in 2013.

KEMET Foil Manufacturing. The aluminum foil plant, formerly owned by Panasonic Electronic Devices Corp of America, is located in the Forks of the River Industrial Park. The plant, which produced speakers and

capacitors, was closed in March of 2010. The speaker production was moved to Mexico, and the capacitors were shifted to a plant in Malaysia. At its peak production in 2002 the company employed 725 people. KEMET Foil Manufacturing purchased the aluminum foil plant's assets and resumed production of the specialty product used in electronics. Production was restarted in October 2010 with about 30 of the 170 employees who previously worked in the facility. The design and program management teams, about 30-35 employees, also stayed in Knoxville.

Knox County Detention Center. The Detention Center in east Knoxville installed over 300 solar panels, five solar storage tanks, 65 concrete pads and more than 6,000 feet of copper piping to make it one of the largest solar thermal systems for domestic use in the nation. Trane, Knox County and FLS Energy partnered to save Knox County $60,000 annually in switching from natural gas to solar power as the primary way to heat water for the detention center's 1,036 inmates. The project was funded by a $1.88 million grant from the U.S. Department of Energy Efficiency. The County also plans to renovate and upgrade 40 facilities, 24 parks and 37 traffic intersections with the grant money, all completed in January 2011. The total project is expected to save the County about $6 million annually.

Leisure Pools. Leisure Pools, which makes composite swimming pools, announced in 2013 that it was moving its headquarters to Knox County and creating about 240 jobs. The company acquired the old Sea Ray facility in the Forks of the River Industrial Park for about $4.5 million. Many of the laid-off Sea Ray employees will transition to the new company since much of the same equipment and systems used by the boat company will be used by Leisure Pools.

Melaleuca. Located in the Forks of the River Industrial Park, Melaleuca is expanding its operations and will hire up to 500 more workers in the next 10 years. A new 222,000-square-foot distribution center was opened in mid-2010. Melaleuca produces nutritional supplements, cleaning supplies, personal care and other products and sells these through workers who operate as direct marketers. The company has been operating in Knoxville since 1993.

WEST KNOX COUNTY

ADT Corporation. A planned expansion to facilities and work force in 2013 will result in about 300 more workers to its workforce. ADT provides electronic security for residential and small business customers in the U.S. and Canada. Its Knoxville center has about 300 workers and following a recent upgrade, the facility is now ADT's IT Disaster Recovery Center.

Cellular Sales Verizon Wireless. Cellular Sales Verizon Wireless is a Knoxville-based company that operates authorized Verizon Wireless stores nationwide. The company began expanding its facility in West Knoxville that will result in 250 new jobs when complete in 2014. The company operates nearly 500 stores across the country. The Knoxville-based company is the nation's largest premium Verizon retailer.

East Tennessee Healthcare Center. Construction has begun on a $119 million proton therapy center will open in the East Tennessee Healthcare Center. The development is situated on 120 acres in the Dowell Springs Business Park, a central location to physicians, hospitals, and area residences. The 90,000-square-foot facility is expected to be completed in 2014. The project has an estimated $1.5 million annual economic impact that will create 1,250 construction jobs and 100 full time employees. Proton therapy is a noninvasive and painless form of precision radiation treatment that has minimal to no side effects. It is expected to treat up to 1,500 patients per year. There are about 10 proton therapy centers operating in the country.

Initial construction completed in 2009 included a $35 million medical office development, consisting of two buildings which offered 175,000 square feet of clinical and office space. The Knoxville Comprehensive Breast Center and Tennessee Cancer Specialists are the anchor tenants of the office space. Plans for the grounds support the East Tennessee Healthcare Center's holistic approach to wellness and healthy living with "walking paths, waterfalls and beautiful mountain views."

Goody's Family Clothing. In 2010 nine of the Goody's stores in Tennessee had reopened after being bought by a Texas company. In 2009 the Knoxville based Goody's closed the company after filing for Chapter 11 Bankruptcy twice in eleven months. More than 800 Knoxville-area employees were affected by the closing. Goody's entered bankruptcy protection in 2008 for five months, saying it had been hurt by high gasoline and food prices. As part of its restructuring, Goody's closed more than 70 stores, as well as a distribution center and a New York office. It had emerged from bankruptcy in October of 2008 only to re-file in January of 2009. Goody's was founded in 1953 by the Goodfriend family in East Tennessee. It grew to more than 300 stores operating primarily in the South and Midwest. Goody's had about 9,800 employees and annual revenues of $800 million. The old

headquarters in Parkside Centre is now partly occupied by a new campus of South College.

Jewelry Television. Knoxville-based Jewelry Television completed construction of its headquarters facility on a 50-acre in the Pellissippi Corporate Center owned by the Knox County Development Corporation. The site is part of the Tennessee Technology Corridor. The headquarters include approximately 200,000 square feet for office, studio, and call center space and an additional 100,000 square feet for warehouse space. The budget for the project was $20-$25 million for construction with another $7-$9 million allocated for furniture and equipment. Construction was completed at the end of 2007.

In 2008 the company announced that over 900 jobs in Knoxville and Nashville were eliminated in a restructuring effort due to economic stresses. In early 2009 the company returned to profitability and will maintain the reduced workforce of about 1,100 employees from a high of 2,000 in 2008.

The Pavilion at Turkey Creek. Turkey Creek is the largest single commercial development ever built in the metropolitan area of Knoxville. Designed for mixed use and beautifully landscaped, Turkey Creek boasts more than 300 acres of space zoned for retail shopping outlets, medical facilities, theaters, office space, banks, restaurants and hotels. The developers of Turkey Creek also created a 58 acre nature preserve and designed greenways throughout the site. Only three miles from the junction of Interstate 75 and 40 to the west and 14 miles from downtown Knoxville makes the site a quick drive from the urban center, suburban Knoxville, and rural counties. By 2009, Turkey Creek included 1.5 million square feet of retail space, a million feet of office space, and a half-million feet of restaurants and entertainment.

Completed in 2002, the original 287,847 square foot complex is anchored by Office Max and Old Navy. Gander Mountain Company, specializing in outdoor equipment, opened its 66,000 square foot store for $3.95 million in the fall of 2006. Belk, the nation's largest privately owned business, also opened a store in 2006. A row of furniture stores are open, including Braden's Lifestyles, Ethan Allen and Thomasville. Also, Earth Fare opened Tennessee's first organic market.

In 2009 several retail chains opened stores in Turkey Creek. Belk opened a new 30,000-square-foot store at Colonial Pinnacle that were part of a $3.8 million expansion and renovation project. The final phase at Belk includes an adjacent 74,349-square-foot store that expanded the Women's and Children's offerings in the summer of 2009. JCPenneys opened a 104,000-square-foot freestanding store in Turkey Creek. Marshalls opened a new 5,000-square-foot store next to Belk, and Off Broadway Shoes also opened a new store.

A new restaurant, Red Robin, opened in April of 2009 next to the new Marshalls. About 100 people were hired. Ashley Furniture closed its doors in summer of 2009 and was very quickly bought by Knoxville Wholesale Furniture.

PBR. In 2009 PBR announced it was shutting down its facility in the WestBridge Business Park in 2010. About 250 workers were laid off as a result. PBR manufactures automotive parts, mainly brake calipers, and is owned by The Bosch Group.

Pilot Flying J. Pilot Flying J is headquartered in Knoxville and is the largest U.S. travel center company with 305 Centers in 40 states. A merger with Pilot Corp. and Flying J Inc. was announced in the summer of 2009. Flying J is a Utah-based operator of travel centers, oil refineries, a pipeline and other operations. The resulting company is a multi-billion-dollar corporation headquartered in Knoxville with 550 travel centers in more than 40 states and Canada. It is the largest retail travel center operator in North America and the largest retailer of diesel fuel.

Regal Entertainment Group. Headquartered in Knoxville, Regal Cinemas opened 4 new IMAX locations across the country in 2010. Regal has an agreement with Imax Corporation. Regal Cinemas' Pinnacle 18 opened an $18-million megaplex in 2005 in Turkey Creek. The 18-screen theater encompasses over 82,000 square-foot. Regal Cinemas is one of the nation's fastest growing theater companies. Major movie premiers have occurred at the Pinnacle.

Scripps Networks. Scripps Network announced in 2010 that it was relocating its corporate headquarters to Knoxville from Cincinnati. In 2007 the facilities in Knoxville underwent a $30 million, 150,000-square-foot expansion on 11 acres. The expansion nearly doubled the company's office space and brought all of its Knoxville divisions into one campus. Scripps Network is the home of Home and Garden TV network and had revenues totaling $1.5 billion in 2009. The company's technical center - which includes satellite uplink operations, a control center for all its television networks and a wide range of other administrative, business and creative functions- is also based in Knoxville.

Semperian LLC. Semperian serviced loans for General Motors Acceptance Corp and closed its doors in April of 2010. About 170 employees were laid off. Semperian has offices in Arkansas, Florida and Texas. The Knoxville office opened in 2002 and provided collection and customer support services for GMAC's low- and medium-risk loan collections activities, plus accounting and other services.

Summit Healthcare Services. Summit is a Knoxville company that manages 33 physician practices in nine counties with about 1,000 employees and 150 affiliated physicians. There are two construction projects completed: a $3 million expansion of an MRI-CT center in Deane Hill; and a $1.8 million office for Concord Medical Group off Kingston Pike near Pellissippi Parkway that opened in early 2004.

University of Tennessee Medical Center. The Medical Center combined two of its divisions to create a new health system and shifted 200 employees to the organization. University Health System was formed by combining the hospital's management services organization and the University of Tennessee Health Plan and is wholly owned by UT. The management services organization is the hospital's medical practice area, which includes centralized billing, administrative services, practice developments and physician recruitment. The 200 employees transferred all work in the management services division. The UT Health Plan is a managed-care organization. The new organization began operation in 2006 in offices on Executive Park Drive.

The Medical Center also leased a satellite facility in the Turkey Creek development in 2004. The 103,000 square foot facility will contain private physician offices, outpatient services, rehabilitation services, dentistry, an endoscopy center and an urgent-care clinic.

NORTH KNOX COUNTY

WS Packaging Group, Inc. WS Packaging will open a new $43 million expansion of its current operations by opening a new location in the PBR building in northwest Knox County. The expansion will increase operations and consolidate its Knoxville facilities. The expansion will bring 231 new jobs. The expansion is expected to be complete by July of 2014.

SOUTH KNOX COUNTY

Baptist Hospital Site. Developers began tearing down the former Baptist Hospital site in early 2014 to make way for a $125 million to $150 million redevelopment that will include a hotel, apartments, student housing and retail. Located on the other side Fort Loudoun Lake from downtown Knoxville, the former hospital has been mostly vacant for years. The demolition should be completed by the end of 2014.

Cityview at Riverwalk. A 122-unit waterfront condominium on the site of Knoxville Glove Co. at the South Knoxville waterfront broke ground in spring of 2006 and went into receivership in May 2009. The developers were in default of a $23 million construction loan. The site was sold to developers for about $15 million. The development consists of one-, two- and three-bedroom units, ranging in price from $165,000 to more than $300,000. The total cost of the residential development is about $30.5 million and was completed in 2010. Cityview amenities include a fitness center, covered secured parking and a marina. The 96-slip marina has been approved by TVA, and some slips are to be sold to the public.

Woodlands. A $25 million new student-condominium development, The Woodlands is conveniently located five minutes from UT. Located on more than 100 secluded acres, including a dedicated green space, it features walking, running and biking paths. The development features $3 million in amenities: five swimming pools, an 8,000-square-foot clubhouse, on-site courtesy officers and gates with remote-control access.

DOWNTOWN BUSINESS DISTRICT

Bijou Theatre. Downtown's Bijou celebrated its 100 year anniversary in early 2009. A new Marquee sign was installed to mark the occasion. The Bijou started out as a hotel, the Lamar House, in the 1800s. During the Civil War it was an army hospital. Then it was redesigned into a theater in 1909. In 2006 funds were raised to save it from foreclosure and for renovation. It currently has a steady calendar of concerts and shows booked.

Converted Apartments. Several notable downtown buildings have been converted into apartment spaces. A former office property, the Medical Arts Building, was converted to 49 apartments with some retail spaces in 2014. It is located close to the courthouses and has an attached parking garage. The Tailor Lofts building on Gay Street was also converted into nine apartments plus a ground-floor restaurant.

East Tennessee Children's Hospital. The non-profit Children's Hospital will begin construction in the summer of 2014 for a $75 million expansion that should be completed in 2016. The expansion will offer over

245,000 square feet of new space, including a 44-bed, private room Neonatal Intensive Care Unit, a new perioperative surgery center, two levels of parking and enhanced family areas, such as roof-top gardens.

Gay Streetscape Project. In April 2009 several blocks of Gay Street were closed for a $3.5 million project to improve sidewalks, trees and on-street parking. It was completed in 2010. Underground utilities were also replaced. Digging below that section of Gay Street may be a problem since in 1919 the street was raised to the second-floor height of the surrounding buildings to be flush with a newly built Gay Street Viaduct.

Gulf & Ohio Railways. The Knoxville Locomotive Works operation of the Gulf & Ohio Railways, a Knoxville-based short line railroad, began renovating its existing facility to begin producing locomotives based on its fuel-efficient prototype. This $6 million expansion will create 203 jobs for the company and should be operational by the end of 2014.

JFG Coffee. Reily Foods, the New Orleans based parent of JFG Coffee, has invested $7 million in an expansion of the Knoxville plant. The 64,000-square-foot addition to its finished-goods distribution center will give the company more room to store coffee, tea, mayonnaise and instant coffee.

JFG Flats. The former JFG Coffee building that was the roasting facility for the company has been turned into an apartment project called JFG Flats. It opened in the summer of 2009. The building still holds the JFG logo and sign on the exterior and many of the apartments are built around the facility's original roasting equipment and features. When it opened it had about 60% occupancy.

Marble Alley Lofts. Just off Gay Street, a developer began construction in 2014 on a 238-unit apartment complex. The project was in development since 2009. The first phase of construction includes an internal parking garage with the apartment building foundations to be built surrounding the garage. Additional retail and commercial space would be added in the second phase.

Tennessee Valley Authority. Tennessee Valley Authority (the "TVA") was established as a wholly-owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933, as amended. The Act's objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. TVA, a corporation owned by the U.S. government, provides electricity for utility and business customers in most of Tennessee and parts of Alabama, Mississippi, Kentucky, Georgia, North Carolina and Virginia — an area of 80,000 square miles with a population of 9 million. The utility operates 29 hydroelectric dams, 11 coal-fired power plants, three nuclear plants and 11 natural gas-fired power facilities and supplies up to 33,700 megawatts of electricity via more than 16,000 miles of high-voltage power lines.

Due to a massive, 2010 ash spill at a coal plant in Roane County, TVA has instituted a strategic vision that by 2015 it would meet a portion of its power needs through energy efficiency and demand response measures, nuclear power and natural gas.

In April of 2011 TVA announced plans to retire 18 coal-fired units at three of its older fossil plants, effectively closing one of the plants. This action is in an unprecedented agreement with the Environmental Protection Agency, four states and three environmental groups to settle complaints that the federal utility violated the Clean Air Act. TVA's board of directors approved the shutdown of two units at the John Sevier plant near Rogersville, Tenn., six at Widows Creek in North Alabama and all 10 units at the Johnsonville plant in Middle Tennessee. The permanent shutdowns, called retirements, will take place in phases through 2017 and will affect 300 to 400 workers. The combined idled and retired units will reduce TVA's coal-fired capacity by 2,700 megawatts out of total 17,000 megawatts generated by the country's largest public utility. The utility also has to invest $3 billion to $5 billion on pollution controls and $350 million on clean energy projects. Penalties included a $1 million to the National Park Service and the National Forest Service and a civil penalty of $10 million to various entities, including the States of Alabama, Kentucky and Tennessee.

In 2007 TVA restarted a nuclear reactor at Browns Ferry in North Alabama. It was the first time the reactor had been at full power in 22 years. TVA, a federal utility, spent five years and about $2 billion revamping the reactor. It was the first increase in the United States' nuclear generating capacity since 1996. Also, the Unit 2 reactor at Watts Bar Nuclear Plant in Rhea County, TN has been approved for completion. It is estimated to take

$2.5 billion dollars and should be operational in 2012.

UNIVERSITY OF TENNESSEE

Ayres Hall. The historic hall, built in 1921, underwent a $23 million renovation in 2010. The building was made more energy efficient to be LEED certified, a front patio, marble walls and clocks were added to its bell tower.

Business Incubator. Construction is complete on a 15,000-square-foot facility on the University of Tennessee campus that will house startup enterprises aiming to commercialize technology with a UT connection. The $2.5 million facility, located on UT's Ag Campus, opened in late summer 2007. The incubator is dedicated to "technology businesses," that definition ranges from engineering, materials sciences and electronic devices to medical, veterinary and plant sciences. The State Department of Economic and Community Development, UT, Knox County, Tennessee Valley Authority, and Knoxville Utilities Board together contributed $1.25 million to secure a matching grant from the U.S. Department of Commerce's Economic Development Administration. The facility includes 15,000 square feet of office space as well as space that could be used for light manufacturing and assembling.

Cherokee Campus. The Cherokee Farm concept came into being about in 2001 years ago as a way to further research by UT and ORNL in computational sciences, climate and environment, advanced materials, biomedical sciences, and renewable energy. UT and ORNL started development of the campus with $87 million in capital investments and incentives. This is part of a UT goal to join the ranks of the nation's top 25 public research universities. The former site of UT's 188-acre dairy operation was chosen, and development of 77 acres of the property began in 2010. The farm is less than a mile from the Knoxville campus.

The first building, the $47 million, 142,000-square-foot Joint Institute for Advanced Materials facility, is due to open in early 2015. The rest of the campus will include 16 building sites, seven of which are "shovel-ready" now, Hawks said. These sites, ranging up to 2 acres, should allow a total of 1.6 million square feet of development. Moving research to the proposed Cherokee campus would free up buildings on the main campus, which could be renovated and used for additional administration and instructional space.

The Joint Institute for Advanced Materials building will house seven high-powered microscopes that researchers from UT, ORNL and elsewhere will use in screening and analyzing materials. The work is oriented toward producing strong, lightweight materials for the automotive and aerospace industries. Researchers will also be able to make use of supercomputers Kraken at UT and Titan at ORNL.

James A. Haslam II Business Building. The College of Business officially opened the James A. Haslam II Building in early 2009. The new sixth-floor, 174,000-square-foot building houses 34 classrooms, more than 75 offices 35 presentation rooms, a technology center and an atrium. Construction on the building began in November 2005 and the project cost approximately $46 million. The state-of-the-art building was named after Knoxville native and UT graduate Jim Haslam, founder and chairman of the board of Pilot Travel Centers LLC and Pilot Corp. The new building was built on the site of the former Glocker Business Administration Building.

Min H. Kao Electrical Engineering and Computer Science Building. The first new engineering building on the UT campus in nearly 50 years opened in early 2012. The $37.5 million, 150,000-square-foot building will consolidate engineering students into one building for classrooms and labs.

Stokely Athletic Center and Dorm Gibbs Hall. In 2014 demolition will begin on the closed and outdated buildings that are Stokely Athletic Center and Gibbs Hall. The Stokely Athletic Center, the home of the basketball team before the move to the Thompson-Boling Arena, was built in 1958 and was closed in 2012. The Dorm Gibbs Hall was built in 1963 with only the dining services remaining operating in recent years. Both buildings are located across the street from the new Haslam Building. Plans are to first to build a 1,000-space parking garage along Volunteer Boulevard, costing $24.4 million. It is expected to finish in summer 2015. Next the UT will build a 600 bed co-ed resident hall, with added services like dining. That will cost $64.3 million and is planned for a summer 2016 completion date. And third, an extension to the current Haslam football practice field is planned. According to UT, a sole private donation will fund the $10 million project. That is expected to start in 2016.

University of Tennessee's Howard Baker Center for Public Policy. Even though operations began in 2003, the grand opening of the Howard Baker Center was in late 2008 with the opening of a new 53,000-square-foot rotunda. The Center serves as a state-of-the-art multipurpose education and research facility focused on improving public understanding of governance and highlighting the importance of public service.

A UT College of Law graduate, Howard Baker was one of the nation's most respected statesmen. He served three terms as a U.S. senator from Tennessee (1967-1985) and was the first Republican popularly elected to that position. He was vice chairman of the Senate Watergate Committee. He served as Senate Minority Leader from 1977 to 1981 and as majority leader from 1981 until he retired in 1985. Baker also served as President Ronald Reagan's chief of staff from 1987 to 1988. He went on to serve as Ambassador to Japan from 2001 to 2005.

The Baker Center works to create a better understanding of government and foster a greater appreciation for the vital importance of public service. Since it its inception, the Center has engaged thousands of students, teachers and community members in public programs and educational initiatives on topics including energy policy, clean air, the Constitution, presidential history, civic engagement and careers in government. In cooperation with Special Collections of the UT Libraries, the Center established the Modern Political Archives. Plans are underway to establish fellowships in energy policy and legislative decision-making.

University Health System. Construction was completed in October of 2012 on a new $25 million Cancer Institute. The new building is almost triple the size of the existing facility to 100,000 square feet. It is located adjacent to the current facility. Also in 2011 the UT Graduate School of Medicine broke ground on an $8 million project that will expand and renovate its family medicine clinic and academic training facility. The first phase of the project is to be completed in late 2012.

The new Heart Hospital was opened in 2010. The four-story, 126,000-square-foot, $26 million facility will serve the inpatient needs of the hospital's Heart Lung Vascular Institute. Just like the 103,000-square-foot Heart Lung Vascular Institute, which opened in 2004, the new tower also will promote medical staff collaboration and offer multi-disciplinary care to patients. UT Medical Center is the area's only teaching hospital and Level One trauma center.

University of Tennessee Veterinary Hospital. An expansion and renovation of the Veterinary Medical Center's Equine and Farm Animal Hospitals began in 2011. Completion of the $21 million project on the agriculture campus is expected by December 2012. The $8 million expansion for the small animal clinic was completed in 2008. UT's veterinary hospital treats about 35,000 animals annually.

William M. Bass Forensic Anthropology Building. A new building on the campus of the UT Medical Center was dedicated to one of the world's foremost forensic anthropologists, Dr. William Bass. The new, privately funded building will enhance research programs and provide classroom facilities for UT students and the many law enforcement, fire and medical professionals who train at the adjacent Anthropological Research Facility, also known as the Body Farm. Dr. Bass created the Body Farm in 1981, and more than a quarter of the nation's board-certified forensic anthropologists, who serve in key roles in government, museums and private sector jobs, were trained.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDING JUNE 30, 2013

KNOXVILLE, TENNESSEE
WWW.CITYOFKNOXVILLE.ORG

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF KNOXVILLE, TENNESSEE

FOR THE FISCAL YEAR ENDED

JUNE 30, 2013

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

JAMES YORK
DIRECTOR OF FINANCE

CLYDE 'BOE' COLE, CMFO, CGFO
COMPTROLLER

CITY OF KNOXVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2013

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INTRODUCTORY SECTION

CITY OF KNOXVILLE
MADELINE ROGERO, MAYOR

James York
Senior Director of Finance

December 24, 2013

In compliance with the City of Knoxville Charter requirements, I am submitting the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am pleased to report that the financial condition of the City remains strong.

The report has been prepared in accordance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. GASB Statement 63 was adopted in FY2013, which pertains to financial reporting of deferred outflows and deferred inflows. The impact on the financial statements was formatting and presentation only primarily changing the caption "net assets" to "net position". The City also elected early adoption of GASB Statement 65 which pertains to items previously reported as assets and liabilities. As a result, the costs related to issuance of debt, previously deferred, were restated as if they were reported as an outflow of resources when incurred. Both of these changes are discussed further in the footnotes and the Management's Discussion and Analysis.

