NEW ISSUE
Book-Entry-Only

PRELIMINARY OFFICIAL STATEMENT

$17,850,000*

KNOX COUNTY, TENNESSEE

General Obligation Refunding Bonds, Series 2015

OFFERED FOR SALE NOT SOONER THAN
February, 18, 2015 at 10:15 a.m., E.S.T.
Through the facilities of ***PARITY***®
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

This Preliminary Official Statement
Prepared By:

Cumberland Securities Company, Inc.
Financial Advisor

February 5, 2015

* Preliminary, subject to change.
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NEW ISSUE
Book-Entry-Only

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

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 5, 2015

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, 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 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.)

$17,850,000*
KNOX COUNTY, TENNESSEE
General Obligation Refunding Bonds, Series 2015

Dated: Date of delivery (assume March 25, 2015). Due: April 1 (as shown below)

The $17,850,000* General Obligation Refunding Bonds, Series 2015 (the "Bonds) are issuable in fully registered form in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). 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 October 1, 2015 and thereafter on each April 1 and October 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-only 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 are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

The Bonds are not subject to optional redemption prior to maturity.

Due (April 1)	Amount*	Interest Rate	Yield	CUSIP**
2016	$4,405,000			
2017	4,435,000			
2018	4,475,000			
2019	4,535,000			

This cover page contains certain information for quick reference only. It is not a summary of these issues. 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, 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 the County by Richard Armstrong, Esq., as County Law Director. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about March __, 2015.

Cumberland Securities Company, Inc.
Financial Advisor

February __, 2015

* 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, as amended, 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 McGraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The County 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.

KNOX COUNTY, TENNESSEE

COUNTY OFFICIALS

Tim Burchett	*County Mayor*
Chris Caldwell	*Finance Director*
Foster D. Arnett, Jr.	*County Clerk*
Richard Armstrong	*County Law Director*
Ed Shouse	*County Trustee*

BOARD OF COUNTY COMMISSIONERS

Brad Anders
Ed Brantley
Mike Brown
Amy Broyles
Charles Busler
Samuel McKenzie
Jeff Ownby
John Schoonmaker
Randy Smith
Bob Thomas
Dave Wright

BOND REGISTRAR AND PAYING AGENT

Regions Bank
Nashville, 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*.

The Issuer	Knox County, Tennessee (the "County" or "Issuer"). See the section entitled "Supplemental Information Statement" for more information.
Securities Offered	The $17,850,000* General Obligation Refunding Bonds, Series 2015 (the "Bonds") of the County, dated the date of delivery (estimated to be March 25, 2015). The Bonds will mature each April 1 beginning April 1, 2016 through April 1, 2019, inclusive. See the section entitled "SECURITIES OFFERED – Authority and Purpose".
Security	The Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.
Purpose	The Bonds are being issued for the purposes of providing funds for (i) refinancing the Outstanding Bonds, as described herein; and (ii) payment of costs incident to the issuance of the Bonds.
Optional Redemption	The Bonds are not subject to optional redemption prior to maturity. 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 County, 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 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.)State of Tennessee, except inheritance, transfer, and estate taxes and Tennessee franchise and excise taxes. (See "LEGAL MATTERS -Tax Matters" herein