The City's financial statements have been prepared by the Finance Department and audited by Crosslin & Associates, P.C. The City accepts the responsibility to ensure that all information included in the Comprehensive Annual Financial Report is complete and accurate. We believe the enclosed data completely and accurately presents the financial condition of the City.

This report consists of four sections: Introductory, Financial, Statistical and the Compliance section. The Introductory Section includes the City's Letter of Transmittal, a listing of officials, an organization chart, and a facsimile of the Certificate of Achievement for Excellence in Financial Reporting. The Financial Section is comprised of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. The Statistical Section provides selected unaudited financial and demographic information on a multi-year basis. Finally, the Compliance Section incorporates information associated with Federal and State grants and our compliance therewith.

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

This report covers all financial operations of the City of Knoxville, as well as its component units. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. The City also has financial accountability over three component units, Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKAA), and Knoxville Area Transit (KAT). The financial statements of KUB, MKAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Trust Fund are included in the Fiduciary funds section along with two minor health related benefit agency funds.

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Governmental Structure

The City of Knoxville operates under the Mayor-Council form of government. Policy-making and legislative authority are vested in the nine member City Council, six of whom represent specific districts and three elected at large. The mayor and council members are elected on a non-partisan basis to four-year terms. The City Council is responsible, among other things, for passing ordinances, determining policies, and adopting the budget. The mayor is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments.

Local Economic Condition

The City of Knoxville is the third largest City in the State of Tennessee, having a population of 182,200 (2012 Census). Located in East Tennessee at the headwaters of the Tennessee River, the City serves as the economic center of the East Tennessee area, including portions of Kentucky, North Carolina and Virginia. Its trade sector is one of the strongest in the state.

Knoxville has a diversified economy and was ranked in the Top 50 Best Places for Business and Careers, according to Forbes.com, for 2013. This ranking follows a late 2012 designation that the City was only one of three cities in the country to have recovered from the recession (Reuters.com).

With a business-friendly environment, the City opened the Knoxville Entrepreneur Center (KEC) in April as a business accelerator that will help budding entrepreneurs turn ideas into reality. The KEC is a significant component of Knoxville's future economic success, which depends on the City's ability to attract, develop and retain talented people. The center will help business owners collaborate on ideas that will be transformed into jobs and a stronger tax base.

Tourism is an economic generator for Knoxville. According to the Tennessee Department of Tourist Development, Knoxville/Knox County created more than $20 million in local county tax receipts and more than $4 million in state tax receipts in 2012. The area also generated $884.2 million in direct domestic spending, produced $291.8 million in worker income and paychecks and generated 9,500 jobs.

The City, located in Knox County, has one of the lower sales tax rates in the state. Authorized by state law to levy up to 2.75%, the combined city/county rate is 2.25%. Approximately seventy-four percent of the taxable sales within the County occur inside the corporate limits of Knoxville. Approximately seventy-two percent of the taxes collected within the City are distributed to the Knox County School System with the remainder flowing to the City's general fund. The following table displays the City's portion of local sales tax collections (in thousands) over the past ten years.

Year	Collections	Change
FY 03/04	$30,529	5.16%
FY 04/05	$31,785	4.11%
FY 05/06	$34,514	8.59%
FY 06/07	$36,659	6.21%
FY 07/08	$37,274	1.68%
FY 08/09	$34,186	(8.28%)
FY 09/10	$32,654	(4.48%)
FY 10/11	$33,849	3.66%
FY 11/12	$36,379	7.47%
FY 12/13	$35,028	(3.71%)

As shown above, the City, in FY 12/13 experienced a 3.71% decrease in local sales tax. The decrease appears to be a drop in overall collections with the results from FY 11/12 driven by the costs/repairs associated with cleanup from the storms in the spring of 2012.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratories and other large governmental installations lend stability to the area, making the local economy less cyclical than either the national or state economy. In 2012, the Knoxville MSA had a labor force totaling 429,528 workers with an average unemployment rate of 6.6 representing an improvement from last year's 7.2 percent. Local rates are also lower than the statewide figure of 8.0 percent and the national unemployment average of 8.1 percent for 2012. This decrease continues the trend for Knoxville's lower unemployment rate yet another year. As of September 2013, Knoxville's unemployment rate has increased slightly to 6.8%.

An extensive transportation network connects Knoxville to the U. S. marketplace. Nearly half of the nation's population is within an eight to ten hour drive of Knoxville via I-40, I-75, and I-81 which meet in the metro area. The City is directly linked to the Great Lakes by the Interconnected Inland Water System and to the Gulf of Mexico by the Tennessee-Tombigbee Waterway. Barge shipping is facilitated by three local river terminals. Also serving the area are 125 truck lines, two railroads, and six airlines.

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to more than 439,000 customers in Knox, Union, Granger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and employs about 930 people. Operating with an $841 million budget and $1.5 billion in plant assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKAA) is served by eight major airlines serving 19 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Miami, New York, Chicago, Denver and Washington D.C. Departures and arrivals total 1.7 million passengers annually. The direct and indirect economic impact of the airport is estimated by the Metropolitan Knoxville Airport Authority to be approximately $1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits. To build on our economic success, the City of Knoxville became a part of a regional partnership to attract more air carriers to the airport. The Competitive Airfare Partnership is part of an Innovation Valley strategy to encourage more tourists and visitors to the area, and to promote business relocation and industrial development efforts.

Knoxville Area Transit (KAT) provides around 24 public bus routes, operating 100 vehicles and carrying around 3.7 million passengers a year in the City. In Fall of 2010 KAT moved into to its new downtown Knoxville Station Transit Center which serves as the major public transportation hub for metropolitan Knoxville. The new facility is the City's first Silver LEED-certified government building.

Knoxville boasts an active tourism and convention trade. The 500,545 square foot convention center on the World's Fair Park site, which opened in June 2002, features spacious meeting rooms and a 400-seat lecture hall. Other facilities include a civic coliseum/auditorium, an exhibition hall/convention center, a 25,000-seat arena, and a conference center at the University of Tennessee. Among Knoxville's many annual events are the Dogwood Arts Festival, Tennessee Valley Fair, Boomsday, Christmas in the City and many other cultural activities. The City is increasingly becoming an outdoor destination with the development of an urban wilderness area in south Knoxville and the enhancement of its park system.

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nations most visited National Park, extending over the States of Tennessee and North Carolina. Between 8 and 10 million people visit the park annually, making it the most visited park in the country. Two tourist towns are located at the foothills of the Smoky Mountains, Gatlinburg and Pigeon Forge. Gatlinburg has accommodations for over 60,000 people, features numerous restaurants, craft shops, and gift stores, along with a ski lodge, ski-lifts, convention center and tramway, making it a year-round resort town. Pigeon Forge is also a shopper's mecca and has accommodations for approximately 40,000 people. Its attractions include Dollywood - a country-style theme park, a waterslide park, a rodeo dinner theater, and numerous miniature golf courses, bumper boat rides, and theme museums.

Knoxville seeks to capitalize even more from its location through such projects as the Women's Basketball Hall of Fame, the Gateway Regional Visitor Center, Outdoor Knoxville, Volunteer Landing, Neyland Stadium, home of the University of Tennessee Volunteer football team, and the Knoxville Zoological Gardens.

The Knoxville Symphony, the Knoxville Opera Company, and the Tennessee Children's Dance Ensemble are among the many exceptional arts organizations in the City. Choral groups, dance companies, and eleven performance theatres, including the renovated Tennessee and Bijou Theaters, also promote the arts. Live entertainment includes touring Broadway productions, ice shows, concerts, and circuses. The Knoxville Museum of Art and the Emporium Center for Arts and Culture feature changing exhibits throughout the year, while the area's libraries, historic sites, and museums, such as the Museum of Appalachia and the Beck Cultural Center, celebrate Knoxville's heritage.

Knoxville consistently receives high honors for quality of life. Forbes magazine recently listed Knoxville among the 25 best places to retire, citing a good economy, low living costs, average home prices and good medical staffing. The American Chamber of Commerce Researchers Association (ACCRA) ranked Knoxville as one of the more affordable southeast urban areas siting a cost of living index of 89.3 in 2012. The Cost of Living (COL) Index measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate. With the average of all participating cities equaling 100.0, Knoxville consistently ranks among the top markets for low cost of living. Not only does Knoxville offer a high quality of life, but it has been recognized as a great place to work. CareerBliss.com recently ranked Knoxville as the second happiest city for workers, based on factors such as compensation, growth opportunities and company culture.

The quality of life, a low cost of living, convenient interstate access as well as other factors make the area an attractive location for many types of operations. Knoxville serves as home to numerous customer service centers, including Jewelry Television by ACN, Cendant Corporation, ClientLogic Corporation, G.C. Services, Kimberly-Clark Corporation, Nova Information Systems, U.S. Cellular and Whirlpool Corporation. The City has worked with these firms, and others, to help foster relocation to Knoxville, or expansion of existing facilities. Other national and global leaders in the area include Home and Garden Television (HGTV), Clayton Homes, DeRoyal Industries, Pilot/Flying J Travel Centers, Regal Entertainment, Brunswick Corporation, and Green Mountain Coffee. Sysco Corporation, one of the largest food service marketers and distributors in North America, also calls the Knoxville area home.

Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's (UTK) main campus which experienced an enrollment of 27,018 students for Fall 2013, including its teaching hospital and veterinary school. U.S. News and World Report ranks UTK in the top third, 46 of 164 national public universities. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are five hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region.

Relevant Financial Policies/Controls

Management of the City of Knoxville is responsible for establishing and maintaining an internal control structure. This structure is designed to protect the assets of the government from loss, theft or misuse. The system also attempts to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The objective of the City of Knoxville's budgetary controls system is to ensure compliance with the City Code and Charter, as well as with state and federal guidelines regarding use of funds. No authority is granted to any department to exceed their annual appropriation without council approval. Appropriations for all funds, excluding grants and capital projects, included in the annual budget process lapse at year-end and must be re-appropriated annually. Additional budgetary controls include the City's encumbrance accounting system, which is designed to ensure that departments do not exceed or commit to exceed any appropriation for the fiscal year. Furthermore, the Mayor and the Finance Director can reserve or impound appropriations if there appears to be insufficient revenues to cover expenditures, or for any other valid reason.

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Crosslin & Associates, P.C. to perform the fiscal year 2013 audit.

MAJOR INITIATIVES

I. Redevelopment –

Knoxville is the hub of the East Tennessee region. Since its founding in 1791, the best of its Appalachian heritage remains today - a strong work ethic, a family-centered community, and an intense respect for the natural beauty that envelopes the region.

Downtown Knoxville has enjoyed a sustained resurgence in recent decades, with a vibrant music scene and cultural attractions (from the Women's Basketball Hall of Fame to the Knoxville Museum of Art), cinema, shopping, and dining opportunities.

The Office of Redevelopment has capitalized on this resurgence and in 2013 embarked upon several initiatives to bolster downtown Knoxville. One of the keys to its continued success is the adoption of the Downtown Wayfinding Project. Redevelopment staff received Environmental Clearance and submitted Right of Way and Utility Clearance to the Tennessee Department of Transportation for the project. The project is aimed at making it easier for visitors and residents to navigate around downtown Knoxville as well as highlight attractions and offerings in an appealing and informative manner.

Redevelopment also led efforts on a $165 million project on the former Baptist Hospital site along Knoxville's South Waterfront. The 24-acre site will feature a complex with luxury apartments, a student apartment complex, a hotel and a restaurant. The project is being developed by Blanchard & Calhoun Commercial Corporation of Augusta, Ga., and is part of the Urban Renewal Plan and South Waterfront Redevelopment.

Also along the South Waterfront, the City completed a public improvement project by extending the CityView Riverwalk to one-quarter mile, connecting it to an asphalt greenway. The new extension includes tree planting and landscaping, benches, bike racks, lighting and irrigation. Within the same area is the Sevier Avenue Streetscape project. Approximately $5.4 million has been designated for its construction and the completion of a park roadway network.

In one of the busiest areas of the downtown corridor is the Cumberland Avenue project, which has seen a number of advancements. A Form-Based Code was adopted and right-of-way acquisitions were finalized for Phase I of the project. More than $130 million of private investment has been leveraged in the area.

With the support and leadership of Knoxville Mayor Madeline Rogero, the staff collaborated with several departments on a variety of projects including:

- Completion of the a new State Street Garage parking deck and overpass
- Redevelopment of three older buildings – JC Penney, Knoxville Utilities Board, and Medical Arts
- Fort Dickerson Park Roadway alignment project, in conjunction with Engineering and Parks and Recreation
- Completion of Constructability Review of shelved design plans for Suttree Landing Park and Waterfront Drive
- Acquisition of McClung Warehouses, with the Law Department and Knoxville's Community Development Corporation

The staff also held a Downtown Summit, which brought together more than 200 residents for their input in the next stage of downtown development.

The City of Knoxville encourages reinvestment in other parts of the City through the Community Development Department. Initiatives such as owner-occupied rehabilitations, blighted property acquisitions, and a commercial façade program enhance targeted redevelopment areas. The façade program betters the appearance of buildings and serves to improve the economic viability of these areas. Better aesthetics are known to increase property values, improve the marketability of space within the buildings and draw businesses and residents to the area.

The Community Development Department also received a $2.5 million Lead Hazard Control grant from the Department of Housing Development. The competitive grant will enable the City to address lead hazards and other health threats in 250 homes occupied by low-income families.

II. Sustainability

Knoxville has a commitment to energy efficiency and sustainability. The City was designated a Platinum Valley Sustainable Community by the Tennessee Valley Authority (TVA) in September. The Valley Sustainable Community program recognizes the importance of sustainability efforts to economic development, and Knoxville was the first to earn the Platinum distinction. The designation is a magnet for companies looking to expand or relocate in a sustainable community. The Knoxville Chamber works closely with the City to identify potential interest from companies.

The Office of Sustainability worked with the IBM Smarter Cities Challenge team on a report calling for a multi-pronged approach to help low-income residents weatherize their homes and learn more about energy efficiency. The goal is to reduce the need for emergency utility bill assistance. The City is working with partners, including Knoxville Utilities Board, TVA, and the Community Action Committee, toward five goals: Develop one voice around a shared vision; harness the available data; educate the community on weatherization and energy efficiency; identify funding sources to implement improvements; and engage local landlords as part of the discussion.

The City's sustainability efforts extended to a partnership with Zipcar, Inc., to offer a car sharing program. The convenient transportation option is now available in downtown Knoxville and The University of Tennessee campus. The cars help communities cut down on air pollution and are an alternative to the high costs of fuel.

This year's budget has funding for an alternative transportation coordinator in the Engineering Department, with expertise in engineering for pedestrians, cyclists and mass transit. This will help to improve air quality.

In November, Mayor Rogero was selected as one of 26 governmental leaders to serve on a task force to advise President Barack Obama on climate preparedness and resilience-building efforts. The State, Local and Tribal Leaders Task Force on Climate Preparedness and Resilience was formed to develop key actions the Federal government can take to better support state, local and tribal preparedness. The Task Force will make recommendations on removing barriers to resilient investments, modernizing grant and loan programs, and developing information and tools to better serve communities.

III. Livability

Knoxville has received national rankings for its quality of living factors. It was named as one of the Top 10 Best Places to Retire by Livability.com, and CareerBliss ranked it one of the Top 3 places on the list of "Happiest Cities to work in Right Now." Blue Ridge Country's Mountains Readers Poll found Knoxville ranked in the Top 3 Best Big Cities. Knoxville was also named one of the Top 10 Outdoor Adventures via Public Transportation by Outdoor Magazine. One of the reasons for the rankings may be due to Knoxville's high energy for outdoor recreation, its Urban Wilderness, which features 1,000 forested acres that includes 10 parks, and its access to blueways and more than 90 miles of greenways.

The City has more than 2,000 acres of parks with plenty of opportunities for children and families to get out and exercise.

One of the Parks and Recreation Department's biggest initiatives is *Let's Move!* A health campaign spearheaded by First Lady Michelle Obama, *Let's Move!* encourages children to live healthy lifestyles. Knoxville is now an official *"Let's Move!* City" after meeting park availability criteria, along with other requirements. Mayor Rogero recently visited the White House and participated on a panel about *Let's Move!* as a guest of First Lady Michelle Obama's.

The City recognizes the quality of life can depend on its attractions, too. The budget calls for a $10 million capital project for the Knoxville Zoo, the City's most-visited year-round attraction - with over 400,000 guests last year. The zoo is also a top 20 attraction in the state of Tennessee based on annual attendance. The Knoxville Zoo is a key economic driver with an estimated $22.8 million in economic impact from the out-of-town tourists who visit each year.

Great quality of life also depends on strong neighborhoods. The City launched an 11-week training program for neighborhood leaders called "Building Strong Neighborhood Organizations" with 18 leaders participating from 17 neighborhoods across Knoxville. Another initiative to strengthen neighborhoods and communities was the Neighborhoods Conference, which drew more than 500 people to learn more about city government and how to make neighborhoods work better.

A vibrant arts and culture scene greatly contributes to the quality of life. The City has provided $408,000 for 26 arts and cultural organizations, and another $304,000 is budgeted for grants to 29 nonprofit partners that provide essential social services that address special needs.

IV. Other

Like most cities, Knoxville has a pension system that was found to be unsustainable. The City has dealt with the long-term impact of an unfunded pension system through reform. Employees hired after Jan. 1, 2013, have a hybrid pension plan that will be more sustainable. That plan, a mix of defined contribution/defined benefit, was approved by Council and passed in a referendum by voters – thus, avoiding greater pension shortfalls in the future.

The City is poised to increase its work with small businesses. A Small Business Ordinance was proposed and a Small Program Management Office will be established to promote local small business growth and capacity, increase jobs in the local small business sector and encourage teaming between large prime contractors and small local businesses. The City plans to add a Small Business Program Manager to be responsible for this new office.

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 Knoxville for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the twenty-sixth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government 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.

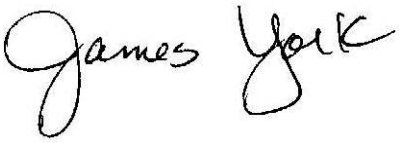
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Knoxville received GFOA's Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2013. This marks the twenty-fifth consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

The preparation of this report results from the combined efforts of many people. Special recognition and appreciation goes to the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, Crosslin & Associates, P.C., and the City Council audit committee comprised of Nick Della Volpe (Chair), Daniel Brown, Brenda Palmer, Finbarr Saunders and Marshall Stair. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvillians.

Sincerely,



James York
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Knoxville

Tennessee

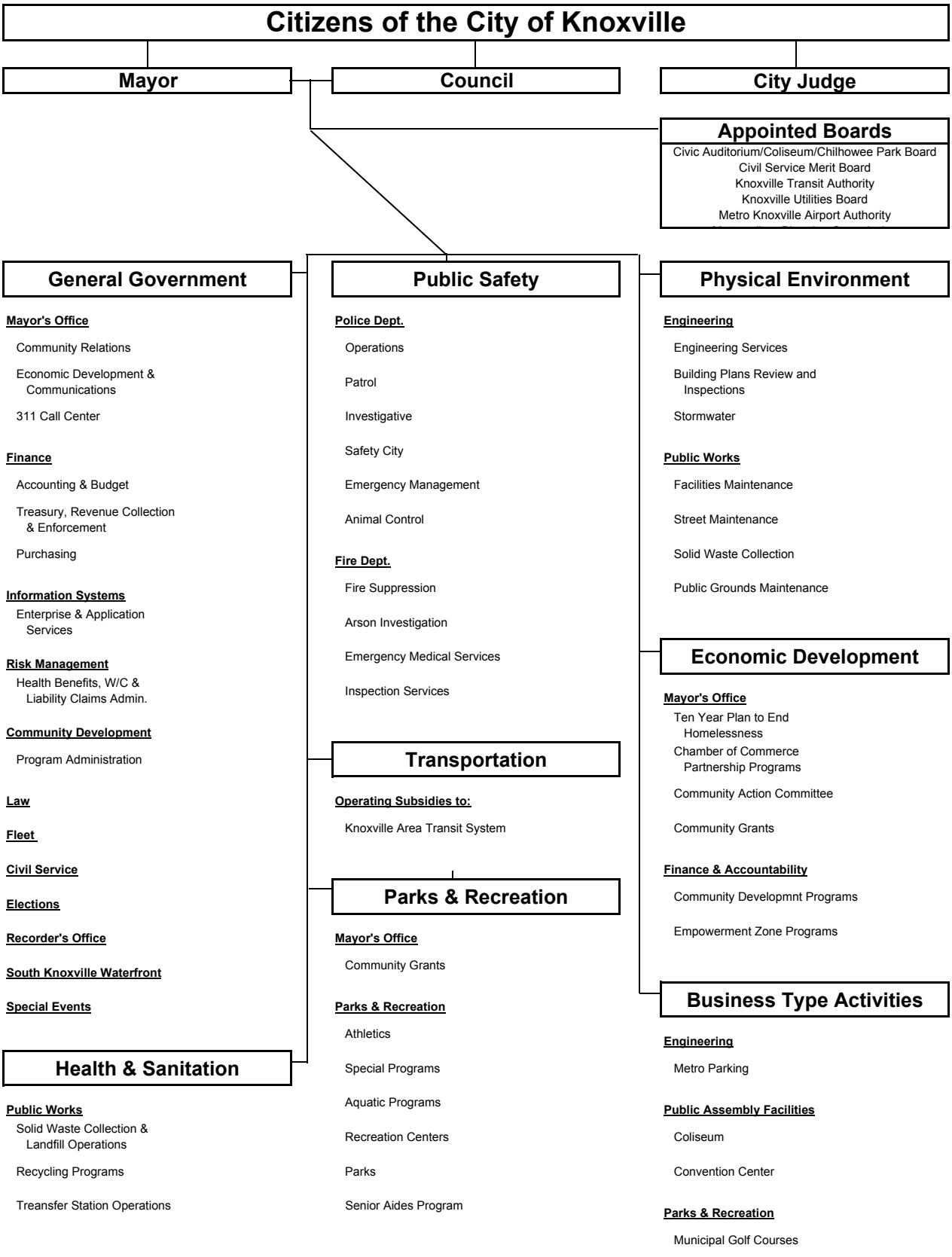
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

City of Knoxville, Tennessee

Organizational Structure by Function



CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF PRINCIPAL OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR

Madeline Rogero

CITY COUNCIL

George Wallace	**Nick Paylis, Vice Mayor**	**Duane Grieve**
Brenda Palmer	**Nick Della Volpe**	**Daniel Brown**
Marshall Stair	**Mark Campen**	**Finbarr Saunders**

CITY JUDGE

John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor - Christi Branscom, Chief Operating Officer
Deputy to the Mayor - William Lyons, Chief Policy Officer
Community Relations Director and Special Assistant to the Mayor - Thomas E. Strickland, Jr.
Communications - Angela Starke - Sr. Director
Airport - Bill Marrison, President
City Recorder - Cindy Mitchell
Civil Service - Vicki Hatfield, Director
Community Development - Becky Wade, Director
Finance & Accountability - Jim York, Sr. Director
Fire - Stan Sharp, Chief
Information Systems - Janet Wright, Director
Knoxville Area Transit - Cindy McGinnis, General Manager
Knoxville Utilities Board - Mintha Roach, President
Law - Charles W. Swanson, Sr. Director
Police - David B. Rausch, Chief
Public Assembly Facilities – Greg MacKay, Director
Engineering - James Hagerman, Director
Public Service - David Brace, Director
Parks & Recreation - William Walsh, Director
Special Events - Judith Foltz, Director
Accounting - Clyde "Boe" Cole, CGFO, CMFO, Comptroller

FINANCIAL SECTION

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

City Mayor and City Council Members of the
City of Knoxville, Tennessee

Report on Financial Statements

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 Knoxville, Tennessee (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units: the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which represents 97% of the total assets, 95% of total net position and 96% of the total revenues of the aggregate discretely presented component units of the City. We also did not audit the financial statements of the City Employees' Pension Trust Fund, which represents 99% of the total assets and 100% of total net position of the fiduciary funds of the City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports 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 of Knoxville, Tennessee, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund and miscellaneous community development funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 3, in fiscal year 2013, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 20 and the schedules of funding progress of the pension and other postemployment benefits plans on pages 89 and 90, 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 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 about 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules on pages 92 to 126, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state 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 the State of Tennessee, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 24, 2013

Management's Discussion and Analysis

This Management Discussion and Analysis (MD & A) seeks to aid the reader in understanding the City of Knoxville Tennessee's basic financial statements and financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in dollars, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2013.

Financial Highlights

- The assets and deferred outflows of resources of the City of Knoxville primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $596,958,233 (*net position*). Of this amount, $282,690,226 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.

- Net position increased by $29,785,062, a change of 5.25% when compared to fiscal year 2011/12. This gain stems from effective budgetary controls and involvement of all employees in controlling expenses.

- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $221,910,259, an increase of $17,304,730 over the prior year. Of this total, $190,437,012 or 85.8% is either restricted, committed, or assigned. A balance of 30,435,768 is available for spending at the City's discretion.

- The ending Fund Balance in the City's General Fund increased by $10,430,467, or 17.5%. Tax collections, particularly the state shared Halls Income Tax, were much higher than anticipated, and when augmented by efficient use of resources contributed significantly to the budgetary surplus for the year. Consistent with new fund balance standards, a total of $300,189 is considered non-spendable and $39,419,002 is assigned or committed. This leaves a balance of $30,435,768 available for spending at the City's discretion.

- The City's total debt for the primary government decreased by $9,495,000 (5.3%) to $168,895,000 during the current fiscal year as a result of normal debt service payment activity.

Overview of the Financial Statements

There are four sections to the City's financial report – *Introductory, Financial, Statistical and the Compliance* sections. The Introductory Section contains the City's Letter of Transmittal, a facsimile of the Certificate of Achievement for Excellence in Financial Reporting, an organization chart, and a list of officials. The Financial Section is comprised of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. The Statistical Section discloses data designed to further enhance the readers understanding of the City's financial health. The Compliance Section contains the Single Audit Report and any findings and recommendations.

The heart of this financial document lies within *The Financial Section.* Here the City presents government-wide statements, funds statements, notes of explanation, required supplementary information, combining statements, information regarding capital assets used in the operation of governmental funds and other various schedules. The government-wide statements provide a thumbnail sketch of the City's entire operations, and the funds statements provide relevant information on the various funds. Further detail and explanation of pertinent information and operations is provided in the financial statements and in the notes that follow in this section.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Knoxville's finances, in a manner similar to a private-sector business. Government-wide statements are provided on a full accrual basis. Activities are considered either as those of Primary Government (the government as legally defined) or those of Component Units (legally separate entities for which the primary government is financially accountable). Public utility and transportation services are performed by the Component Units. Activities are delineated as noted:

Primary Government	**Component Units**
Governmental Activities	Knoxville Utilities Board
Business-Type Activities	Metropolitan Knoxville Airport Authority
	Knoxville Area Transit

STATEMENT OF NET POSITION

The *statement of net position* presents information on all the City of Knoxville's assets and deferred outflows, and liabilities and deferred inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Knoxville is improving or deteriorating.

The statement of net position presents the consolidated financial condition of the City at a moment of time. This statement presents assets, deferred outflows, liabilities, deferred inflows and total net position categorized as either primary government or component units. Primary government activities are further delineated as either governmental or business-type. Component units are organizations 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.

STATEMENT OF ACTIVITIES

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, 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 and earned but unused vacation leave).

The focus of the statement of activities is to present the City's combined operational activities over the past fiscal year. Governmental and business-type items are shown using all revenues and expenses. Governmental activities are financed primarily by local taxes, user fees, charges for services, or subsidized by direct appropriations from the City's General Fund. Business-type operations, by their very nature, recover costs through user fees and/or operational transfers.

Funds 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 of Knoxville, 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 of Knoxville can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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.

Governmental funds statements are provided on a modified accrual basis. The City's major funds are presented in their own columns and the remaining funds are combined with a column titled "Other Governmental Funds." (Other Governmental Funds are also noted as Non-major Governmental Funds, Special Revenue Funds and Permanent Funds) Governmental funds are as follows:

Major Governmental Funds

- General
- Debt Service
- Capital Projects
- Special Revenue Fund - Miscellaneous Community Development Funds

Non-Major Governmental Funds/Special Revenue Funds

- State Street Aid
- Community Development Block Grants
- Abandoned Vehicles
- City Inspections
- City Court
- Miscellaneous Grants
- Animal Control
- Miscellaneous Special Revenue Funds
- Storm Water
- Solid Waste
- Knoxville Civic Revitalization

Permanent Fund

- Krutch Park Trust

A budgetary comparison statement for the General Fund (Statement of Revenues, Expenditures, and Changes in Fund Balances) is presented in the Fund Financial Statements section of the Basic Financial Statements.

Budgetary comparison schedules for the debt service and capital projects funds (Schedule of Revenues, Expenditures, and Changes in Fund Balances) are found in the Combining and Individual Fund Statements and Schedules section. Readers who wish to obtain information on non-major funds can do so in the Combining Statements section of this report.

The Balance Sheet provides a picture of the financial (but not capital) assets associated with governmental activities, liabilities payable from current financial resources, deferred inflows and the net fund balance.

The Statement of Revenues, Expenditures and Changes in Fund Balances is used for reporting all transactions, events and inter-fund activity that increase or decrease fund balances.

Because Government-Wide Statements are provided on a full accrual basis and governmental funds statements are provided on a modified accrual basis, reconciliation is necessary. Reconciliation statements are provided following the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary Funds

The City of Knoxville maintains two different types of proprietary funds: enterprise funds 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 of Knoxville uses enterprise funds to account for its Convention Center and Public Assembly Facilities consisting of the Civic Auditorium/Coliseum and Chilhowee Park, public parking garages operating under the Metro Parking Fund and the Municipal Golf Courses. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Knoxville's various functions. The City uses internal service funds to account for fleet operations, insurance functions, both risk and employee health care, replacement of non-rolling stock equipment, and maintenance operations relating to the various city buildings. 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 statements are presented on a full accrual basis. Proprietary funds are noted as follows:

Business-Type Activities	**Governmental Activities/Internal Service Funds**
Knoxville Convention Center	Fleet Maintenance
Other Business-Type Activities -	Risk Management
Metro Parking	Health Insurance
Public Assembly Facilities	Equipment Replacement
Municipal Golf Courses	City Buildings

Like the government-wide statement, the Proprietary Fund Statement of Net Position reports all assets and deferred inflows, and liabilities and deferred inflows, including capital assets and long-term liabilities. Proprietary funds reflect their net position according to their availability for use in operations.

The Statement of Revenues, Expense, and Changes in Fund Net Position isolate operating revenues and expenses from other changes in net position to allow for the measurement of how sufficiently a given activity is self-supporting. Non-operating items are also included immediately following operating income/loss.

The Statement of Cash Flows is provided to allow for the assessment of the adequacy of a proprietary fund's cash flows.

Fiduciary and Component Unit Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Knoxville programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Combined Agency Funds (City Choice Plus Fund and the Employee Health Savings Fund) account for monies designated by employees to offset the cost of their personal health care. The City Employees' Pension Trust Fund accounts for assets set aside for employee retirements.

Unlike proprietary funds, fiduciary funds are not required to list their net position based on their availability for use in operations.

The Statement of Changes in Fiduciary Net Position notes all changes in net position without distinguishing earnings related changes from other types of changes. These changes to net position are simply noted as additions and deletions.

Notes to the Financial Statements

Completing the document are notes to the financial statements. The notes disclose additional information in order to provide a more informed understanding of the government-wide and fund financial statements.

Other Information

Following the notes, this document provides required supplementary information regarding Knoxville's progress in funding its obligation to provide pension benefits to its employees. The combining statements for non-major governmental funds, non-major enterprise funds and internal service funds, schedules for the Debt Service and Capital Projects Funds, and other supplementary information are also provided for further clarification.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following analysis focuses on the total primary government, which includes both governmental and business-type activities.

Statement of Net Position at June 30, 2013

A condensed version of the Statement of Net Position follows:

Condensed Financial Information
Statement of Net Position
Primary Government
For Fiscal Year Ending June 30
(In $1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Cash and investments	$ 294,782	$ 278,947	$ 36,879	$ 32,286	$ 331,661	$ 311,233
Other assets	175,696	168,033	7,452	8,622	183,148	176,655
Capital assets	274,600	277,366	153,873	153,845	428,473	431,211
Total assets	745,078	724,346	198,204	194,753	943,282	919,099
Deferred Outlfows	-	-	2,638	3,693	2,638	3,693
Liabilities						
Other liabilities	14,304	31,500	4,827	6,254	19,131	37,754
Noncurrent liabilities	72,292	63,187	128,198	128,583	200,490	191,770
Total liabilities	86,596	94,687	133,025	134,837	219,621	229,524
Deferred Inflows	129,341	125,311	-	-	129,341	125,311
Net position						
Net investment in capital assets	223,777	220,585	28,494	24,881	252,271	245,466
Restricted	61,997	46,675	-	-	61,997	46,675
Unrestricted	243,367	237,088	39,323	38,728	282,690	275,816
Total net position	$ 529,141	$ 504,348	$ 67,817	$ 63,609	$ 596,958	$ 567,957

Governmental Activities

Assets have increased by 2.9% and liabilities have decreased by 8.5% when compared to 2012 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. The change in liabilities was primarily due to the reduction in debt by routine current year debt payment activity. Deferred inflows primarily representing the ensuing fiscal year tax levy increased by 3.2% as a result of the county-wide reappraisal and the resultant changes in assessed valuation. The impact of the latter is minimized in future years due to an equalization (lowering) of the tax rate to offset growth through reappraisal. The net result of these changes is an increase of 4.9% in total net position. No particular activity is responsible for a disproportionate amount of the changes. Overall positive financial performance of all activities contributed to the positive results of this category.

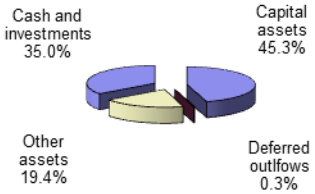
Business-Type Activities

Assets have grown by 1.8% and liabilities have declined by 1.3% from 2012 levels, resulting in an increase of 6.6% in total net position. Increased cash and investments from positive financial activities accounted for the bulk of the increase in assets while the reduction in long term debt accounted for the change in noncurrent liabilities.

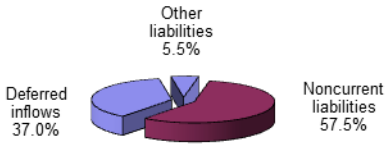
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 45.3% of $943.3 million in total assets. Taxes and governmental receivables constitute 19.4%. Deferred outlflows representing interest rate swaps account for 0.3% and current liquidity, as shown by cash and investments, composes the remaining 35.0% of total assets.

Primary Government Assets & Deferred Outfows



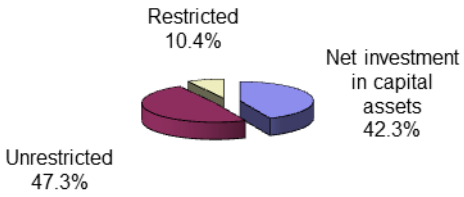
Primary Government Liabilities & Deferred Inflows



Of the total government liabilities, 57.5% are in long-term debt outstanding. Of the total long-term debt, approximately $123.7 million, or 61.8% is related to debt issued to finance the convention center complex.

A portion of the City's total net position is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net position of the City's governmental activities represent 47.3% of total primary government net position.

Primary Government Total Net Position



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

A summary version of the Statement of Activities follows:

Condensed Financial Information
Primary Government
Statement of Activities
For Fiscal Year Ending June 30
(In $1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
Revenues:	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	$ 10,949	$ 10,966	$ 10,218	$ 9,802	$ 21,167	$ 20,768
Operating grants & contributions	7,517	10,088	1,562	1,750	9,079	11,838
Capital grants & contributions	3,556	3,318	-	-	3,556	3,318
General revenues:						
Taxes	210,787	200,318	8,408	10,109	219,195	210,427
Interest	804	1,573	235	268	1,039	1,841
Other	3,896	2,296	336	358	4,232	2,654
Total revenues	237,509	228,559	20,759	22,287	258,268	250,846
Expenses:						
General government	23,591	34,883	-	-	23,591	34,883
Public safety	88,381	85,416	-	-	88,381	85,416
Physical Environment	49,230	48,046	-	-	49,230	48,046
Transportation	11,970	11,201	-	-	11,970	11,201
Economic development	8,120	8,459	-	-	8,120	8,459
Parks and recreation	10,195	11,827	-	-	10,195	11,827
Health & Sanitation	10,388	11,111	-	-	10,388	11,111
Interest on long-term debt	1,718	1,989	-	-	1,718	1,989
Other	-	-	24,890	26,613	24,890	26,613
Total expenses	203,593	212,932	24,890	26,613	228,483	239,545
Increase (decrease) in net position before transfers	33,916	15,627	(4,131)	(4,326)	29,785	11,301
Transfers	(9,123)	(8,148)	9,123	8,148	-	-
Changes in net position	24,793	7,479	4,992	3,822	29,785	11,301
Beginning net position (as restated)	504,348	496,869	62,825	59,003	567,173	555,872
Ending net position	$ 529,141	$ 504,348	$ 67,817	$ 62,825	$ 596,958	$ 567,173

Governmental Activities

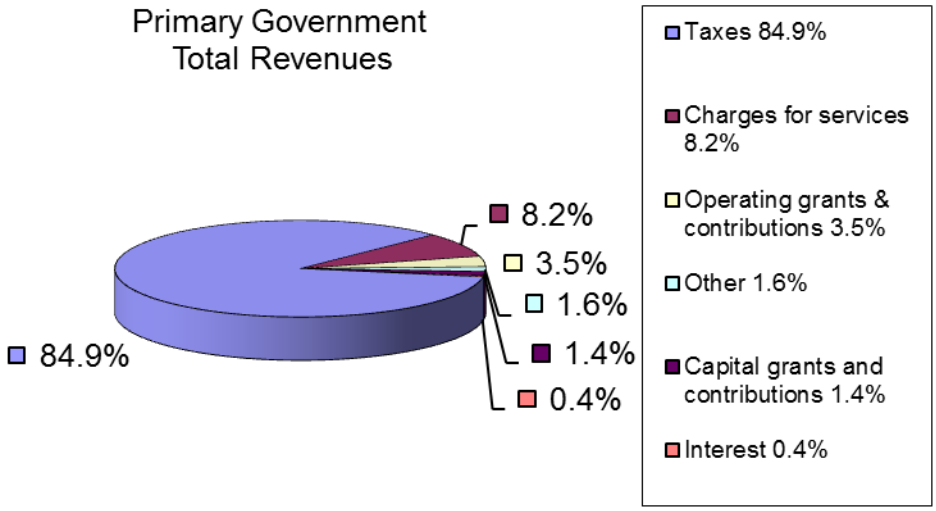
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2013, only the General, Debt Service, and City Court Funds generated material revenues in excess of current expenditures. Excess revenue generated by the General Fund is used to support funds that are not self-sufficient on their own and to maintain reserves necessary for the proper operation of the City. Surplus Debt Service fund revenues are generally utilized for one time expenditures and capital projects or will be used to retire debt in the future. Excess City Court revenues are transferred to the General Fund to finance general operations. Overall general government expenditures decreased by $9.3 million primarily due to the City not making a one-time pension contribution of $10 million as it had last year. The reduction was partially offset by increased personnel costs and depreciation on recently acquired assets. Public safety operations accounted for approximately 43.4% of the City's total governmental operations of $204 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

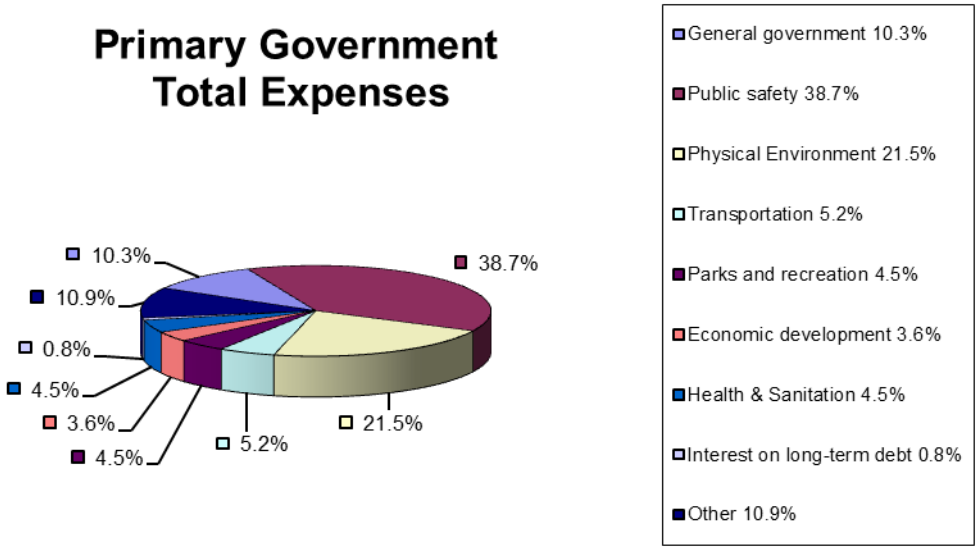
The City's business-type activities include public parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Civic Coliseum/ Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's second largest on-campus college football stadium, attracts over one hundred thousand loyal fans per home game. Proximity to outdoor recreational facilities such as the lake region and The Great Smoky Mountains National Park makes the Knoxville area an ideal tourist destination. With this in mind, local government leaders deemed it necessary to build a new convention center to take advantage of Knoxville's unique geographic location. Although current expenses exceed revenues for these activities, the local economy benefits greatly by the impact of lodging, restaurant, and various recreational consumer spending. To assist with repayment of the debt associated with the Convention Center, a dedicated Hotel/Motel tax is pledged and used. Additional redevelopment efforts in the City's downtown area are expected to increase the cost effectiveness of the City's infrastructure investments.

Total Government

Primary Government Revenues were $258.3 million. The largest portion of these revenues ($219.2 MM – 84.9%) was from taxes.



Total primary government expenses totaled $228.5 million, 38.7% of which was directed toward public safety.



Component Units

Certain organizations affiliated with the City are reported as component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The nature and significance of component units are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units for the City of Knoxville include the Knoxville Utilities Board, the Metropolitan Knoxville Airport Authority, and Knoxville Area Transit. A summary of the City's component unit operations follows:

Condensed Financial Information
Component Units
For Fiscal Year Ending June 30,
(In $1,000's)

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Program Revenues	$ 743,627	$ 696,612	$ 42,316	$ 34,277	$ 25,856	$ 27,262	$ 811,799	$ 758,151
Program Expenses	(716,320)	(671,778)	(36,116)	(34,336)	(33,783)	(35,284)	(786,219)	(741,398)
Total General Revenues	1,032	1,504	364	87	10,426	9,924	11,822	11,515
Change in Net Position	28,339	26,338	6,564	28	2,499	1,902	37,402	28,268
Net Position at Year End (as restated)	$ 863,645	$ 835,307	$ 125,605	$ 119,041	$ 48,208	$ 45,708	$1,037,458	$1,000,056

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2013

The total Governmental Funds balance as of June 30, 2013 is $221.9 million of which the general fund's balance is approximately $70.2 million, the debt service fund is $46.8 million, capital projects funds comprise $76.8 million, miscellaneous community development total $1.5 million and the remaining $26.6 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances increased by $17.3 million when compared to the prior year. The general fund was responsible for most of the increase in the governmental funds fund balance ($10.4 million). The debt service fund increased by $1 million, capital projects funds increased by $6.5 million, miscellaneous community development decreased $0.1 million and, a $0.5 million decrease was spread over various special revenue and permanent funds. Significant causes of the various increases are explained in the following section.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2013

The following schedule presents a summary of total governmental funds, which includes general fund, debt service fund, capital projects fund and other governmental funds for this fiscal year ended June 30, 2013, and the amount and percentage of increases and decreases in relation to prior year revenues.

Condensed Financial Information
Total Governmental Funds - Revenues
For Fiscal Year Ending June 30
(In $1,000's)

Revenues	2013	2012	Percent of Total 2013	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Taxes, assessments, interest & penalties	$183,445	$180,542	76.91%	$ 2,903	1.61%
Licenses, permits and inspection charges	1,994	1,975	0.84%	19	0.96%
Intergovernmental revenue	37,359	30,040	15.66%	7,319	24.36%
Charges for services	6,528	6,502	2.74%	26	0.40%
Fines and forfeitures	4,010	3,637	1.68%	373	10.26%
Other	5,170	5,370	2.17%	(200)	(3.72%)
Totals	$238,506	$228,066	100.00%	$ 10,440	4.58%

A comparison of revenues between FY 11/12 and FY 12/13 shows total general government revenues increasing by approximately $10.4 million or 4.58%. The increase in revenues from taxes was almost entirely from better than expected property tax collections ($2.9 million). The growth in Intergovernmental revenue stems almost entirely from an increase in the Hall Income Tax ($7.6 million). This is a tax on investments that is totally unpredictable and based upon factors beyond the City's control.

The following schedule presents a more detailed summary of the general fund, special revenue fund, capital projects fund and debt service fund expenditures for the fiscal year ended June 30, 2013, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Year Ending June 30
(In $1,000's)

Expenditures	2013	2012	Percent of Total 2013	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Administration	$ 3,405	$ 3,501	1.65%	$ (96)	(2.74%)
Finance	3,775	3,772	1.81%	3	0.08%
Information Systems	3,910	3,998	1.88%	(88)	(2.20%)
Community Development	2,635	2,209	1.26%	426	19.28%
South Knoxville Waterfront	439	520	0.21%	(81)	(15.58%)
Parks & Recreation	6,563	6,712	3.15%	(149)	(2.22%)
Mass Transit	11,295	10,564	5.42%	731	6.92%
Engineering	12,957	13,001	6.22%	(44)	(0.34%)
Public Services	40,296	42,949	19.34%	(2,653)	(6.18%)
Law	2,537	2,573	1.22%	(36)	(1.40%)
Police	51,398	51,647	24.67%	(249)	(0.48%)
Fire	35,588	33,665	17.08%	1,923	5.71%
Legislative	1,140	1,019	0.55%	121	11.87%
City Elections	-	231	0.00%	(231)	(100.00%)
Civil Service	934	889	0.45%	45	5.06%
Knoxville Partnership	619	619	0.30%	-	0.00%
Metropolitan Planning Commission	905	905	0.43%	-	0.00%
Knoxville Zoological Park	1,058	1,010	0.51%	48	4.75%
Community Agency Grants	747	715	0.36%	32	4.48%
Other Nondepartmental	91	10,075	0.04%	(9,984)	(99.10%)
Community Action Committee	691	636	0.33%	55	8.65%
Tax Increment Payments	942	785	0.45%	157	20.00%
Capital and Grant Projects	19,253	17,497	9.24%	1,756	10.04%
Debt service:					
Principal retirement	5,412	4,852	2.60%	560	11.54%
Interest on bonds and notes	1,730	2,116	0.83%	(386)	(18.24%)
Refunding bonds issuance costs	-	411	0.00%	(411)	(100.00%)
Total Expenditures	$ 208,320	$ 216,871	100.00%	$ (8,551)	(3.94%)

Overall, general government expenditures in FY 12/13 decreased by $8.6 million. In FY 11/12 the City provided a supplemental contribution of $10 million to the general employee's pension fund. The supplemental pension contribution was booked under other non-departmental and was over and above the normal required annual contribution to the pension funds. The fact that this contribution was not repeated in FY 12/13 accounts for the overall decrease in expenditures. Increases in the Fire Department resulted from greater amounts in replacement funding tied to the increased cost of fire vehicles. In FY11/12, Public Safety expenditures were inflated in response to nonrecurring severe weather activity. Tax increment payments continued to rise as a result of increasing developer subsidies being granted to spur additional development in the City. Increased capital project expenditures were a result of expenditure timing in relation to various projects being performed in the City.

Proprietary Funds Statements

Statement of Net Position at June 30, 2013

The Knoxville Convention Center, shown below and noted under Business-type Activities, and equipment replacement and fleet maintenance, noted under governmental activities, represent the largest portion of the assets associated with Proprietary Funds.

Statement of Revenues, Expenses and Changes in Fund Net Position for the Year Ended June 30, 2013

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net position, including internal service funds, of $8.0 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2013

The four main business type activities of the City are the Convention Center, Metro Parking, Public Assembly Facilities and the Municipal Golf Courses. As expected, overall operations experienced a net operating loss. Although the Convention Center operated at a loss the amount of the annual loss has continued to decline over the years. The Metro Parking Fund (parking garages) recovered from last year's small loss. The prior year loss was due to construction closures related to expansion of the facilities. The $2.6 Million transfer into Metro Parking was to provide construction capital. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. The City's two golf courses continued to have a small operating loss which was partially covered with subsidies from the General Fund. When the City reacquired the courses from the private operators four years ago, the condition of the courses and their reputations had diminished. The City continues to work to rebuild the public's confidence in the courses and has achieved a certain degree of success but general economic factors have taken their toll by leveling off customer revenues.

The following table shows revenues, expenses, net interfund transfers, net income and net position at fiscal year end for the various proprietary funds.

Condensed Financial Information
Proprietary Funds
For Fiscal Year Ending June 30
(In $1,000's)

Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2013	2012	2013	2012	2013	2012
I. Business-type Activities						
A. Knoxville Convention Center	$15,547	$16,307	$17,159	$18,869	$ 3,635	$ 5,263
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,943	1,425	1,184	1,624	2,600	18
2. Public Assembly Facilities	2,069	2,556	5,212	4,534	2,777	2,738
3. Municipal Golf Courses	1,277	1,469	1,413	1,439	111	128
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	14,403	15,711	13,245	13,400	1,399	1,698
2. Risk Management	5,977	7,559	6,918	6,418	439	435
3. Health Insurance	16,303	14,486	17,985	17,400	1,794	1,336
4. Equipment Replacement	2,329	2,193	1,866	2,043	125	112
5. City Buildings	1,739	1,201	1,532	1,615	-	381
Totals	$61,587	$62,907	$66,514	$67,342	$12,880	$12,109

Condensed Financial Information
Proprietary Funds
For Fiscal Year Ending June 30
(In $1,000's)

	Capital Contributions		Change in Net Position		Net Position at Year End (as restated)	
	2013	2012	2013	2012	2013	2012
I. Business-type Activities						
A. Knoxville Convention Center	$ -	$ 250	$ 2,023	$ 2,951	$ 25,448	$ 23,425
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	3,359	(181)	24,086	20,727
2. Public Assembly Facilities	-	-	(366)	760	17,507	17,873
3. Municipal Golf Courses	-	136	(25)	294	776	801
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	58	51	2,615	4,060	55,006	52,391
2. Risk Management	-	-	(502)	1,576	17,561	18,063
3. Health Insurance	-	-	112	(1,578)	11,000	10,888
4. Equipment Replacement	-	-	588	262	19,466	18,878
5. City Buildings	-	-	207	(33)	4,591	4,384
Totals	$ 58	$ 437	$ 8,011	$ 8,111	$ 175,441	$ 167,430

Fiduciary Funds Statements

The City Employees' Pension Trust Fund is reported with the Combined Agency Funds (City Choice Plus and the Employee Health Savings Fund) in the fiduciary funds statements. The City's defined benefit plan consists of contributions for general government, uniformed, and former school board employees that had vested rights in the City's pension plan at the time the school system was consolidated with the Knox County schools. The following table notes the contribution rates:

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY 12/13 Contribution Rates	FY 11/12 Contribution Rates	Estimated FY 13/14 Contribution Rates
General Government Employees	12.83%	11.80%	20.90%
Police and Fire Employees	23.72%	21.30%	35.36%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 76.0%. The fund, like similar funds, has been affected by the declining interest rate environment and relatively unstable stock market. It is expected that net outflows will exceed contributions, before investment income, in the near term. These factors will result in increased contributions by the City in the future. These increases have been budgeted. The City Choice Plus Fund and the Employee Health Savings Fund account for employee contributions to IRS Section 125 health benefit plans.

General Fund Budgetary Highlights

During the year there was approximately $2.6 million in increases in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2013

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	$ 35,682	$ 8,000	$ 43,682
Finance	21,320	(428)	20,892
Information Systems	120,664	(32,200)	88,464
Community Development	17,392	(31,539)	(14,147)
Waterfront Operations	-	-	-
Parks & Recreation	274	(63,116)	(62,842)
Mass Transit	-	(458,010)	(458,010)
Public Services	2,305	234,001	236,306
Engineering	56,480	(203,365)	(146,885)
Law	24,775	-	24,775
Police	40,109	(156,043)	(115,934)
Fire	5,576	184,626	190,202
Legislative	162,400	-	162,400
Civil Service	1,423	(200)	1,223
Nondepartmental	-	37,650	37,650
Transfers	-	2,035,520	2,035,520
Total General Fund	$ 488,400	$ 1,554,896	$ 2,043,296

The largest change occurred in Transfers which accounted for $2.2 million of the $2.6 in net revisions. The capital construction fund transfer was increased by $1.5 million and transfers to the vehicle replacement fund were increased by $1.3 million to cover increased costs of vehicle replacement. These additional transfers were partially offset by reductions in other departmental areas with favorable financial results for the fiscal year.

Capital Asset and Debt Administration

As of June 30, 2013, as reflected in the following table, the primary government of the City had net investments of $428.5 million in capital assets. The total belies the fact that the investment in Infrastructure increased by $10.4 million due to the completion of various projects and revitalization efforts throughout the City and in the downtown area. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. For additional information on the capital assets of the City, please refer to Note 8 of the Notes to Financial Statements.

Capital Assets at Year-End
(Net of Depreciation)
(In $1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and site improvements	$ 50,416	$ 50,322	$ 7,336	$ 7,336	$ 57,752	$ 57,658
Buildings and improvements	59,458	58,474	223,290	223,290	282,748	281,764
Equipment, furniture & fixtures	85,355	83,974	7,277	7,265	92,632	91,239
Infrastructure	320,599	310,238	-	-	320,599	310,238
Construction in progress	5,151	3,405	5,888	-	11,039	3,405
Less accumulated depreciation	(246,379)	(229,047)	(89,919)	(84,045)	(336,298)	(313,092)
Totals	$ 274,600	$ 277,366	$ 153,872	$ 153,846	$ 428,472	$ 431,212

The following table reconciles the change in capital assets. Included in this table are the total activities for both the government and business-type activities of the total primary government.

Change in Capital Assets
(In $1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Beginning balance	$ 506,413	$ 487,542	$ 237,891	$ 237,085	$ 744,304	$ 724,627
Additions	20,681	22,706	5,967	999	26,648	23,705
Deletions	(6,115)	(3,835)	(67)	(193)	(6,182)	(4,028)
Balance before depreciation	520,979	506,413	243,791	237,891	764,770	744,304
Accumulated depreciation	(246,379)	(229,047)	(89,919)	(84,045)	(336,298)	(313,092)
Balance after depreciation	$ 274,600	$ 277,366	$ 153,872	$ 153,846	$ 428,472	$ 431,212

As of the year-end, the City's Total Primary Government had $168.9 million in general obligation debt outstanding. In FY 11/12, in an effort to benefit from lower interest rates, the City refunded $77,370,000 in outstanding general obligation debt, as well as a $13,470,609 (present value) master lease purchase agreement covering the construction and related debt associated with an energy savings construction and enhancement program. The nominal savings from this refunding were approximately $18.2 million, or $1.4 million per year. The true interest costs on the transaction were 1.93 percent with a net present value savings of 17.97%. The savings were split 76.4% for governmental activities and 23.6% for business activities.

Outstanding Debt at Year - End
(In $1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current - Due in 1 year						
General Obligation Bonds	$ 5,291	$ 5,413	$ 4,168	$ 4,082	$ 9,459	$ 9,495
Capital Lease	-	-	14	81	14	81
Note Payable	-	-	-	65	-	65
Total Current	5,291	5,413	4,182	4,228	9,473	9,641
Non Current - Due in more than 1 year						
General Obligation Bonds	39,858	45,149	119,577	123,746	159,435	168,895
Capital Lease	-	-	-	21	-	21
Total Non Current	39,858	45,149	119,577	123,767	159,435	168,916
Subtotal	45,149	50,562	123,759	127,995	168,908	178,557
Unamortized Premiums and Discounts	5,673	6,220	1,619	1,403	7,292	7,623
Total Long Term Debt	$ 50,822	$ 56,782	$ 125,378	$ 129,398	$ 176,200	$ 186,180

Ratings on the City's General Obligation Bonded debt are as follows:

	2013	2012
Moody's Investors Service	Aa1	Aa1
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AAA

For additional information on the long-term debt of the City, please refer to Note 10 of the Notes to Financial Statements.

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes $152.3 million or 82% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has historically been relatively moderate, a trend that is expected to continue. In FY13 the taxable value of real property increased by 1.5% and the overall tax roll increased by 1.7%. Historically, the City has collected an average of 95% of property taxes in the year they are due. The trend in recent years has been upward due to better economic conditions and enhanced collection efforts. This upward movement has slowed somewhat with the current recession but not significantly. Personal property growth has been higher than real property in the recent past and has also declined with the economic downturn that is facing the country. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately $35 million or 18.9% of total General Fund revenues. The City of Knoxville experienced a slight decrease in sales tax receipts in FY 12/13 when compared to FY 11/12. This decrease is attributed to receipts being unusually high in FY 11/12 due to re-construction and clean-up from major storm damage. While our revenues have declined in this area, we have been fortunate in that our diverse economy has limited our decline in relation to the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for $29.2 million or 15.7% of total revenue. The increase in this category was due to an increase in the Hall Income Tax (an intangible tax on investments), which grew by $8.6 million (220%) to a total of $12.56 million for the year. We are unable to determine the specific cause of the increase due to taxpayer privacy issues. This source has been extremely volatile in recent years. To offset the volatility the revenue is budgeted very conservatively.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system were affected by changes in state legislation which limited the ability of the City to issue tickets for certain types of red light camera violations. The category of miscellaneous revenue includes interest earnings which have fallen due to the general reduction in short term interest rates.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. In FY07, the City was able to slow these increases and keep the premiums the same due to a change in plans, and the implementation of programs that focus on wellness and disease prevention. In FY08, the City terminated its outside health care insurance plans and converted to a self-insurance plan. In FY10 and FY11, claims versus revenues were such that we were able to stabilize premiums through controlled plan expenses and deductible revisions. FY13 saw an increase in expenditures and a slight deterioration in the fund balance for the fund but not to the point of great concern.

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. The City uses a multi-year smoothing technique to determine pension contributions. Lower than expected returns in the portfolio in the last few years has resulted in increased contributions. To help offset some of the accrued pension liability, a supplemental $10 million contribution from the City's General Fund was made in FY12. Through this infusion, the fund was able to reduce its need for increased contributions in FY14.

The City of Knoxville is also very dependent upon sales tax revenues. This tends to be somewhat more elastic than other taxes and will consequently be impacted more in an economic recovery. The continued increase in internet shopping also serves to lower growth in this revenue source. Changes in the communication industry, including the potential switch of direct phone service to the internet, also poses some issues in the future.

On the plus side, the performance of the new Convention Center has improved in the past several years, which will lower the expected operating loss on the facility. The downtown area is also experiencing a rebirth, and should continue to grow in the future. Many family oriented programs are offered in the area known as Market Square and its adjoining Gay Street which bring people into the downtown area from the surrounding areas. The area is now a bustling area with many entertainment offerings.

As part of its efforts to deal with potential problems, the City does long-term budget forecasting. This allows us to recognize problems and respond to them before they get out of hand. The City is also actively engaged in performance measurement and productivity improvement efforts. We believe that these efforts will allow us to slow down or avoid future expenditure increases.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Senior Director of Finance at 400 Main Avenue, Knoxville, Tennessee 37901.

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CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government		
Assets					
Cash and cash equivalents	$ 5,610,038	$ 7,203,827	$ 12,813,865	$ 135,455,994	$ 148,269,859
Investments	289,171,616	29,675,144	318,846,760	137,095,200	455,941,960
Receivables (net of allowance for uncollectibles):					
Accounts	7,692,359	2,336,416	10,028,775	90,298,125	100,326,900
Taxes	135,141,034	-	135,141,034	-	135,141,034
Notes and leases	20,859,463	-	20,859,463	-	20,859,463
TVA conservation program	-	-	-	10,189,286	10,189,286
Other	68,307	-	68,307	142,605	210,912
Internal balances	(1,157,000)	1,157,000	-	-	-
Due from component units	5,600,000	-	5,600,000	-	5,600,000
Inventories	1,424,707	398,855	1,823,562	9,058,195	10,881,757
Prepaid items	10,758	26,813	37,571	12,036,350	12,073,921
Net pension obligation asset	3,114,962	-	3,114,962	-	3,114,962
Land held for redevelopment	-	2,500,840	2,500,840	-	2,500,840
Equity interest in joint venture	2,941,304	1,032,383	3,973,687	8,558	3,982,245
Other	-	-	-	788,095	788,095
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	24,476,848	24,476,848
Unused bond proceeds	-	-	-	206	206
Receivables	-	-	-	515,000	515,000
Other	-	-	-	53,820	53,820
Other assets	-	-	-	8,745,320	8,745,320
Capital assets:					
Land and site improvements	50,415,971	7,336,303	57,752,274	175,079,279	232,831,553
Buildings and improvements	59,457,802	223,290,115	282,747,917	177,360,407	460,108,324
Utility plant in service	-	-	-	1,987,349,747	1,987,349,747
Equipment, furniture and fixtures	85,355,342	7,276,755	92,632,097	41,692,898	134,324,995
Infrastructure	320,599,478	-	320,599,478	-	320,599,478
Construction in progress	5,150,704	5,888,147	11,038,851	187,773,045	198,811,896
Less accumulated depreciation	(246,379,426)	(89,919,162)	(336,298,588)	(895,994,450)	(1,232,293,038)
Total assets	745,077,419	198,203,436	943,280,855	2,102,124,528	3,045,405,383
Deferred outflows of resources					
Interest rate swap	-	2,638,045	2,638,045	2,900,108	5,538,153
Unamortized charge on bond refunding	-	-	-	13,002,043	13,002,043
Total deferred outflows of resources	-	2,638,045	2,638,045	15,902,151	18,540,196
Liabilities					
Accounts payable	8,050,658	4,137,984	12,188,642	61,872,347	74,060,989
Matured principal & interest on bonds	-	-	-	11,261,245	11,261,245
Accrued liabilities	4,954,802	34,040	4,988,842	28,494,618	33,483,460
Due to primary government	-	-	-	5,600,000	5,600,000
Due to other governmental agencies	755,817	-	755,817	-	755,817
Customer deposits, plus accrued interest	361,028	290,537	651,565	15,451,660	16,103,225
Accrued interest	181,556	364,219	545,775	114,130	659,905
Noncurrent liabilities:					
Long-term debt due within one year	5,833,695	4,318,666	10,152,361	24,660,000	34,812,361
Long-term debt due in more than one year	44,989,005	121,059,556	166,048,561	894,495,000	1,060,543,561
Other noncurrent liabilities due within one year	12,239,679	181,275	12,420,954	3,811,000	16,231,954
Other noncurrent liabilities due in more than one year	9,229,388	-	9,229,388	21,114,216	30,343,604
Derivative instruments - interest rate swaps	-	2,638,045	2,638,045	6,336,978	8,975,023
Total liabilities	86,595,628	133,024,322	219,619,950	1,073,211,194	1,292,831,144
Deferred inflows of resources					
Unavailable revenue - property taxes	107,212,219	-	107,212,219	-	107,212,219
Unavailable revenue - other	22,128,498	-	22,128,498	7,357,600	29,486,098
Total deferred inflows of resources	129,340,717	-	129,340,717	7,357,600	136,698,317
Net position					
Net investment in capital assets	223,777,171	28,493,936	252,271,107	754,713,279	1,006,984,386
Restricted for:					
Debt service	46,832,834	-	46,832,834	12,318,771	59,151,605
Park maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	239,396	-	239,396	-	239,396
Other	14,300,605	-	14,300,605	1,465,652	15,766,257
Unrestricted	243,367,003	39,323,223	282,690,226	268,960,183	551,650,409
Total net position	$ 529,141,074	$ 67,817,159	$ 596,958,233	$ 1,037,457,885	$ 1,634,416,118

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	$ 23,591,042	$ 860,052	$ 356,371	$ -
Public Safety	88,380,651	7,185,412	1,685,475	979,022
Physical Environment	49,229,566	1,560,999	1,354,279	700,512
Transportation	11,970,294	550,919	-	-
Economic Development	8,119,651	259,686	4,120,911	1,798,405
Parks & Recreation	10,195,387	493,880	-	-
Health & Sanitation	10,387,995	37,896	-	78,180
Interest on Long-Term Debt	1,718,322	-	-	-
Total governmental activities	203,592,908	10,948,844	7,517,036	3,556,119
Business-type activities:				
Metro Parking	1,183,938	1,684,660	-	-
Public Assembly Facilities	5,212,286	1,954,352	-	-
Knoxville Convention Center	17,080,905	5,386,186	1,561,520	-
Municipal Golf Courses	1,413,177	1,193,193	-	-
Total business-type activities	24,890,306	10,218,391	1,561,520	-
Total primary government	$ 228,483,214	$ 21,167,235	$ 9,078,556	$ 3,556,119
Combined Discretely Presented Component Units	$ 786,219,807	$ 775,743,755	$ 6,924,445	$ 29,131,747

General revenues:
Property taxes
Intergovernmental revenue, unrestricted
Admissions tax
Hotel/motel tax
Excise tax
Alcoholic beverage tax
Business tax
Cable television franchise tax
Other unrestricted revenue
Unrestricted investment earnings
Gain on disposal of capital assets
Transfers
Total general revenues and transfers

Change in net position

Net position - beginning of year, as restated
Net position - end of year

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
Governmental Activities	Business-type Activities	Total		
$ (22,374,619)	$ -	$ (22,374,619)	$ -	$ (22,374,619)
(78,530,742)	-	(78,530,742)	-	(78,530,742)
(45,613,776)	-	(45,613,776)	-	(45,613,776)
(11,419,375)	-	(11,419,375)	-	(11,419,375)
(1,940,649)	-	(1,940,649)	-	(1,940,649)
(9,701,507)	-	(9,701,507)	-	(9,701,507)
(10,271,919)	-	(10,271,919)	-	(10,271,919)
(1,718,322)	-	(1,718,322)	-	(1,718,322)
(181,570,909)	-	(181,570,909)	-	(181,570,909)
-	500,722	500,722	-	500,722
-	(3,257,934)	(3,257,934)	-	(3,257,934)
-	(10,133,199)	(10,133,199)	-	(10,133,199)
-	(219,984)	(219,984)	-	(219,984)
-	(13,110,395)	(13,110,395)	-	(13,110,395)
(181,570,909)	(13,110,395)	(194,681,304)	-	(194,681,304)
-	-	-	25,580,140	25,580,140
121,688,017	-	121,688,017	-	121,688,017
68,336,749	3,198,464	71,535,213	10,272,493	81,807,706
-	1,954,227	1,954,227	-	1,954,227
-	3,255,392	3,255,392	-	3,255,392
247,187	-	247,187	-	247,187
11,511,113	-	11,511,113	-	11,511,113
7,223,043	-	7,223,043	-	7,223,043
1,781,946	-	1,781,946	-	1,781,946
3,661,730	335,562	3,997,292	230,213	4,227,505
803,613	234,930	1,038,543	1,228,900	2,267,443
234,393	-	234,393	90,223	324,616
(9,123,420)	9,123,420	-	-	-
206,364,371	18,101,995	224,466,366	11,821,829	236,288,195
24,793,462	4,991,600	29,785,062	37,401,969	67,187,031
504,347,612	62,825,559	567,173,171	1,000,055,916	1,567,229,087
$ 529,141,074	$ 67,817,159	$ 596,958,233	$ 1,037,457,885	$ 1,634,416,118

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 383,535	$ 86,316	$ 306,329	$ -	$ 722,039	$ 1,498,219
Investments	46,666,015	44,991,772	77,273,368	1,200,217	27,298,387	197,429,759
Accounts Receivable	1,565,024	266,833	1,577,957	1,428,319	2,159,562	6,997,695
Taxes Receivable	109,648,923	25,492,111	-	-	-	135,141,034
Notes Receivable	327,772	1,296,100	-	15,748,551	3,487,040	20,859,463
Due from other funds	725,000	-	1,275,000	-	-	2,000,000
Due from component units	2,875,000	-	2,725,000	-	-	5,600,000
Inventories	289,431	-	-	83,300	29,925	402,656
Prepaid items	10,758	-	-	-	-	10,758
Total assets	$ 162,491,458	$ 72,133,132	$ 83,157,654	$ 18,460,387	$ 33,696,953	$ 369,939,584
Liabilities						
Accounts payable	$ 1,965,969	$ -	$ 2,466,098	$ 422,024	$ 1,138,112	$ 5,992,203
Accrued liabilities	2,667,320	-	1,012,709	4,863	181,671	3,866,563
Customer deposits	-	-	-	15,364	345,664	361,028
Due to other funds	-	-	-	500,000	1,900,000	2,400,000
Due to other governmental agencies	478,292	-	8,824	259,904	8,797	755,817
Total liabilities	5,111,581	-	3,487,631	1,202,155	3,574,244	13,375,611
Deferred Inflows of Resources						
Unavailable revenue - property taxes	87,224,918	25,300,298	-	-	-	112,525,216
Unavailable revenue - other	-	-	2,871,536	15,769,922	3,487,040	22,128,498
Total deferred inflows of resources	87,224,918	25,300,298	2,871,536	15,769,922	3,487,040	134,653,714
Fund Balances						
Non-Spendable	300,189	-	-	83,300	653,990	1,037,479
Restricted	-	46,832,834	-	1,405,010	12,895,595	61,133,439
Committed	36,771,148	-	76,798,487	-	13,086,084	126,655,719
Assigned	2,647,854	-	-	-	-	2,647,854
Unassigned	30,435,768	-	-	-	-	30,435,768
Total fund balances	70,154,959	46,832,834	76,798,487	1,488,310	26,635,669	221,910,259
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 162,491,458	$ 72,133,132	$ 83,157,654	$ 18,460,387	$ 33,696,953	$ 369,939,584

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Amounts reported for the governmental activities in the Statement of Net Position are different because:

Fund balance - governmental funds		$221,910,259
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the balance sheets of the governmental funds.		251,312,206
Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not incldued in the statement of net position.		5,312,997
Internal service funds are used by management to charge the costs of office service, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilites of the internal service funds are included in governmental activities in the statement of net position.		107,624,294
Accrued interest payable is not due and payable in the current period and therefore is not reported as a liability in the balance sheets of the governmental funds.		(181,556)
Negative net pension obligation recorded as an asset as an adjustment to net position.		3,114,962
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Debt	(45,149,360)	
Discounts and Premiums (net)	(5,673,340)	
Compensated absences	(9,129,388)	(59,952,088)
Net position - governmental activities		$ 529,141,074

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Debt Service	Capital Projects	Special Revenue Fund: Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes, assessments, interest & penalties	$ 152,320,929	$ 25,920,092	$ -	$ -	$ 5,204,302	$ 183,445,323
Licenses, permits & inspection charges	354,213	-	-	-	1,639,754	1,993,967
Intergovernmental	29,242,836	-	1,798,405	2,457,113	3,860,867	37,359,221
Charge for services	1,664,729	-	-	809,418	4,053,479	6,527,626
Fines & forfeitures	874,641	-	-	-	3,135,044	4,009,685
Other	1,238,623	394,980	2,361,600	160,646	1,014,054	5,169,903
Total revenues	185,695,971	26,315,072	4,160,005	3,427,177	18,907,500	238,505,725
Expenditures:						
Current:						
Administration	3,188,682	-	-	-	215,858	3,404,540
Finance	3,574,785	-	-	-	199,998	3,774,783
Information Systems	3,910,390	-	-	-	-	3,910,390
Community Development	2,634,852	-	-	-	-	2,634,852
South Knoxville Waterfront	439,023	-	-	-	-	439,023
Parks & Recreation	6,562,705	-	-	-	-	6,562,705
Mass Transit	11,295,470	-	-	-	-	11,295,470
Engineering	5,313,084	-	-	-	7,644,072	12,957,156
Public Services	21,857,205	-	-	3,554,302	14,884,744	40,296,251
Law	1,583,175	-	-	-	954,013	2,537,188
Police	49,138,929	-	-	-	2,259,243	51,398,172
Fire	35,576,327	-	-	-	11,467	35,587,794
Legislative	1,140,484	-	-	-	-	1,140,484
Civil Service	933,790	-	-	-	-	933,790
Knoxville Partnership	618,725	-	-	-	-	618,725
Metropolitan Planning Commission	905,000	-	-	-	-	905,000
Knoxville Zoological Park	1,057,825	-	-	-	-	1,057,825
Community Agency Grants	746,706	-	-	-	-	746,706
Other Nondepartmental	90,510	-	-	-	-	90,510
Community Action Committee	690,640	-	-	-	-	690,640
Tax Increment Payments	942,157	-	-	-	-	942,157
Capital & grant projects	-	-	19,253,439	-	-	19,253,439
Debt Service:						
Principal retirement	-	5,412,560	-	-	-	5,412,560
Interest payments on bonds & notes	-	1,730,483	-	-	-	1,730,483
Total expenditures	152,200,464	7,143,043	19,253,439	3,554,302	26,169,395	208,320,643
Excess (deficiency) of revenues over (under) expenditures	33,495,507	19,172,029	(15,093,434)	(127,125)	(7,261,895)	30,185,082
Other financing sources (uses)						
Transfers in	2,936,680	-	21,614,190	-	12,236,050	36,786,920
Transfers out	(26,001,720)	(18,149,800)	(17,220)	-	(5,498,532)	(49,667,272)
Total other financing sources (uses)	(23,065,040)	(18,149,800)	21,596,970	-	6,737,518	(12,880,352)
Net change in fund balances	10,430,467	1,022,229	6,503,536	(127,125)	(524,377)	17,304,730
Fund balances - beginning	59,724,492	45,810,605	70,294,951	1,615,435	27,160,046	204,605,529
Fund balances - ending	$ 70,154,959	$ 46,832,834	$ 76,798,487	$ 1,488,310	$ 26,635,669	$ 221,910,259

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:	
Net changes in fund balances - total governmental funds	$ 17,304,730
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 net capital outlay that meet criteria for capitalization ($14,657,652) exceeds depreciation expenses ($14,493,308).	164,344
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,031,722)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	5,253,594
Accrued interest associated with long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.	12,161
Change in net pension obligation.	70,863
The internal service fund is used by management to charge the costs of fleet maintenance.	2,614,524
The internal service fund is used by management to charge the costs of risk management.	(502,208)
The internal service fund is used by management to charge the costs of employee health insurance.	111,812
The internal service fund is used by management to charge the costs of equipment replacement.	588,093
The internal service fund is used by management to charge the costs of City buildings.	207,271
Change in net position - governmental activities	$ 24,793,462

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Revenues						
Property taxes -						
Current	$ 74,577,840	$ 74,577,840	$ 76,921,282	$ -	$ 76,921,282	$ 2,343,442
Prior years	4,268,760	4,268,760	5,220,785	-	5,220,785	952,025
Business taxes	5,146,460	5,146,460	7,220,126	-	7,220,126	2,073,666
Local shares sales tax	37,430,750	37,430,750	35,028,097	-	35,028,097	(2,402,653)
Alcoholic beverage taxes	10,968,220	10,968,220	11,511,113	-	11,511,113	542,893
Payments in lieu of taxes	14,436,970	14,436,970	14,637,580		14,637,580	200,610
Franchise fees	1,753,300	1,753,300	1,781,946	-	1,781,946	28,646
Intergovernmental -						
Federal	862,440	862,440	911,702	-	911,702	49,262
State -						
Sales tax	11,836,150	11,836,150	12,364,127	-	12,364,127	527,977
Income tax	5,000,000	5,000,000	12,555,648	-	12,555,648	7,555,648
Other	3,385,100	3,385,100	3,411,359	-	3,411,359	26,259
Local	53,000	53,000	-	-	-	(53,000)
Licenses and permits	332,830	332,830	354,213	-	354,213	21,383
Fines & forfeits	661,800	661,800	874,641	-	874,641	212,841
Charges for services	1,708,900	1,708,900	1,664,729	-	1,664,729	(44,171)
Other -						
Interest	475,100	475,100	294,037	-	294,037	(181,063)
Rents & concessions	377,370	377,370	394,122	-	394,122	16,752
Miscellaneous	288,830	842,476	550,464	-	550,464	(292,012)
Appropriated fund balance	4,410,000	5,899,650	-	-	-	(5,899,650)
Total revenues	177,973,820	180,017,116	185,695,971	-	185,695,971	5,678,855
Expenditures						
Current -						
Administration	3,466,140	3,509,822	3,188,682	16,364	3,205,046	304,776
Finance	3,754,570	3,775,462	3,574,785	-	3,574,785	200,677
Information systems	4,310,650	4,399,114	3,910,390	84,582	3,994,972	404,142
Community development	2,750,540	2,736,393	2,634,852	3,600	2,638,452	97,941
South Knoxville Waterfront	439,740	439,740	439,023	-	439,023	717
Parks & recreation	6,789,100	6,726,258	6,562,705	20,400	6,583,105	143,153
Mass transit	13,534,400	13,076,390	11,295,470	-	11,295,470	1,780,920
Public services	21,674,110	21,910,416	21,857,205	24,332	21,881,537	28,879
Engineering	5,991,370	5,844,485	5,313,084	770	5,313,854	530,631
Law	1,825,760	1,850,535	1,583,175	29,871	1,613,046	237,489
Police	49,846,800	49,730,866	49,138,929	210,938	49,349,867	380,999
Fire	35,391,150	35,581,352	35,576,327	-	35,576,327	5,025
Legislative	1,057,530	1,219,930	1,140,484	-	1,140,484	79,446
Civil Service	1,064,830	1,066,053	933,790	-	933,790	132,263
Nondepartmental -						
City Elections	40,000	40,000	-	-	-	40,000
Knoxville Partnership	642,970	642,970	618,725	-	618,725	24,245
Metropolitan Planning Commission	905,000	905,000	905,000	-	905,000	-
Knoxville Zoological Gardens	1,058,680	1,058,680	1,057,825	-	1,057,825	855
Community Agency Grants	712,000	749,650	746,706	-	746,706	2,944
Other Nondepartmental	90,640	90,640	90,510	-	90,510	130
Community Action Committee	690,640	690,640	690,640	-	690,640	-
Tax Increment Payments	944,780	944,780	942,157	-	942,157	2,623
Total expenditures	156,981,400	156,989,176	152,200,464	390,857	152,591,321	4,397,855
Excess (deficiency) of revenues over (under) expenditures	20,992,420	23,027,940	33,495,507	(390,857)	33,104,650	10,076,710
Other Financing Sources (Uses)						
Transfers in	2,992,680	2,992,680	2,936,680	-	2,936,680	56,000
Transfers out	(23,985,100)	(26,020,620)	(26,001,720)	-	(26,001,720)	18,900
Total other financing sources (uses)	(20,992,420)	(23,027,940)	(23,065,040)	-	(23,065,040)	37,100
Net changes in fund balances	$ -	$ -	10,430,467	(390,857)	10,039,610	$ 10,039,610
Fund balance - beginning			59,724,492	-	59,724,492	
Fund balance - ending			$ 70,154,959	$ (390,857)	$ 69,764,102	

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
MISCELLANEOUS COMMUNITY DEVELOPMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 1,045,390	$ 1,045,390	$ 2,457,113	$ 1,411,723
Charges for services	430,000	430,000	809,418	379,418
Other	-	281,896	160,646	(121,250)
Total revenues	1,475,390	1,757,286	3,427,177	1,669,891
Expenditures				
Current:				
Public services	1,475,390	1,757,286	3,554,302	(1,797,016)
Total expenditures	1,475,390	1,757,286	3,554,302	(1,797,016)
Excess (deficiency) of revenues over (under) expenditures	-	-	(127,125)	(127,125)
Net changes in fund balances	$ -	$ -	(127,125)	$ (127,125)
Fund balances - beginning			1,615,435	
Fund balances - ending			$ 1,488,310	

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Assets				
Current assets:				
Cash & temporary investments	$ 5,838,246	$ 1,365,581	$ 7,203,827	$ 4,111,819
Investments	16,209,507	13,465,637	29,675,144	91,741,857
Accounts receivable	2,125,730	210,686	2,336,416	762,971
Due from other funds	-	1,202,000	1,202,000	-
Inventories	90,447	308,408	398,855	1,022,051
Prepaid items	21,742	5,071	26,813	-
Total current assets	24,285,672	16,557,383	40,843,055	97,638,698
Noncurrent assets:				
Land & site improvements	2,952,020	4,384,283	7,336,303	-
Building & building improvements	180,566,774	42,723,341	223,290,115	257,391
Equipment	4,467,098	2,809,657	7,276,755	76,231,422
Construction in progress	-	5,888,147	5,888,147	155,191
Less: accumulated depreciation	(59,990,014)	(29,929,148)	(89,919,162)	(53,356,339)
Total capital assets (net of accumulated depreciation):	127,995,878	25,876,280	153,872,158	23,287,665
Land held for redevelopment	-	2,500,840	2,500,840	-
Equity interest in joint venture	207,162	825,221	1,032,383	2,941,304
Total noncurrent assets	128,203,040	29,202,341	157,405,381	26,228,969
Total assets	152,488,712	45,759,724	198,248,436	123,867,667
Deferred outflows of resources				
Interest rate swap	2,638,045	-	2,638,045	-
Total deferred outflows of resources	2,638,045	-	2,638,045	-
Liabilities				
Current liabilities:				
Accounts payable	1,106,243	3,031,741	4,137,984	2,058,454
Accrued liabilities	364,219	34,040	398,259	1,088,239
Customer deposits	205,715	84,822	290,537	-
Due to other funds	-	45,000	45,000	757,000
Compensated absences	-	181,275	181,275	139,679
Long-term debt due within one year	4,304,817	13,849	4,318,666	-
Estimated claims liability	-	-	-	5,000,000
Total current liabilities	5,980,994	3,390,727	9,371,721	9,043,372
Noncurrent liabilities:				
Long-term debt due in more than one year	121,059,556	-	121,059,556	-
Estimated claims liability	-	-	-	7,200,000
Derivative instrument - interest rate swap	2,638,045	-	2,638,045	-
Total noncurrent liabilities	123,697,601	-	123,697,601	7,200,000
Total liabilities	129,678,595	3,390,727	133,069,322	16,243,372
NET POSITION				
Net investment in capital assets	2,631,505	25,862,431	28,493,936	23,287,665
Unrestricted	22,816,657	16,506,566	39,323,223	84,336,630
Total net position	$ 25,448,162	$ 42,368,997	$ 67,817,159	$ 107,624,295

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating revenues				
Charges for services	$ 5,454,394	$ 4,829,644	$ 10,284,038	$ 39,382,107
Total operating revenues	5,454,394	4,829,644	10,284,038	39,382,107
Operating expenses				
Personal services	-	2,167,231	2,167,231	2,936,145
Materials & supplies	-	119,281	119,281	1,878,966
Maintenance	2,233	867,424	869,657	650,755
Depreciation & amortization	4,540,037	1,401,506	5,941,543	6,732,813
Other services and charges	9,617,104	3,251,242	12,868,346	29,346,587
Total operating expenses	14,159,374	7,806,684	21,966,058	41,545,266
Operating income (loss)	(8,704,980)	(2,977,040)	(11,682,020)	(2,163,159)
Nonoperating revenues (expense)				
Interest income	217,514	17,416	234,930	72,134
Intergovernmental revenue	9,864,965	104,638	9,969,603	212,143
Other revenues	10,000	338,123	348,123	698,997
Gain (loss) on disposal of capital assets	-	-	-	384,629
Interest expense	(2,999,737)	(2,719)	(3,002,456)	-
Total nonoperating revenues (expenses)	7,092,742	457,458	7,550,200	1,367,903
Income (loss) before transfers and capital contributions	(1,612,238)	(2,519,582)	(4,131,820)	(795,256)
Transfers in	3,635,380	5,488,040	9,123,420	3,756,932
Capital contributions	-	-	-	57,817
Change in net position	2,023,142	2,968,458	4,991,600	3,019,493
Net position, beginning of year, as restated	23,425,020	39,400,539	62,825,559	104,604,802
Net position, end of year	25,448,162	42,368,997	67,817,159	107,624,295

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating activities				
Cash received from customers and users	$ 5,374,254	$ 5,139,344	$ 10,513,598	$ -
Receipts from interfund services provided	-	-	-	39,304,208
Cash paid to suppliers	(9,320,822)	(4,207,794)	(13,528,616)	(7,330,712)
Cash paid to employees	-	(2,062,850)	(2,062,850)	(2,914,224)
Cash paid for interfund services used	(2,233)	(119,281)	(121,514)	(440,030)
Payments of claims and insurance	-	-	-	(22,557,426)
Net cash provided by (used in) operating activities	(3,948,801)	(1,250,581)	(5,199,382)	6,061,816
Noncapital financing activities				
Transfers from other funds	4,635,380	8,172,610	12,807,990	4,426,931
Transfers to other funds	-	(96,021)	(96,021)	-
Tax and intergovernmental revenues	9,874,965	442,761	10,317,726	911,140
Net cash provided by (used in) noncapital financing activities	14,510,345	8,519,350	23,029,695	5,338,071
Capital and related financing activities				
Principal paid on general obligation bond maturities	(4,218,357)	(233,285)	(4,451,642)	-
Interest paid	(2,999,737)	(2,719)	(3,002,456)	-
Acquisition and construction of capital assets	-	(3,422,085)	(3,422,085)	(3,417,418)
Capital contributions	-	-	-	57,817
Net cash provided by (used in) capital and related financing activities	(7,218,094)	(3,658,089)	(10,876,183)	(3,359,601)
Investing activities				
Sales/(purchases) of investments, net	(2,246,304)	(1,763,602)	(4,009,906)	(7,605,066)
Investment earnings	217,514	17,416	234,930	72,134
Land held for redevelopment	-	(2,500,840)	(2,500,840)	-
Net change in equity investment in joint venture	(154,108)	58,497	(95,611)	(186,037)
Net cash provided by (used in) investing activities	(2,182,898)	(4,188,529)	(6,371,427)	(7,718,969)
Net increase (decrease) in cash and cash equivalents	1,160,552	(577,849)	582,703	321,317
Cash and cash equivalents				
Beginning of year	4,677,694	1,943,430	6,621,124	3,790,502
End of year	$ 5,838,246	$ 1,365,581	$ 7,203,827	$ 4,111,819

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (8,704,980)	$ (2,977,040)	$ (11,682,020)	$ (2,163,159)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,540,037	1,401,506	5,941,543	6,732,813
Change in assets and liabilities				
(Increase) decrease in receivables	(26,738)	459,207	432,469	(83,047)
(Increase) decrease in prepayments	3,311	4,477	7,788	-
(Increase) decrease in inventories	1,039	(264,166)	(263,127)	(136,735)
Increase (decrease) in accounts payable	180,157	174,097	354,254	90,023
Increase (decrease) in accrued expenses	111,775	104,381	216,156	21,921
Increase (decrease) in deferred revenue	-	(41,603)	(41,603)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	1,600,000
Increase (decrease) in customer deposits	(53,402)	(111,440)	(164,842)	-
Total adjustments	4,756,179	1,726,459	6,482,638	8,224,975
Net cash provided by (used in) operating activities	$ (3,948,801)	$ (1,250,581)	$ (5,199,382)	$ 6,061,816

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	$ 2,180	$ 740,199
Cash equivalents	8,900,872	-
United States government securities	26,615,728	-
State & municipal government securities	4,022,860	15,494
International securities	141,531,129	-
Corporate bond & indentures	66,120,829	-
Real estate investment trusts	69,240,400	-
Domestic equity securities	174,703,121	-
Pending sales proceeds	998,967	-
Other receivables	-	15,025
Accrued interest & dividends	1,289,761	-
Due from other funds	-	30,000
Equipment, furniture & fixtures	37,009	-
Accumulated depreciation	(25,936)	-
Total assets	$ 493,436,920	$ 800,718
Liabilities		
Accounts payable	782,864	2,869
Investment purchases pending	1,440,888	-
Health care claims liability	-	767,849
Due to other funds	-	30,000
Total liabilities	$ 2,223,752	$ 800,718
Net Position		
Held in Trust for:		
Pension benefits	$ 491,213,168	

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	City Employees' Pension Trust Fund
Additions	
Employee contributions	$ 3,884,989
Employer contributions	13,762,164
Total contributions	17,647,153
Investment earnings:	
Interest and dividends	9,588,753
Net appreciation/(depreciation) in the fair value of investments	56,388,208
Other income	57,624
Total investment earnings (loss)	66,034,585
Less investment expense	(3,428,227)
Net investment earnings (loss)	62,606,358
Total additions (net)	80,253,511
Deductions	
Benefits paid	40,578,906
Refunds	881,014
Administration expenses	625,958
Total deductions	42,085,878
Change in net position	38,167,633
Total net position - beginning	453,045,535
Total net position - ending	$ 491,213,168

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF NET POSITION - DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2013

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash and cash equivalents	$ 125,723,586	$ 9,655,290	$ 77,118	$ 135,455,994
Investments	105,802,918	30,093,254	1,199,028	137,095,200
Receivables (net of allowance for uncollectibles):				
Accounts	77,154,986	5,768,272	7,374,867	90,298,125
TVA conservation program	10,189,286	-	-	10,189,286
Other	52,927	89,678	-	142,605
Inventories	8,038,772	-	1,019,423	9,058,195
Prepaid items	11,590,017	446,333	-	12,036,350
Other	-	788,095	-	788,095
Restricted assets:				
Temporarily restricted:				
Bond funds	23,580,016	896,832	-	24,476,848
Unused bond proceeds	206	-	-	206
Receivables	-	515,000	-	515,000
Other	53,820	-	-	53,820
Other assets	8,745,320	-	-	8,745,320
Capital assets:				
Land and site improvements	-	173,224,499	1,854,780	175,079,279
Buildings and improvements	-	144,722,529	32,637,878	177,360,407
Utility plant in service	1,987,349,747	-	-	1,987,349,747
Equipment, furniture and fixtures	-	10,878,405	30,814,493	41,692,898
Construction in progress	160,097,345	27,675,700	-	187,773,045
Less accumulated depreciation	(681,775,954)	(193,889,350)	(20,329,146)	(895,994,450)
Equity interest in joint venture	-	-	8,558	8,558
Total assets	1,836,602,992	210,864,537	54,656,999	2,102,124,528
Deferred outflows of resources				
Interest rate swap	-	2,900,108	-	2,900,108
Unamortized charge on bond refunding	13,002,043	-	-	13,002,043
Total deferred outflows of resources	13,002,043	2,900,108	-	15,902,151
Liabilities				
Accounts payable	60,742,066	821,428	308,853	61,872,347
Matured principal & interest on bonds	11,261,245	-	-	11,261,245
Accrued liabilities	26,917,368	1,037,247	540,003	28,494,618
Due to primary government	-	-	5,600,000	5,600,000
Customer deposits, plus accrued interest	15,451,660	-	-	15,451,660
Accrued interest	-	114,130	-	114,130
Noncurrent liabilities:				
Long-term debt due within one year	23,965,000	695,000	-	24,660,000
Long-term debt due in more than one year	815,340,000	79,155,000	-	894,495,000
Other noncurrent liabilities due within one year	3,811,000	-	-	3,811,000
Other noncurrent liabilities due in more than one year	21,114,216	-	-	21,114,216
Derivative instruments - interest rate swaps	-	6,336,978	-	6,336,978
Total liabilities	978,602,555	88,159,783	6,448,856	1,073,211,194
Deferred inflows of resources				
Unamortized costs	7,357,600	-	-	7,357,600
Total deferred inflows of resources	7,357,600	-	-	7,357,600
Net position				
Net investment in capital assets	630,793,054	78,942,220	44,978,005	754,713,279
Restricted for:				
Debt service	12,318,771	-	-	12,318,771
Other	53,820	1,411,832	-	1,465,652
Unrestricted	220,479,235	45,250,810	3,230,138	268,960,183
Total net position	$ 863,644,880	$ 125,604,862	$ 48,208,143	$ 1,037,457,885

The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES - DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Component Units: Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	$ 716,320,479	$ 743,249,017	$ -	$ 378,196	$ 27,306,734	$ -	$ -	$ 27,306,734
Metropolitan Knoxville Airport Authority	36,116,367	27,853,186	-	14,463,193	-	6,200,012	-	6,200,012
Knoxville Area Transit	33,782,961	4,641,552	6,924,445	14,290,358	-	-	(7,926,606)	(7,926,606)
Total component units	$ 786,219,807	$ 775,743,755	$ 6,924,445	$ 29,131,747	$ 27,306,734	$ 6,200,012	$ (7,926,606)	$ 25,580,140
General revenues:								
Intergovernmental revenue, unrestricted					-	-	10,272,493	10,272,493
Other unrestricted revenue					-	156,654	73,559	230,213
Unrestricted investment earnings					1,031,771	195,537	1,592	1,228,900
Gain on disposal of capital assets					-	11,708	78,515	90,223
Total general revenues					1,031,771	363,899	10,426,159	11,821,829
Change in net position					28,338,505	6,563,911	2,499,553	37,401,969
Net position - beginning, as restated					835,306,375	119,040,951	45,708,590	1,000,055,916
Net position - ending					$ 863,644,880	$ 125,604,862	$ 48,208,143	$ 1,037,457,885

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Knoxville, Tennessee is a municipal corporation governed by elected executive and legislative bodies, which consist of a Mayor and a nine-member City Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Knoxville, Tennessee (the primary government) and its component units, entities for which the government is considered to be financially accountable. A component unit is a legally separate entity that satisfies at least one of the following criteria: (1) elected officials of a primary government are financially accountable for the entity, (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Component units are generally presented discretely unless one of the following two circumstances are present, in which case they would be blended: (1) similar governing bodies and (2) scope of services provided are either directly or indirectly, exclusively or almost exclusively for the primary government.

All component units are discretely presented and are reported in a single separate column in the combined financial statements to emphasize that they are legally separate from the City. The governing bodies of each of these component units are appointed and can be removed by the City Council. All component units have a June 30 year-end.

1. Knoxville Utilities Board (KUB) provides electric, gas and water and wastewater services to residents of the City and surrounding areas. KUB may not issue debt without the City's approval, although the City does not have any obligation for KUB debt.

2. Metropolitan Knoxville Airport Authority (MKAA) operates two airport facilities that serve Knoxville and the surrounding area. MKAA must obtain City approval to issue debt.

3. Knoxville Area Transit (KAT) operates the public transportation system in Knoxville. The City approves the KAT budget. The City also provides significant operating subsidies to KAT. Additional information may be obtained from the General Manager, 1135 Magnolia Avenue, Knoxville, Tennessee 37917.

Complete financial statements for each of the component units, except KAT for which separate financial statements are not issued, may be obtained from their respective administrative offices as follows:

Knoxville Utilities Board
626 South Gay Street
Knoxville, Tennessee 37929
www.kub.org

Metropolitan Knoxville Airport Authority
P. O. Box 15600
Knoxville, Tennessee 37901
www.tys.org

Joint Ventures

The City is a participant in the following joint ventures with Knox County which are not considered part of the reporting entity as the City does not exercise financial accountability for their operations:

Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) Knoxville, Knox County, KUB Geographic Information Systems
Knoxville-Knox County Animal Center

Complete financial statements of the joint ventures can be obtained from the City Finance Department, P.O. Box 1631, Knoxville, Tennessee 37901.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

Knoxville's Community Development Corporation - the Mayor appoints members to the governing board; however, the City exercises no budgetary control and provides no direct financial assistance.

Knoxville Zoological Park and *IJAMS Nature Center* - the City has management agreements with each of these entities (Note 15) but has no involvement in directing the respective entities' budgets, rates, debt obligations and board membership.

Government-wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from the government-wide statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are funded to a significant extent by user fees and charges. The legally separate component units, for which the primary government is financially accountable, are reported in the government-wide financial statements in a separate column as combined discretely presented component units.

The **statement of net position** presents the City's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

Direct expenses are those that are clearly identifiable with a specific function or segment. The **statement of activities** demonstrates the extent to which the direct expenses of each function or segment are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided or given by the function or segment. Program revenues also include grants and contributions that are restricted for meeting the operational or capital requirements of a particular function or segment. Taxes and other non-program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and discretely presented component units. Although they are excluded from the government-wide financial statements, separate financial statements are also provided for the fiduciary funds. Each major governmental and enterprise fund is reported in a separate column in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The financial statements of the discretely presented component units (Knoxville Utilities Board, Metropolitan Knoxville Airport Authority, and Knoxville Area Transit) that are included in the government-wide financial statements are accounted for on the same basis as the City's proprietary funds. Further, the accounts of Knoxville Utilities Board are maintained in conformity with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year or up to one year for grant revenues. Similar to the accrual basis of accounting, expenditures generally are recorded when a liability is incurred. However, debt service expenditures, expenditures relating to long-term liabilities such as compensated absences and claims and judgments are recorded when payment is due.

Property taxes, shared revenues, licenses, interest and charges for services associated with the current fiscal year are considered to be susceptible to accrual and have been recognized as revenues of the current year. Other revenue items are considered to be measurable and available when the government receives cash.

The City reports the following major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. It is the City's primary operating fund.

Debt Service Fund - The debt service fund accounts for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

Capital Projects Fund - The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Special Revenue Fund - Miscellaneous Community Development Funds - The miscellaneous community development funds account for various grants restricted for housing and humanity by state and federal granting agencies.

The City reports the following major proprietary fund:

Knoxville Convention Center - This fund accounts for the operations of the Knoxville Convention Center.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Additionally, the City reports the following fund types:

Internal Service Funds - Internal service funds account for replacement of capital assets, office services, fleet management, risk management, and employee health insurance services provided to other departments or agencies of the City, on a cost reimbursement basis.

Pension Trust Fund - The City Employees' Pension Trust Fund accounts for the assets and the investment activities of the City of Knoxville Pension System which accumulates resources for pension benefit payments to qualified employees.

Agency Funds - The City Choice Plus fund accounts for the flexible spending accounts of the participating employees of the City and any funds not expended by March 31st of the following year revert back to the City. In addition, the Employee Health Reimbursement fund accounts for health reimbursement accounts of the participating employees of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Knoxville Utilities Board, the Knoxville Area Transit and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources and all taxes are reported as general revenues.

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 the City's enterprise funds are charges to customers for sales and services. The Knoxville Utilities Board also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the 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, the City's policy is to use restricted resources first and unrestricted sources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

Deposits and investments - The City pools idle cash from all funds (except the Pension Trust Fund, the Knoxville Utilities Board, and the Metropolitan Knoxville Airport Authority component units) for the purpose of increasing income through investment activities. Deficits in pooled cash are classified as due to other funds or due from other funds on the financial statements of the borrowing and advancing fund, respectively.

Except for certain money market investments, that have a remaining maturity at the time of purchase of one year or less which are carried at amortized cost, investments are carried at fair value. Interest income on investments is allocated to all funds on the basis of average daily cash and investment balances.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables - The City bills and collects its own property taxes. Property taxes are levied (based on the assessed valuation as of January 1) and become payable on October 1. Property taxes attach as a lien on the property as of January 1. Such taxes become delinquent on February 28. A lawsuit is filed against property owners for taxes that remain uncollected on March 1 of the year following the date such taxes become delinquent. Property tax revenues are recognized when levied to the extent that they result in current receivables; that is, are received within 60 days of the end of the fiscal year. An allowance for uncollectibles or unavailable revenue (deferred inflows) is provided for remaining property tax receivables.

All trade receivables, including those of discretely presented component units are presented net of an allowance for uncollectibles. Because loans receivable are subject to grant restrictions, an amount equal to the loan has been provided as unavailable revenue (deferred inflows)

Inventories and Prepaid Items - Inventories in proprietary fund types are stated at the lower of average cost or replacement value. Inventories in the governmental fund types are stated at cost. Proprietary fund inventories consist of expendable supplies held for consumption. Inventories of governmental funds consist of land for development and supplies held for consumption.

Prepaid items in both the government-wide and fund financial statements represent payments to vendors that reflect costs applicable to future periods.

Restricted Assets - Certain unexpended debt proceeds, as well as resources set aside for debt repayment, are classified on the balance sheet as restricted. These funds are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as those assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds 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. Total interest expense incurred by the Knoxville Convention Center was $2,999,737 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year.

Depreciation on property, plant and equipment is provided using the straight-line method of accounting over the following useful lives:

Buildings	25 to 40 years
Improvements	5 to 20 years
Infrastructure	25 years
Equipment	3 to 10 years
Sewer lines	50 years

The original cost of KUB utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred outflows of resources - In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The City has two items that qualify for reporting in this category. The *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The *effective portions of interest rate swaps* relate to interest rate swap agreements which are considered to be hedging derivative financial instruments. Changes in the fair market value of hedging derivatives are reported as deferred outflows of resources.

Compensated Absences - City employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee can be reimbursed twice the annual accrual of accumulated vacation, up to a maximum of 48 days. Employees are reimbursed up to 45 days of accumulated sick leave upon retirement or death only if the individual has accumulated 120 or more days. The cost of accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation and sick leave that is payable as a result of employee resignation or retirement and which is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it (i.e. the fund that pays the employee's salary or wages).

Long-term Obligations - The City reports long-term debt and other long-term obligations in the applicable activities in the government-wide financial statements and the proprietary fund type fund financial statements. Bond premiums and discounts, 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.

Deferred inflows of resources - In addition to liabilities, the balance sheets and statements of net position will sometimes report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has one item that qualifies for reporting in this category. The *unavailable revenue* reported in the balance sheet, which arises under a modified accrual basis of accounting, represents amounts that are deferred and recognized as an inflow of resources in the periods that the amounts become available. The *unavailable revenue* reported in the statement of net position, arises from imposed nonexchange revenues (property taxes) which are assessed prior to the end of the fiscal year but levied in the subsequent year, and amounts equal to loans receivable that are subject to grant restrictions.

Master Plans - Master plans represent costs incurred in developing a long-term expansion plan for the Metropolitan Knoxville Airport Authority. Master plans are stated at cost. Amortization is computed using the straight-line method over the plans' estimated useful life of five years.

Passenger Facility Charges - The collection of Passenger Facility Charges ("PFCs") has been approved to be used for qualifying capital improvement projects. PFCs, along with related interest earnings, are recorded as unearned revenue until used or authorized for use under FAA approved application to use. Once authorized to use, the PFC receipts are recognized and recorded as non-operating revenue in the year collected by the air carriers.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - The City's fund balance is classified into the following categories:

Non-spendable Fund Balance - Fund balances reported as non-spendable in the accompanying financial statements represent amounts for permanent fund principal restrictions, inventory, prepaid expenditures, advances to other funds and noncurrent notes receivables.

Restricted Fund Balance - Fund balances reported as restricted are the result of externally imposed restrictions placed upon current resources by state statutes, creditors, bond covenants, donors or grantors.

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

Committed Fund Balance - Fund balances reported as committed are self-imposed restrictions placed upon certain resources by the City Council through the adoption of an ordinance and cannot be used for any other purpose unless formal action is approved by the City Council.

Assigned Fund Balance - Fund balances reported as assigned are intended for certain purposes as approved by City Council, or management. City Council has a fund balance policy that allows assigned amounts to be re-assigned by City Council, or management.

Unassigned Fund Balance - In accordance with GAAP, the general fund is the only governmental fund that reports an unassigned fund balance. The unassigned fund balance has not been restricted, committed, or assigned to a specific purpose within the general fund.

When committed, assigned or unassigned fund balance amounts are available for use, it is the City's policy to use the committed fund balance first; the assigned fund balance second; and then the unassigned fund balance, as they are needed.

Stabilization Arrangement - The City has a fund balance policy that requires the general fund to maintain a minimum unrestricted fund balance of 20% of ensuing year's appropriated general fund expenditures. For the current fiscal year ending June 30, 2013, the City met the minimum general fund balance policy.

Environmental Cleanup Matters - The Knoxville Utilities Board accrues environmental cleanup costs when those costs are believed to be both probable and reasonably estimated. For certain, matters KUB expects to share costs with other parties. KUB does not include anticipated recoveries from insurance carriers in the estimated liability.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Pronouncements

The City adopted GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement addresses how to account for and report service concession arrangements.

The City adopted GASB Statement No. 61, The Financial Reporting Entity: Omnibus, required for fiscal periods beginning after June 15, 2012, in fiscal 2013. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statements No. 14 and 34, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued.

The City adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

The City adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government reports with information about how past transactions will continue to impact a government's financial statements in the future.

The City adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, required for fiscal periods beginning after December 15, 2012, in fiscal 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 3 - Restatement of Net Position.

The City plans to adopt GASB Statement No. 66, Technical Corrections- 2012- an amendment of GASB Statements No. 10 and No. 62, required for fiscal periods beginning after December 15, 2012, in fiscal 2014. This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62.

The City plans to adopt GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves financial reporting by state and local government pension plans.

The City plans to adopt GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

The City plans to adopt GASB Statement No. 69, Government Operations and Disposals of Government Operations, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City plans to adopt GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

Unless otherwise noted, management is in the process of determining the effects that the adoption of these Statements will have on the City's financial statements.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Certain differences exist between the governmental fund financial statements and the government-wide financial statements. These differences relate to differences between the modified accrual basis of accounting used in the fund financial statements and the accrual basis of accounting used in the government-wide financial statements and to the consolidation of the internal service funds into the governmental activities in the government-wide financial statements.

Reconciliations between the governmental fund balance sheet and the government-wide statement of net position and between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are shown on pages 25 and 27, respectively.

NOTE 3 – RESTATEMENT OF NET POSITION

The City adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2013. The Statement established accounting and financial reporting standards that, among other things, recognized as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. As a result, costs related to the issuance of debt previously deferred were reclassified as if they had been reported as an outflow of resources when incurred. The impact on the financial statements was a decrease in beginning net position as follows:

	Statement of Activities			Statement of Revenues, Expenses and Changes in	
	Governmental Activities	Business-type Activities	Component Units	Proprietary Funds (Enterprise Funds)	Statement of Activities Component Units
Net position - beginning of year, as previously reported	$ 504,347,612	$ 63,609,419	$ 1,002,041,714	$ 63,609,419	$ 1,002,041,714
Reclassification of deferred charge for debt issuance costs	-	(783,860)	(1,985,798)	(783,860)	(1,985,798)
Net position - beginning of year, as restated	$ 504,347,612	$ 62,825,559	$1,000,055,916	$ 62,825,559	$ 1,000,055,916

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the Miscellaneous Grants Fund, Knoxville Civic Revitalization Fund, Krutch Park Fund and some of the Miscellaneous Community Development Funds. City Council adopts project-length budgets for the capital projects fund. In addition, City Council adopts annual operating budgets for all enterprise and internal service funds. The City prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

The Mayor is required by the City Charter to propose a balanced budget to the City Council on or before May 1 for the fiscal year commencing the following July 1. The proposed budget includes anticipated expenditures by department and sources of financing the expenditures.

Public hearings are conducted to allow constituents an opportunity to comment on the proposed operating budgets before they become law.

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year-end.

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2013.

General Fund	$2,043,296
Special Revenue Funds	614,604
Capital Project Funds	1,869,100
Enterprise Funds	4,766,489
Internal Service Funds	2,442,358

Encumbrance accounting is employed in governmental funds. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are classified as restricted, committed or assigned fund balances depending on the governmental fund purpose and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbered appropriations are appropriated in the ensuing year's budget.

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A comparison of revenues and expenses - final budget and actual for proprietary funds for which City Council has legally adopted budgets is as follows:

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Enterprise Funds						
Knoxville Convention Center	$ 21,237,630	$ 19,182,253	$ (2,055,377)	$ 21,237,630	$ 17,159,111	$ 4,078,519
Metro Parking	2,074,400	4,542,932	2,468,532	2,074,400	1,183,938	890,462
Public Assembly Facilities	7,216,628	4,846,789	(2,369,839)	7,216,628	5,212,287	2,004,341
City Golf Courses	1,549,290	1,388,140	(161,150)	1,549,290	1,413,178	136,112
Knoxville Area Transit						
(Component Unit)	23,606,581	36,282,514	12,675,933	23,606,581	33,782,961	(10,176,380)
Internal Service Funds						
Fleet Maintenance	15,623,834	15,859,938	236,104	15,623,834	13,245,414	2,378,420
Risk Management	7,148,301	6,415,676	(732,625)	7,148,301	6,917,884	230,417
Employee Health Insurance	18,540,728	18,096,984	(443,744)	18,540,728	17,985,175	555,553
Equipment Replacement	2,260,770	2,454,085	193,315	2,260,770	1,865,992	394,778
City Buildings	1,535,915	1,739,204	203,289	1,535,915	1,531,933	3,982

NOTE 5 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the City Employee's Pension Trust Fund (Pension Trust Fund) and the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority component unit enterprise funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash". Deficits in pooled cash are reported as interfund liabilities. See Note 9 for a schedule of interfund receivables and payables. In addition, investments are separately held by several of the City's funds.

Deposits - Deposits are included in the City's financial statements as "Cash and cash equivalents", "Cash and temporary investments", "Restricted cash and investments", "Cash float on pooled cash", and "Unused bond proceeds". Certain certificates of deposit are included in "Investments". Cash equivalents are defined as short- term, highly liquid investments.

Investments - Statutes authorize the City to invest in direct obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool, prime commercial paper, bankers' acceptance notes and certificates of deposit. The state treasurer's investment pool is a SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value.

The Pension Trust Fund's investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to a list of approved broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The total amount of securities on loan is restricted to no more than 30% of the assets of the fund. The lending is managed by the Pension Trust Fund's custodial bank. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%.

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Investment Policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2013, the average weighted maturity of the City's portfolio was 313 days.

Credit Risk: Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool. The state treasurer's investment pool is a non-rated, SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value.

The City's Investment Policy allows only investments in the highest-grade securities. Investments in commercial paper require that the issuer be rated A1, P1, or F1 by at least two rating agencies. The City's investments meet this requirement.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of failure of the custodian, the City will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investments are typically uninsured and unregistered investments for which the securities are held by the custodian's trust department or agent in the City's name. Certificates of deposit are secured by collateral held by the State's Collateral Pool. These would again include uninsured and unregistered investments for which the securities are held by the custodian's trust department or agent in the State's name.

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than 35% of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than 10% of the portfolio, or $10 million whichever is less, shall be from a single issuer. As of June 30, 2013, the City held securities in various municipal bonds of $91 million or approximately 29% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Baa2 to Baa3 and are part of the permanent fund for Krutch Park.

As of June 30, 2013, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 1 Year	1 - 2 Years	2 - 4 Years
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	$ 4,426,283	$ -	$ -	$ 4,426,283
Private Equity Funding Corporation (PEFCO)	1,452,782	-	-	1,452,782
Federal Farm Credit Bureau (FFCB)	3,464,980	-	-	3,464,980
Commercial Paper	6,979,361	6,979,361	-	-
Other Governmental Bonds	113,203,451	6,043,513	19,048,487	88,111,451
Certificates of Deposit	7,736,307	-	1,500,000	6,236,307
Corporate Equities	162,167	162,167	-	-
Tennessee Local Government Investment Pool	181,421,429	181,421,429	-	-
	$ 318,846,760	$ 194,606,470	$ 20,548,487	$ 103,691,803
Fiduciary Activities:				
Tennessee Local Government Investment Pool	$ 15,494	$ 15,494	$ -	$ -

Investments are included in the City's financial statements as "Cash and temporary investments", "Investments", "Restricted cash and investments", "Unused bond proceeds", and "Restricted assets".

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Deposits and investments of component units and the City Employees' Pension Trust Fund are classified in the statement of net position and the statement of fiduciary net position, respectively, as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Deposits:				
Bank balances	$ 206,630,780	$ 10,947,557	$ 77,118	$ 2,180
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	$ 125,776,035	$ 10,552,122	$ 77,118	$ 2,180
Certificates of deposit	76,320,162	-	-	-
Total deposits - carrying value	$ 202,096,197	$ 10,552,122	$ 77,118	$ 2,180

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	$ -	$ -	$ -	$ 8,900,872	$ 8,900,872	$ 8,900,872
United States government securities	42,799,225	-	-	26,615,728	69,414,953	69,414,953
Domestic equity securities	-	-	-	174,703,121	174,703,121	174,703,121
Corporate bonds	-	-	-	66,120,829	66,120,829	66,120,829
State and municipal government securities	-	-	-	4,022,860	4,022,860	4,022,860
Real estate investment trusts	-	-	-	69,240,400	69,240,400	69,240,400
International securities	-	-	-	141,531,129	141,531,129	141,531,129
Total classified investments	42,799,225	-	-	491,134,939	533,934,164	533,934,164
Investments not categorized:						
Investments in state treasurer's investment pool	10,039,012	30,093,254	1,199,028	-	41,331,294	41,331,294
Total investments	$ 52,838,237	$ 30,093,254	$ 1,199,028	$ 491,134,939	$ 575,265,458	$ 575,265,458
Total deposits and investments	$ 254,934,434	$ 40,645,376	$ 1,276,146	$ 491,137,119		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	$ 125,723,586	$ 9,655,290	$ 77,118	$ 2,180
Investments	105,802,918	30,093,254	1,199,028	491,134,939
Unused bond proceeds	206	896,832	-	-
Bond funds	23,580,016	-	-	-
Other temporarily restricted assets	53,820	-	-	-
	255,160,546	40,645,376	1,276,146	491,137,119
Less accrued interest	(226,112)	-	-	-
Total deposits and investments	$ 254,934,434	$ 40,645,376	$1,276,146	$ 491,137,119

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013, including the applicable allowance for uncollectible accounts, consisted of the following:

	Intergovern-mental	Interest and Dividends	Grants	Customers	Other	Allowance for Doubtful Accounts	Total
General fund	$ 626,401	$ 27,242	$ 911,381	$ -	$ -	$ -	$ 1,565,024
Debt service fund	-	5,830	-	-	261,003	-	266,833
Capital projects fund	-	24,820	1,553,137	-	-	-	1,577,957
Special revenue funds:							-
Miscellaneous community development funds	-	-	1,428,319	-	-	-	1,428,319
Other governmental funds	837,091	866	1,272,722	31,910	16,973	-	2,159,562
Knoxville Convention Center	-	-	-	-	2,125,730	-	2,125,730
Other enterprise funds	-	-	203,038	7,648	-	-	210,686
Internal service funds	-	-	-	762,971	-	-	762,971
Total primary government	1,463,492	58,758	5,368,597	802,529	2,403,706	-	10,097,082
Component units:							
Knoxville Utilities Board	10,189,286	52,927	-	74,362,256	3,741,088	(948,358)	87,397,199
Metropolitan Knoxville Airport Authority	-	89,678	5,093,962	674,310	-	-	5,857,950
Knoxville Area Transit	-	-	7,374,867	-	-	-	7,374,867
Total reporting entity	$ 11,652,778	$ 201,363	$ 17,837,426	$ 75,839,095	$ 6,144,794	$ (948,358)	$ 110,727,098
Fiduciary Activities:							
City Employees' Pension Trust Fund	$ -	$ 1,289,761	$ -	$ -	$ -	$ -	$ 1,289,761

NOTE 7 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following**:**

Governmental Funds:	
Notes Receivable	
General Fund	$ 327,772
Debt Service Fund	1,296,100
Special Revenue Fund - Miscellaneous Community Development Funds	15,748,551
Other Governmental Funds - Community Development Block Grant Funds	3,487,040
Total Notes Receivable	$ 20,859,463

The $1,296,100 due the Debt Service Fund is related to the Knoxville Community Development Corporation's ("KCDC") participation in the City's 2000A bond issue in the original amount of $15,860,000. This bond issue was refunded and is now listed as the 2005A General Obligation Bond issue. $2,540,000 of the bond issue was set aside for KCDC to use in a HOPE 6 project that needed additional funding. KCDC makes annual amortizing payments to the City which offset the net amount due by the City on the bonds.

The $15,748,551 due the Miscellaneous Community Development Funds and the $3,487,040 due the Community Development Block Grant Funds are notes due the City that were funded by Federal Community Development grant programs. The combined amount of $19,235,591 is included in other deferred inflows of resources.

NOTE 7 - NOTES AND LEASES RECEIVABLE - Continued

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2042. As of June 30, 2013, minimum future base rentals to be received on noncancellable leases are as follows:

Year Ended June 30,	
2014	$ 7,399,509
2015	4,504,626
2016	3,741,334
2017	3,522,297
2018	3,458,861
Thereafter	15,412,554
Total	$38,039,181

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately $771,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2013. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to $1,678,978 for the year ended June 30, 2013.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
Nondepreciable:				
Land & site improvements	$ 50,321,482	$ 94,489	$ -	$ 50,415,971
Construction in progress	3,405,344	3,864,712	(2,119,352)	5,150,704
Total nondepreciable capital assets	53,726,826	3,959,201	(2,119,352)	55,566,675
Depreciable:				
Buildings and building improvements	58,474,249	983,553	-	59,457,802
Equipment, furniture and fixtures	83,974,266	5,377,201	(3,996,125)	85,355,342
Infrastructure	310,238,439	10,361,039	-	320,599,478
Total depreciable capital assets	452,686,954	16,721,793	(3,996,125)	465,412,622
Accumulated depreciation:				
Buildings and building improvements	(29,224,645)	(1,800,905)	-	(31,025,550)
Equipment, furniture and fixtures	(54,863,855)	(7,788,912)	3,894,183	(58,758,584)
Infrastructure	(144,958,987)	(11,636,305)	-	(156,595,292)
Total accumulated depreciation	(229,047,487)	(21,226,122)	3,894,183	(246,379,426)
Total depreciable capital assets, net	223,639,467	(4,504,329)	(101,942)	219,033,196
Governmental activities capital assets, net	$ 277,366,293	$ (545,128)	$ (2,221,294)	$ 274,599,871
Business-type activities:				
Nondepreciable:				
Land & site improvements	$ 7,336,303	$ -	$ -	$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	-	5,888,147	-	5,888,147
Total nondepreciable capital assets	8,101,178	5,888,147	-	13,989,325
Depreciable:				
Buildings and building improvements	223,290,115	-	-	223,290,115
Equipment, furniture and fixtures	6,499,658	79,122	(66,900)	6,511,880
Total depreciable capital assets	229,789,773	79,122	(66,900)	229,801,995
Accumulated depreciation:				
Buildings and building improvements	(80,011,403)	(5,422,086)	-	(85,433,489)
Equipment, furniture and fixtures	(4,033,117)	(519,456)	66,900	(4,485,673)
Total accumulated depreciation	(84,044,520)	(5,941,542)	66,900	(89,919,162)
Total depreciable capital assets, net	145,745,253	(5,862,420)	-	139,882,833
Business-type activities capital assets, net	$ 153,846,431	$ 25,727	$ -	$ 153,872,158
Fiduciary activities:				
Knoxville Employees' Pension Plan				
Depreciable: Equipment, furniture and fixtures	$ 43,564	$ 11,066	$ (17,621)	$ 37,009
Accumulated Depreciation	(35,798)	(7,759)	17,621	(25,936)
Total Knoxville Employees' Pension Plan	$ 7,766	$ 3,307	$ -	$ 11,073

NOTE 8 - CAPITAL ASSETS - Continued

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

Governmental Activities	
General	$ 2,232,352
Public Safety	6,647,010
Physical Environment	10,902,774
Economic Development	55,504
Parks and Recreation	1,169,568
Health and Sanitation	218,914
	$21,226,122
Business-type Activities	
Knoxville Convention Center	$4,540,036
Metro Parking	678,629
Public Assembly Facilities	110,225
Municipal Golf Courses	612,652
	$5,941,542

NOTE 8 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Component Units				
Knoxville Utilities Board				
Nondepreciable: Construction in Progress	$ 148,047,816	$ 148,210,109	$ (136,160,580)	$ 160,097,345
Depreciable:				
Pumping and treatment plant	227,847,288	18,400,939	(5,104,994)	241,143,233
Distribution & collection plant	1,508,412,779	117,691,440	(17,229,698)	1,608,874,521
General plant	130,677,027	10,054,272	(3,399,306)	137,331,993
Total depreciable assets	1,866,937,094	146,146,651	(25,733,998)	1,987,349,747
Accumulated depreciation	(647,505,932)	(55,062,934)	20,792,912	(681,775,954)
Total depreciable capital assets, net	1,219,431,162	91,083,717	(4,941,086)	1,305,573,793
Total Knoxville Utilities Board	$ 1,367,478,978	$ 239,293,826	$ (141,101,666)	$ 1,465,671,138
Metropolitan Knoxville Airport Authority				
Nondepreciable:				
Land	$ 31,055,241	$ 2,916	$ -	$ 31,058,157
Construction in progress	13,646,464	16,494,229	(2,464,993)	27,675,700
Total nondepreciable capital assets	44,701,705	16,497,145	(2,464,993)	58,733,857
Depreciable:				
Land improvements	142,080,474	85,868	-	142,166,342
Buildings and building improvements	142,532,704	2,189,825	-	144,722,529
Equipment, furniture and fixtures	10,817,142	219,661	(158,398)	10,878,405
Total depreciable capital assets	295,430,320	2,495,354	(158,398)	297,767,276
Accumulated depreciation:				
Land improvements	(103,943,514)	(4,179,516)	-	(108,123,030)
Buildings and building improvements	(70,284,762)	(6,395,366)	-	(76,680,128)
Equipment, furniture and fixtures	(8,419,695)	(794,773)	128,276	(9,086,192)
Total accumulated depreciation	(182,647,971)	(11,369,655)	128,276	(193,889,350)
Total depreciable capital assets, net	112,782,349	(8,874,301)	(30,122)	103,877,926
Total Metropolitan Knoxville Airport Authority	$ 157,484,054	$ 7,622,844	$ (2,495,115)	$ 162,611,783
Knoxville Area Transit				
Nondepreciable:				
Land	$ 1,854,780	$ -	$ -	$ 1,854,780
Artwork	49,000	-	-	49,000
Total nondepreciable capital assets	1,903,780	-	-	1,903,780
Depreciable:				
Buildings and building improvements	32,460,504	177,374	-	32,637,878
Equipment, vehicles, furniture and fixtures	29,622,310	4,172,631	(3,029,448)	30,765,493
Total depreciable capital assets	62,082,814	4,350,005	(3,029,448)	63,403,371
Accumulated depreciation:				
Buildings and building improvements	(4,679,252)	(1,037,850)	-	(5,717,102)
Equipment, vehicles, furniture and fixtures	(15,392,800)	(2,248,692)	3,029,448	(14,612,044)
Total accumulated depreciation	(20,072,052)	(3,286,542)	3,029,448	(20,329,146)
Total depreciable capital assets, net	42,010,762	1,063,463	-	43,074,225
Total Knoxville Area Transit	$ 43,914,542	$ 1,063,463	$ -	$ 44,978,005

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2013 is as follows:

	Due From Other Funds	Due To Other Funds	Internal Balances	Due From Component Units	Due To Primary Government
Governmental Activities					
General Fund	$ 725,000	$ -	$ 725,000	$ 2,875,000	$ -
Special Revenue Fund:					
Abandoned Vehicles	-	5,000	(5,000)	-	-
Miscellaneous Special Revenue	-	-	-	-	-
Animal Control	-	-	-	-	-
Community Development Block Grants	-	-	-	-	-
City Inspections	-	315,000	(315,000)	-	-
Miscellaneous Grants	-	680,000	(680,000)	-	-
Storm Water	-	-	-	-	-
Solid Waste	-	900,000	(900,000)	-	-
Miscellaneous Community Development Funds	-	500,000	(500,000)	-	-
Capital Projects Fund	1,275,000	-	1,275,000	2,725,000	-
Internal Service Funds:					
Risk Management	-	725,000	(725,000)	-	-
City Buildings	-	32,000	(32,000)	-	-
Total governmental activities	$ 2,000,000	$ 3,157,000	$ (1,157,000)	$ 5,600,000	$ -
Business-Type Activities					
Public Assembly Facilities	1,000,000	-	1,000,000	-	-
Metro Parking	202,000	-	202,000	-	-
City Golf Courses	-	45,000	(45,000)	-	-
Total business-type activities	1,202,000	45,000	1,157,000	-	-
Component Units:					
Knoxville Area Transit	-	-	-	-	5,600,000
	$ 3,202,000	$ 3,202,000	$ -	$ 5,600,000	$ 5,600,000

NOTE 10 - LONG-TERM DEBT

Bonds at June 30, 2013, are comprised of the following issues:

	General Obligation Bonds		
	Governmental Activities	Business-type Activities	Total
Primary Government			
General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	$ -	$ 21,960,000	$ 21,960,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	8,680,000	-	8,680,000
General Obligation Refunding Bonds, Series 2012 maturing through 2025 at varying rates of interest ranging form 1.0% to 5.0%	36,469,000	41,816,000	78,285,000
Total Primary Government	$ 45,149,000	$ 123,746,000	$ 168,895,000

NOTE 10 - LONG-TERM DEBT - Continued

	Revenue Bonds
Component Units:	
Knoxville Utilities Board:	
Electric Revenue Bonds Series V to CC, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	$ 186,510,000
Water Revenue Bonds Series R to Y maturing through 2047 at varying rates of interest ranging from 2.0% to 5.5%	101,850,000
Gas Revenue Bonds Series L to S, maturing through 2047 at varying rates of interest ranging from 2.0% to 6.2%	92,350,000
Waste Water Revenue Bonds Series 2005 A&B, 2007, 2008, 2010, 2010B, 2010C, 2012A, 2012B, 2013A maturing through 2047 at varying rates of interest ranging from 1.18% to 6.5%	458,595,000
	$ 839,305,000
Metropolitan Knoxville Airport Authority:	
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at a synthetic rate of 5.29%	$ 12,580,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. $30,955,000 bears interest at a synthetic rate of 3.754%. The remaining principal bears interest at a variable rate (0.15% at June 30, 2013).	67,270,000
	$ 79,850,000

Each of the Divisions of the Knoxville Utilities Board have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2013, these requirements had been satisfied.

NOTE 10 - LONG-TERM DEBT - Continued

Debt service requirements to maturity for bonds and notes are as follows:

Primary Government	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	$ 5,291,100	$ 1,744,678	$ 4,168,900	$ 4,193,176
2015	5,382,720	1,606,756	4,337,280	4,041,548
2016	5,561,140	1,380,248	4,533,860	3,853,782
2017	3,797,760	1,102,191	5,157,240	3,642,039
2018	3,492,180	912,303	5,357,820	3,399,802
2019-2023	17,372,080	2,403,848	28,997,920	15,500,848
2024-2028	4,252,380	148,097	35,567,620	14,029,541
2029-2032	-	-	35,625,000	4,086,225
	45,149,360	$ 9,298,121	123,745,640	$ 52,746,961
Unamortized premium	5,673,340		1,618,733	
Total	$ 50,822,700		$ 125,364,373	

Component Units	Revenue Bonds and Local Gov't Public Improvement Bonds	
	Principal	Interest
2014	$ 24,660,000	$ 35,219,659
2015	29,245,000	34,239,179
2016	30,485,000	33,236,471
2017	31,365,000	32,197,229
2018	32,730,000	31,079,559
2019-2023	186,250,000	136,177,358
2024-2028	201,035,000	99,959,360
2029-2032	137,445,000	68,085,490
2033-2038	106,815,000	45,090,331
2039-2043	105,625,000	21,694,150
2044-2047	33,500,000	2,925,000
	$ 919,155,000	$ 539,903,786

NOTE 10 - LONG-TERM DEBT - Continued

Interest Swap Agreements

Primary Government

On May 15, 2002, the City entered into a $45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2013, is $21,960,000.

Objective of the Interest Rate Swaps - The objective of the swap agreement was to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt. The result of the swap was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F (now VI L-1) bonds to synthetic fixed rates.

Terms - The interest rate swap agreements are based on the same amortization schedules as the outstanding principal of the associated debt. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the Series VI L-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association lndex (the "SIFMA"). The City pays Wells Fargo interest at a fixed rate of 3.955%. Wells Fargo pays the City of Knoxville interest at a variable rate based upon 70% of the one month USD-LIBOR-BBA (United States Dollar – London Inter-Bank Offer Rate – British Bankers' Association). Payments reflect net and are made only to the recipient party: the City, in the event of the floating rate exceeding the 3.955% fixed rate; and the counterparty, if the floating rate is less than the fixed rate.

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2013, were as follows:

Associated Debt Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Term Date	Counter-party Credit Rating
Business-Type Activities							
General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County	$21,960,000	12/16/2009	3.955%	70% of 1 Month LIBOR	$(2,638,045)	6/1/2020	A+

Fair Value - As of June 30, 2013, the swap had a negative fair value of $2,638,045. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

NOTE 10 - LONG-TERM DEBT - Continued

The current notional and fair value amounts of the outstanding swap as of June 30, 2013, were as follows.

	Changes in Fair Value		Fair Value at June 30, 2013		June 30, 2013 Notional
Associated Debt Issue	Classification	Amount	Classification	Amount	Amount
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public Building Authority of Sevier County - Series VI-L1	Deferred Outflow of Resources	$1,054,467	Debt	$(2,638,045)	$21,960,000

Credit Risk - As of June 30, 2013, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. During fiscal year 2009, Wells Fargo acquired Wachovia/First Union, thus assuming the swap agreement. This acquisition resulted in an improvement of the overall credit quality of the counterparty. As of June 30, 2013, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

Basis Risk - The City is subject to basis risk as the variable interest payment the City receives from the counterparty is based upon LIBOR whereas the variable rate interest paid on the outstanding bonds is based upon BMA. This mismatch exposes the City to basis risk when the SIFMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. The City refinanced the Series III-F bonds on December 16, 2009, thereby removing the credit enhancement from the bonds and eliminating much of the basis risk.

Termination Risk - The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision," which states that the City of Knoxville or the counterparty may terminate the swap if the other party fails to perform under the terms of the contracts. If the swap is terminated, the variable-rate bond will no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the City of Knoxville is liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty is liable to the City for a payment equal to the swap's fair value.

Swap Payments and Associated Debt - As of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the Year Ended June 30,	Principal	Interest	Net Interest Rate Swap Payments	Total
2014	$ 2,730,000	$ 988,200	$(63,700)	$ 3,654,500
2015	2,855,000	865,350	(55,800)	3,664,550
2016	2,990,000	736,875	(47,500)	3,679,375
2017	3,125,000	602,325	(38,800)	3,688,525
2018	3,270,000	461,700	(29,800)	3,701,900
2019 -2020	6,990,000	475,425	(30,700)	7,434,725
Total	$21,960,000	$4,129,875	$(266,300)	$25,823,575

NOTE 10 - LONG-TERM DEBT - Continued

Component units

Metropolitan Knoxville Airport Authority

Objective of the Interest Rate Swaps - In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority entered into two separate interest rate swaps. The intention of the swaps was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate.

The terms and fair values of the outstanding swaps as of June 30, 2013, are as follows:

Associated Bond Issues	Outstanding Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date
Series II-D-1	$12,580,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	6/1/2026
Series V-A-1	30,955,000	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021
	$43,535,000				

Terms - The notional amounts of the swaps match principal amounts of the associated debt. Except as discussed under rollover risk, the Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled reductions of the associated bond principal.

Fair Value - The fair value of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Instruments Risks

The Authority has a cash flow hedge associated with the Series II-D-1 bond - Using the regression analysis method this pay-fixed interest rate swap has been determined to be effective. Accordingly, the $932,112 decrease in the fair value in 2013 is included in accumulated deferred outflow of resources in the statements of net position. The estimated fair value of $2,900,108 has been reported as a long-term liability.

Credit Risk - As of June 30, 2013, the Authority's cash flow hedge is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

At the time of the swap the counterparty was unrated. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreement was entered. As of June 30, 2013, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies.

Interest Rate Risk - The Authority is exposed to interest rate risk on this instrument. As the Securities Industry and Financial Markets Association™ Index swap index decreases, the Authority's net payment on the swap increases.

NOTE 10 - LONG-TERM DEBT - Continued

Termination Risk - The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate either of the swaps if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Investment Derivative Instruments Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. As of June 30, 2013, the Authority has determined this pay-fixed interest rate swap no longer meets the criteria for effectiveness. Accordingly, the accumulated changes in fair value of the swap that were reported as a deferred outflow of resources of $5,366,800 at June 30, 2012, and the decrease in its fair value in fiscal year 2013 of $1,929,930 have been netted ($3,436,870) and reported as investment interest rate swap expense in the nonoperating income portion of the statements of revenues, expenses and changes in net position. The estimated fair value of $3,436,870 has been reported as a long-term liability.

Credit Risk - As of June 30, 2013, the Authority's investment derivative is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products was rated "A+" by Standard and Poor's as of June 30, 2013, with its Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Interest Rate Risk - The Authority is exposed to interest rate risk on this instrument. As the LIBOR decreases, the Authority's net payment on the swap increases.

Schedule Debt Service Requirements

As of June 30, 2013, scheduled debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2014	$ 695,000	$ 732,734	$1,134,075	$ 2,561,809
2015	4,155,000	696,906	1,014,518	5,866,424
2016	4,365,000	654,165	889,068	5,908,234
2017	4,590,000	608,878	757,527	5,956,405
2018-2022	4,825,000	560,802	619,524	6,005,325
2019-2023	28,355,000	1,973,384	984,778	31,313,162
2024-2027	32,865,000	417,275	13,513	33,295,788
Total	$79,850,000	$5,644,144	$5,413,003	$90,907,147

NOTE 10 - LONG-TERM DEBT - Continued

Advance and Current Refundings

Component units

Knoxville Utilities Board

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds as follows. KUB sold $9.7 million in electric system revenue refunding bonds in March 2013 for the purpose of refinancing $10.1 million in outstanding bonds at lower interest rates. The net proceeds of the bonds of $10 million ($9.7 million plus premium of $0.5 million less issuance costs of $0.2 million) combined with an additional KUB contribution of $1.1 million was placed in an irrevocable trust with an escrow agent to pay debt service on the bonds to be refunded prior to the call date and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the bonds by $1.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $0.7 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $72.3 million at June 30, 2013, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. KUB's Gas Division also issued Series M 2006 bonds in part to retire certain existing debt and to fund gas system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series H 1998 bonds. During fiscal year 2008, KUB's Gas Division issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB's Gas Division issued Series 0 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to

NOTE 10 - LONG-TERM DEBT - Continued

retire Series M 2006 outstanding bonds as follows. KUB sold $11.6 million in gas system revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of
$12 million ($11.6 million plus premium of $0.6 million less issuance costs of $0.2 million) combined with an additional KUB contribution of $1.1 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 18 years by $1.6 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $47.4 million at June 30, 2013, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements.

KUB's Water Division also issued Series V 2010 bonds to retire Series 0 2001 bonds. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds as follows. KUB sold $9.3 million in water system revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of $9.5 million ($9.3 million plus premium of $0.3 million less issuance costs of $0.1 million) combined with an additional KUB contribution of $0.8 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 17 years by $1.3 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $0.8 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $16.9 million at June 30, 2013, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued $30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the

NOTE 10 - LONG-TERM DEBT - Continued

sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund
capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds as follows. KUB sold $113.3 million in revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of $112.9 million ($113.3 million plus premium of $0.3 million less issuance costs of $0.7 million) combined with an additional KUB contribution of $2.5 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 24 years by $20.5 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $14.4 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $122.1 million at June 30, 2013, and the trust account assets are not included in the financial statements.

Metropolitan Knoxville Airport Authority

During 2009 the Authority issued Series V-A-1 bonds. Proceeds totaling $83,880,000 were used to refund the remaining balance of the Series III-A bonds, resulting in a loss of $1,214,365 on the refunding, which has been deferred and is being amortized over the remaining lives of the respective refunded bonds. The remaining proceeds were used to pay bond issue costs of $765,000, which are being amortized over the life of the bonds. In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed $85,758,140 set to expire February 2016. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

Capital Leases

Primary Government

In fiscal year 2009, the City entered into a lease agreement as lessee for financing the acquisition of grounds equipment for the municipal golf course. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of $69,097.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2013 were as follows:

2014	$ 13,921
Total minimum future lease payments	13,921
Less: amount representing interest	(72)
Present value of minimum lease payments	$ 13,849

NOTE 10 - LONG-TERM DEBT - Continued

Component Units

Metropolitan Knoxville Airport Authority

During 2000, the Authority's Board of Commissioners adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. Under this resolution, the Authority is required to establish certain funds, accounts and subaccounts to deposit funds to be held in trust by the Authority in order to meet the requirements of the resolution. These funds include:

Revenue Fund, including accounts for General Revenue and PFC Revenue into which the Authority is to deposit all such revenues.

Sinking Fund, including a payments account and a debt service reserve account, into which the Authority will deposit funds from the Revenue Fund as needed to pay revenue obligations as they come due.

Revenue and Extension Fund, into which the Authority may deposit any moneys or securities held in the Revenue Fund (excluding PFC funds) in excess of 45 days' estimated expenses.

Project Fund, into which proceeds from issuance of revenue obligations will be deposited to fund project costs.

Changes in Long-Term Liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2013:

	Balance June 30, 2012	Additions and Transfers	Reductions and Transfers	Balance June 30, 2013	Due Within One Year
Primary Government					
Government Activities:					
General obligation bonds	$ 50,561,920	$ -	$ 5,412,560	$ 45,149,360	$ 5,291,100
Add unamortized amounts for issuance premium	6,219,002	-	545,662	5,673,340	542,595
	56,780,922	-	5,958,222	50,822,700	5,833,695
Estimated claims liability	10,600,000	4,840,907	3,240,907	12,200,000	5,000,000
Compensated absences payable	8,548,076	7,980,418	7,259,427	9,269,067	7,239,679
Total governmental activities long-term liabilities	$ 75,928,998	$ 12,821,325	$ 16,458,556	$ 72,291,767	$ 18,073,374
Business-type Activities:					
General obligation bonds	$ 127,828,080	$ -	$ 4,082,440	$ 123,745,640	$ 4,168,900
Add unamortized amounts for issuance premium	1,754,650	-	135,917	1,618,733	135,917
	129,582,730	-	4,218,357	125,364,373	4,304,817
Note payable	65,000	-	65,000	-	-
Capital lease	101,608	-	87,759	13,849	13,849
Compensated absences payable	157,526	123,121	99,372	181,275	181,275
Total business-type activities long-term liabilities	$ 129,906,864	$ 123,121	$ 4,470,488	$ 125,559,497	$ 4,499,941

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $139,679 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 10 - LONG-TERM DEBT - Continued

All bonds and loans are backed by the full faith and credit of the City. In addition to the primary pledge of property taxes, the City has pledged convention center revenues net of operating expenses (if any) as a secondary pledge to repay the $59.97 million TN Series A-4-A long-term debt issue used to construct the center. For the year ended June 30, 2013, principal and interest payments on all debt issues were approximately 18% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately $238.2 million, based on market interest rates effective on June 30, 2013.

	Balance June 30, 2012	Additions and Transfers	Reductions and Transfers	Balance June 30, 2013	Due Within One Year
Component Units					
Knoxville Utilities Board:					
Revenue bonds	$ 742,210,000	$ 253,865,000	$ 156,770,000	$ 839,305,000	$ 23,965,000
TVA conservation program	9,335,409	3,487,807	2,817,477	10,005,739	1,500,000
Compensated absences	8,237,657	14,546,694	14,516,801	8,267,550	2,100,000
Customer advances for construction	1,283,627	420,496	486,595	1,217,528	121,000
Other	211,564	869,647	574,393	506,818	90,000
Total Knoxville Utilities Board	761,278,257	273,189,644	175,165,266	859,302,635	27,776,000
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	80,505,000	-	655,000	79,850,000	695,000
Total Metropolitan Knoxville Airport Authority	80,505,000	-	655,000	79,850,000	695,000
Total component units	$ 841,783,257	$ 273,189,644	$ 175,820,266	$ 939,152,635	$ 28,471,000

Conduit Debt

The Authority issued $8,500,000 Metropolitan Knoxville Airport Authority Special Purpose Revenue Bonds on June 18, 2002. The bonds bear interest at 8% and are due in an aggregate principal amount of $8,500,000 on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. (“Northwest”) dated July 12, 2001, and subsequently amended. The proceeds of the bonds were used for the construction by Northwest of an aircraft maintenance hangar and related facilities to be leased by Northwest from the Authority under the lease agreement. Under the terms of the lease agreement, Northwest is obligated to pay base rental to a trustee assigned by the Authority in the amount necessary to meet debt service requirements on the bonds as they are due.

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority’s financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest’s parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2013.

NOTE 11 - LEASES

Primary Government

The City was committed to semiannual payments to the Public Building Authority for rental of the City-County Building. The lease expired during 2001 and the City is renting the space on a month-to month basis until a new lease is established. Total rental payments for the year ending June 30, 2013 were $1,122,978.

Component Units

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2017. Future minimum lease payments under leases having initial or remaining noncancellable terms in excess of one year as follows:

	Amount
2014	$ 70,639
2015	56,954
2016	20,544
2017	2,142
Total	$150,279

NOTE 12 - FUND BALANCES

Detail fund balances are as follows:

				Special Revenue Funds		
	General Fund	Debt Service Fund	Capital Projects Fund	Miscellaneous Community Development Fund	Other Funds	Total
Fund Balances:						
Nonspendable:						
Inventory	$ 289,431	$ -	$ -	$ 83,300	$ 29,925	$ 402,656
Prepaids	10,758	-	-	-	-	10,758
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Debt Service Reserves	-	46,832,834	-	-	-	46,832,834
Street Improvements	-	-	-	-	3,083,262	3,083,262
Community Development	-	-	-	1,405,010	61,964	1,466,974
Law Enforcement	-	-	-	-	4,468,181	4,468,181
Parks & Recreation	-	-	-	-	203,289	203,289
Solid Waste Operations	-	-	-	-	4,836,239	4,836,239
Krutch Park	-	-	-	-	242,660	242,660
Committed to:						
Economic Stabilization	36,636,086	-	-	-	-	36,636,086
Other Capital Projects	-	-	76,798,487	-	-	76,798,487
Abandoned Vehicle Operations	-	-	-	-	1,765,820	1,765,820
City Inspections Operations	-	-	-	-	251,990	251,990
City Court Operations	-	-	-	-	1,091,593	1,091,593
Animal Control Operations	-	-	-	-	524,157	524,157
Beer Board	-	-	-	-	131,011	131,011
Finance & Accountability	135,062	-	-	-	-	135,062
Law Enforcement	-	-	-	-	4,784,828	4,784,828
Safety City	-	-	-	-	1,247,899	1,247,899
Storm Water Operations	-	-	-	-	693,283	693,283
Community Development	-	-	-	-	2,595,503	2,595,503
Assigned to:						
Administration	546,714	-	-	-	-	546,714
Appropriated Fund Balance	1,850,000	-	-	-	-	1,850,000
Community Development	183,208	-	-	-	-	183,208
Parks & Recreation	67,932	-	-	-	-	67,932
Unassigned	30,435,768	-	-	-	-	30,435,768
Total Fund Balances	$70,154,959	$46,832,834	$ 76,798,487	$ 1,488,310	$ 26,635,669	$ 221,910,259

NOTE 13 - RISK MANAGEMENT

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Risk Management Fund, an internal service fund, was established to consolidate all of the City's insurance under a comprehensive risk management program.

Revenues come from either the City's General Fund or from inter-fund charges. Revenues are forecasted to match expenses, which include estimated incurred losses from claims, premiums for excess insurance coverage, various taxes and assessments, and administrative operating expenses.

The City insures itself against potential losses by purchasing various types of insurance coverage including fiduciary liability, professional liability, crime coverage, long-term disability, boiler and machinery, and group life coverage. The City insures itself for potential losses as the result of auto liability, general liability, and workers compensation through participation in a risk management pool. The pool requires each participant in the pool to share the liability for claims if the pool becomes insolvent. At present, the City has no indication that it will incur a liability as a result of its participation in the pool. Settled claims have not exceeded the above coverage in any of the past three fiscal years.

Health Insurance Fund

On January 1, 2008, the City elected to self-insure its health insurance coverage. Utilizing a third party administrator, the City has found that it is better able to control its expenses through exercising greater control over certain health costs. In addition, the City has utilized some of the funding to promote wellness programs aimed at improving the overall health of those covered by the health plan. End of year reserves of $1 million were considered adequate to cover any costs incurred but not reported as of year-end.

	2013	2012
Claims liability, beginning of year	$ 1,000,000	$ 1,000,000
Provision for incurred claims	9,805,970	9,925,429
Payments made on claims	(9,805,970)	(9,925,429)
Claims liability, end of year	$ 1,000,000	$ 1,000,000

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of $12,200,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2013.

An analysis of claims activity for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Claims liability, beginning of year	$ 10,600,000	$ 9,200,000
Provision for incurred claims	4,840,907	4,606,810
Payments made on claims	(3,240,907)	(3,206,810)
Claims liability, end of year	$ 12,200,000	$ 10,600,000

NOTE 13 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2013, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. The current portion of the claims liability is estimated to be $5 million.

Component units

Knoxville Utilities Board

In the normal course of business, there are various lawsuits pending against the Knoxville Utilities Board. Management has reviewed these lawsuits with counsel, is vigorously defending the Utilities Board's position, and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Utilities Board's financial position, results of operations or cash flows.

The Knoxville Utilities Board is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At June 30, 2013, the amount of these liabilities was $1,733,984. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Claims liability, beginning of year	$ 1,827,920	$ 2,175,294
Provision for incurred claims	12,256,762	14,130,565
Payments made on claims	(12,350,698)	(14,477,939)
Claims liability, end of year	$ 1,733,984	$ 1,827,920

Metropolitan Knoxville Airport Authority

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14 - JOINT VENTURES

Public Building Authority

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments. An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred. The City retains an equity interest in the joint venture which is recorded in the Knoxville Convention Center, Metro Parking and City Buildings as cash and investment in joint venture.

Complete separate financial statements for the Public Building Authority may be obtained at Room M22, 400 Main Street, Knoxville, TN 37902.

Knoxville, Knox County, KUB Geographic Information Systems

The City is a participant in a joint venture with Knox County and its discretely presented component unit, Knoxville Utilities Board, in the operation of the Geographic Information Systems. The Geographic Information Systems was established to create and maintain a digitized mapping system of Knox County. Each of the participants appoints one of the three board members who oversee the operations. In accordance with the terms of the joint venture agreement, payments are shared between the City, Knox County and the Knoxville Utilities Board. The City does not retain an equity interest in the joint venture. Complete separate financial statements for the Geographic Information Systems may be obtained at 606 Main Street, Suite 150, Main Place, Knoxville, TN 37902.

Knoxville-Knox County Animal Center

The City is a participant in a joint venture with Knox County in the operation of the Animal Center, which was established to administer the service delivery system for the care of animals. The Animal Center Board consists of eleven members appointed by the Mayor of the City, the Knox County Mayor, the Knox County Commission, and the Knoxville Academy of Veterinary Medicine. The Center's operations are primarily funded by the City and Knox County. The City does not retain an equity interest in the joint venture. Complete separate financial statements for the Animal Center may be obtained at 3201 Division Street, Knoxville, TN 37919.

NOTE 15 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2006, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park $1,000,000 by August 1, 2012 and increase $50,000 each year through 2015.

City Golf Courses - In October 2006, the City entered into an agreement with Billy Casper Golf, LLC to operate and manage the Whittle Springs Golf Course. In December 2007, this agreement was revised to include the Knoxville Municipal Golf Course with an expiration date of December, 2012 but allowing for two - 5 year extensions. Under the terms of the amended agreement, Billy Casper Golf receives a base fee of $9,500 per month and incentive fees when net annual income exceeds $50,000. To date, the City has only been liable for the base monthly fees under the agreement.

NOTE 15 - MANAGEMENT AGREEMENTS - Continued

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and various parking lots. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities.

IJAMS Nature Park - The City has entered into various agreements with the IJAMS Nature Park over the years whereby IJAMS will provide management and operation of a nature park. The current three year agreement commenced August 1, 2012 and calls for an annual management fee of $129,250 to be paid to IJAMS.

Knoxville Convention Center - The City has an agreement beginning July 1, 2006, with SMG to manage the operations of the Convention Center for a period of five years, with an option for an additional five years. The agreement calls for a fixed base fee of $250,000 in fiscal year 2008, and increasing by the CPI each year thereafter. SMG is also to receive an incentive fee each year depending upon the increase in various revenue categories as defined by the contract, but which in no instance exceed the fixed base fee. SMG shall also receive an additional incentive fee based upon various qualitative factors, but which shall not exceed $267,450 in fiscal year 2011, said maximum to be annually adjusted by the CPI.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2013 in accordance with provisions of the Single Audit Act of 1984.

Construction Contracts - The following represents capital projects funds spent to date and current contractual obligations as of June 30, 2013:

	Spent to Date	Contractual Commitment Remaining at June 30, 2013
Bridge Maintenance Program	$ 1,299,856	$ 1,579,753
Drainage Improvements	662,145	572,793
Information Systems Upgrades	564,958	117,908
Miscellaneous Equipment Acquisition	933,895	67,491
New Facilities & Renovation	952,534	116,133
Parks Improvements	1,038,073	671,276
Paving Program	6,781,646	3,530,515
Redevelopment Program	2,526,767	2,958,144
Roadway Improvements	2,488,940	3,203,384
Sidewalk Improvements	932,268	723,717
South Knoxville Waterfront	606,923	607,995
Traffic Improvements	482,653	266,055
Total	$19,270,658	$14,415,164

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Component units

Knoxville Utilities Board

Purchased Gas Adjustments - In November 1990, KUB implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

The PGA is intended to assure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, KUB tracks the actual over/under recovered amount in the (under)/over recovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to KUB's customers. The amount of under-recovered costs was $(841,779) at June 30, 2013.

Purchased Power Adjustment - In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and KUB meets the remaining criteria of Statement No. 62.

TVA implemented a fuel cost adjustment in October 2006 that is applied on a quarterly basis to wholesale power rates. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flowed changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the PPA.

In April 2011, TVA modified its wholesale rate structure to demand & energy billing for its distributors. In response, KUB revised its PPA to include a deferred accounting component to ensure appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2013, the Gas Division of the Knoxville Utilities Board hedged 53% of its total gas purchases via gas supply contracts. As of June 30, 2013, the Gas Division had hedged the price on approximately 15% of its anticipated gas purchases for fiscal year 2014.

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

The Knoxville Utilities Board contracts separately for the purchase, transportation and storage of natural gas. Purchase commitments for the next five years are as follows:

	2014	2015	2016	2017	2018
Demand:					
Transportation	$ 17,392,280	$ 17,392,280	$ 5,797,427	$ -	$ -
Storage	4,751,528	4,610,513	2,298,303	1,353,720	1,015,290
Demand total	$ 22,143,808	$ 22,002,793	$ 8,095,730	$ 1,353,720	$ 1,015,290
Commodity:					
Baseload	$ 11,573,837	$ -	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX contract is based upon firm supply obligations and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at July 31, 2013.

Other Commitments and Contingencies

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by December 31, 2016. KUB anticipates the Division will spend approximately $530 million in capital investments in order to comply with the terms of the Consent Decree related to the collection system. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB anticipates it will invest a total of $650 million in capital improvements to meet the requirements of the Consent Decree.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2013, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50% rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8% rate increase, which was effective in September 2008, and two 12%t rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

NOTE 17 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on five major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for $3,158,080 in aviation area revenue during 2013. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airline's passengers, which accounted for approximately 85% of total passengers during 2013. As of June 30, 2013, 73% of trade accounts receivable are due from these major airlines.

NOTE 18 - TRANSFERS

The general fund transfers funds, in accordance with its budget, to supplement revenues of the storm water, solid waste, Knoxville Convention Center, and public assembly facilities funds. Transfers are also made by the general fund to partially fund insurance and employee health insurance costs. The general fund and debt service fund transfer funds to the Knoxville Convention Center to partially fund debt service costs. Transfers from the general fund and state street aid fund are used to partially fund capital outlay costs in the capital projects fund.

Fines and court costs collected by city court are transferred to the general fund and certain special revenue funds based on approved schedules of costs.

NOTE 18 – TRANSFERS - Continued

	Transfers From:							
	Governmental Activities							
Transfers To:	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscellaneous Special Revenue Grants	Miscellaneous Grants	Total
Primary Government:								
Governmental Activities:								
General Fund	$ -	$ -	$ -	$ -	$ 2,936,680	$ -	$ -	$ 2,936,680
Capital Projects Fund	1,500,000	17,739,000	-	750,000	-	1,625,190	-	21,614,190
City Inspections	596,230	-	-	-	-	-	-	596,230
Miscellaneous Special Revenue Grants	-	-	-	-	-	-	123,274	123,274
Miscellaneous Grants	24,559	-	937	-	-	-	-	25,496
Storm Water	2,642,820	-	-	-	-	-	-	2,642,820
Solid Waste	8,848,230	-	-	-	-	-	-	8,848,230
Business-type Activities:								
Metro Parking	2,600,000	-	-	-	-	-	-	2,600,000
Convention Center	3,635,380	-	-	-	-	-	-	3,635,380
Public Assembly Facilities	2,430,410	346,200	-	-	-	-	-	2,776,610
City Golf Courses	111,430	-	-	-	-	-	-	111,430
Internal Service Funds:								
Fleet Maintenance	1,334,100	64,600	-	-	-	-	-	1,398,700
Risk Management	439,303	-	-	-	-	-	-	439,303
Health Insurance	1,793,857	-	-	-	-	-	-	1,793,857
Equipment Replacement	45,401	-	16,283	-	-	63,388	-	125,072
	$ 26,001,720	$ 18,149,800	$ 17,220	$ 750,000	$ 2,936,680	$ 1,688,578	$ 123,274	$ 49,667,272

NOTE 19 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

City of Knoxville Pension System

The City also maintains a single-employer defined benefit pension plan (City of Knoxville Pension System), administered by the City of Knoxville Pension Board, which is comprised of three divisions of current membership and a membership of certain former City School employees. All participants are fully vested in the plan after 5 - 10 years of service. The plan includes employees of the City of Knoxville.

Division A - All employees of the City who were hired on or after January 16, 1963, and prior to July 1, 1997 became members of Division A. Participants of Division A are covered by Social Security. Division A is now a closed plan. Participation in Division A requires employee contributions of 3% of the first $4,800 of annual earnings and 5% of annual earnings in excess of $4,800. Division A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

Division B - All employees of the City of Knoxville who were employed on January 16, 1963, and who participated in the City Employees' Pension Fund as created by the City of Knoxville Pension Act of 1935, were deemed to be members of Division B of the System unless they elected to transfer to Division A. (This excludes firefighters and police officers who were participants of the Firemen and Policemen Pension Fund created by the Firemen and Police Pension Act of 1929.) Participants of Division B are not covered by Social Security. Division B is now a closed plan and no participants can be added. Participation in Division B requires employee contributions of 4% of annual earnings. Division B provides for retirement benefits after 25 years of service and the attainment of age 50.

Division C - All firefighters and police officers employed after January 2, 1971, and those transferring from the Firemen and Policemen Pension Act of 1929 (now Division F) or Division B by election are participants of the Division C Plan. Participants of Division C are covered by Social Security. Participation in Division C requires employee contributions of 6% of annual earnings subject to a maximum of 30 years. Division C provides for retirement benefits after 25 years of service and attainment of age 50. Retirement is compulsory after reaching age 60.

Division F - All firefighters and police officers employed prior to January 16, 1963 (former members of the Firemen and Policemen Pension Act of 1929 plan, a "pay-as-you-go" funded plan which terminated as of June 30, 2000) are participants of the Division F Plan. Participants of Division F are not covered by Social Security. Participation in Division F requires employee contributions of 5% of monthly earnings. Division F provides for retirement benefits after 25 years of service and attainment of age 50.

Division G - As a condition of employment, each employee hired on or after January 1, 1997 becomes a member of Division G after six months of service. In addition, members who elected to transfer from Division A prior to May 15, 1997, and former non-participants who elected participation prior to May 15, 1997 became members of Division G. Members of Division G are covered by Social Security. Participation in Division G requires employee contributions of 6% of annual earnings. Division G provides for normal retirement benefits at age 62 or later.

Division H - All general government and uniformed safety employees who were employed on or after January 1, 2013. Members of Division H are covered by Social Security. Participation in Division H requires employee contributions of 6% of annual earnings. Division H provides for normal retirement benefits at age 63 and ten years of service for general government employees, and age 56 and twenty-five years of service or age 63 and ten years of service for uniformed safety employees.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City of Knoxville Pension System. Because of the abolition of the City School System, the Board of Education Division of the City of Knoxville Pension System has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. A contribution was made for this department of $952,682 for 2013.

At July 1, 2013 the Plan had 2,120 retirees and beneficiaries currently receiving benefits, 43 employees currently participating in the Delayed Retirement Option Program (DROP) and 92 deferred vested participants. Of the approximately 1,491 active employees in the Plan, 1,150 were fully vested at July 1, 2013. Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The assets of the Plan are also included in the reporting entity as a fiduciary pension trust fund.

Annual Pension Costs

Employer contributions represent a percentage of the monthly earnings of Plan members based on an actuarial valuation within three years of the base year. The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized over a thirty year period of which 24 remain as of July 1, 2013. Projected covered payroll for the years beginning on July 1, 2013 and 2012 (without Board of Education amounts) amounted to approximately $67,782,302 and $65,396,351, respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered for the years ended June 30, 2013 and 2012 were as follows:

	2013		2012	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	$ 8,252,621	23.72%	$ 7,185,033	21.30%
General Government Contribution	4,215,550	12.83%	3,717,146	11.80%
Division G Matching Contribution	270,448	0.82%	269,353	0.85%
Board of Education	952,682	N/A	638,967	N/A
Total	$13,691,301		$11,810,499	

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2013, the most recent actuarial valuation date, the plan was 75.96% funded. The actuarial accrued liability for benefits was $682.7 million, and the actuarial value of assets was $518.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $164.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $67.8 million, and the ratio of the UAAL to the covered payroll was 242.1%.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

The schedule of funding progress, presented as required supplementary information 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.

For the year ended June 30, 2013, the annual pension cost for the System exceeded the required contributions for the uniformed police and fire and was equal to the required contribution for the general government contribution. Significant actuarial assumptions used in the valuation as of July 1, 2013 include: (a) rate of return on investment of present and future assets of 5.5% for Plan H and 7.375% for all other plans; (b) the assumed salary scale is based on a review of the experience study of the plan, the assumed salary increases are greater at younger ages and lower at older ages; (c) projected post retirement increases of 3.0% for annually for Plan H and 3.5% annually for all other plans; and (d) an inflation rate of 2.75%. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a ten-year period.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	$13,420,853	101%	$(3,114,962)
June 30, 2012	11,386,903	101%	(3,044,099)
June 30, 2011	9,291,361	99%	(2,889,856)

The two significant actuarial assumptions used by the System are the investment return assumption of 7.375% and the increase in salary scale assumption which is based on an experience study shown below:

	Plans A, B, G and H	Plans C and F
Age 20	12.0%	12.0%
Age 35	5.2%	6.2%
Age 50	4.1%	4.3%
Age 60	3.5%	3.5%

Net Pension Obligation

The calculation of the net pension obligation is as follows for June 30, 2013:

(1) Determination of Annual Pension Cost / Net Pension Obligation for 2013

Annual required contribution (with interest to middle of year)	$ 8,143,006
Interest on net pension obligation	(227,141)
Adjustment to annual required contribution	265,893
Annual pension cost	8,181,758
Contributions made	(8,252,621)
Increase in net pension obligation	(70,863)
Net pension (asset) obligation beginning of year	(3,044,099)
Net pension (asset) obligation end of year	$(3,114,962)

(1) This determination is for uniformed bodies only. The net pension obligation is $-0- for the other groups.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Component Units

Knoxville Utilities Board Pension Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants.

At December 31, 2012, the Plan had 647 retirees and beneficiaries currently receiving benefits and 54 terminated employees entitled to benefits but not yet receiving them. Of the approximately 824 current employees in the Plan, 747 were fully vested at December 31, 2012. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB has frozen the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999.

All new eligible employees become participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A

Plan A benefits are for former City System Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City System Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3% of the first $4,800 of annual earnings and 5% of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Plan B

Plan B benefits are for former City System Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City System Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4% of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2012, a contribution of $5,502,677 is required to be made in the Plan sponsor's fiscal year ending June 30, 2014. The annual required contribution was determined as part of the January 1, 2012 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death. For the Plan year ended December 31, 2012, the Plan's actuarial funded ratio was 94.1%.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58% to 7.92%, and (d) cost of living adjustment of 2.8% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2012, contributions of $5,502,677 and $3,593,282 for 2012 and 2011, respectively, are required to be made during the Plan sponsor's fiscal years ending June 30, 2014 and 2013, respectively.

Subsequent to June 30, 2013, the actuarial valuation for the Plan year ending December 31, 2013 was completed. The actuarial valuation resulted in a recommended contribution of $6,314,399 for the fiscal year ending June 30, 2015, based on the Plan's current funding policy. For the Plan year ending December 31, 2013, the Plan's actuarial funded ratio was 89.3%. See Required Supplementary Information for Pension Schedule of Funding Progress.

The schedule of funding progress, presented as required supplementary information 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.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Defined Contribution Plans

Knoxville Utilities Board

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50% of their own contribution up to a maximum match of 3%. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50% of their own contribution up to a maximum match of 3%. They also receive a nonelective KUB contribution of from 3% to 6%t, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority provides retirement benefits for all of its full-time employees through a defined contribution plan (Metropolitan Knoxville Airport Authority Plan) which was established and amended under the authority of the Board of Commissioners and is administered by International City Management Association Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment.

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled $764,787 in 2013.

Knoxville Area Transit

Knoxville Area Transit ("KAT") provides retirement benefits for all of its full-time employees through a defined contribution plan (Knoxville Transit Retirement Plan) which was established and amended under the authority of the Board of Directors and is administered by ERISA Services, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon attaining a minimum age of twenty-one years and completing one year of eligible service.

KAT's contributions for each employee (and investment income allocated to the employees' account) are vested. after five years of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Directors. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled $398,477 in 2013. Employee contributions totaled $518,148 in 2013.

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Deferred Compensation Plans

Primary Government

The City offers it/employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement death or unforeseeable emergency. Because the assets are held in a trustee capacity by the City, they are not included in the City's financial statements. No contributions are made to this plan by the City.

Component Unit

Metropolitan Knoxville Airport Authority

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The Plan, available to all Authority employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were $104,976 in 2013.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) has established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which is presently limited to post-employment health care. GASB 45 requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. GASB 45 was effective for the fiscal year beginning July 1, 2007.

Primary government

Plan Description

Retirees of the City may elect to participate in the City of Knoxville Employees Health Insurance Plan, a single- employer defined benefit healthcare plan, until the retiree reaches the age of 65 at which time they become Medicare eligible. The Plan is administered by the Health Insurance Fund and provides medical benefits. Post-employment benefits of the City's employees may be authorized by the City's charter and code. The Plan does not issue a stand-alone financial report.

Funding Policies

The contribution requirements of the Plan members and City are established and may be amended by the Health Insurance Fund. The required contribution is based on projected pay-as-you-go financing requirements whereby contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. The City contributes 40% of the premium payments and the retirees contribute 60%. For the fiscal year ended June 30, 2013, the City and the retirees contributed $486,190 and $476,630, respectively.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Plan contains both active employees and retirees. Although the City contribution is approximately 40% of premium payments for the combined participants, the share of claims related to retirees represent a higher percentage of the total claims. Accordingly, contributions reflected in the OPEB calculations have been adjusted to reflect that a portion of contributions for active employees are subsidizing the retiree claims.

For the City for June 30, 2013 the City's annual OPEB cost of $1,210,950 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	$1,210,950	100%	$ -
June 30, 2012	1,341,716	100%	-
June 30, 2011	1,317,879	100%	-

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 0% funded. Since the current contribution amounts exceeded the ARC, the City will not record any additional liability for OPEB and has chosen not to establish a trust for these benefits. The City will evaluate the funding status each year and will obtain actuarial evaluations of the potential liability on a bi-annual basis.

The actuarial accrued liability for benefits was $14.5 million. Since there are no plan assets, the unfunded actuarial accrued liability is $14.5 million. The covered payroll was $68.5 million and the ratio of the UAAL to covered payroll is 21.2%.

Actuarial Valuations, Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the ARC of the City and Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

In the July 1, 2012 valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% rate of return (net of administrative expenses). Annual medical costs are assumed to increase 10% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a 10 year period. The estimated actuarial accrued liability (AAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 30 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 618 former employees and 635 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2013, 419 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although GASB 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board, and in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The general administration and responsibility for the proper operation of the Trust is governed by a board of trustees, appointed by the President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2013 were $4.4 million. The contribution to the Trust exceeded the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2011, which was $3.3 million. As of June 30, 2013, the employer's net OPEB obligation was $0.6 million.

The ARC for the fiscal year ending June 30, 2014, as determined by the Plan's actuarial valuation for the year ended December 31, 2012 is $3.3 million.

The actuarial valuation for the Plan for the year ending December 31, 2013 has been completed. The valuation determined that the Plan's actuarial accrued liability was $63.3 million. The actuarial value of the Plan's assets was $38.6 million. As a result, the Plan's unfunded actuarial accrued liability was $24.8 million. The Plan's actuarial funded ratio was 61%. The valuation also determined that the employer's ARC is $3.5 million for the fiscal year ending June 30, 2015. See Required Supplementary Information for OPEB Schedule of Funding Progress.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

The Authority and KAT do not offer any other post-retirement benefits to their retirees.

NOTE 21 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	$12,126,434
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	14,172,900
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	776,724
Subsidies paid by the City to Knoxville Area Transit	10,272,493

Copies of the complete financial statements of the City for the current Fiscal Year are available at http://www.comptroller.tn.gov/RA_MA_Financial/Default.aspx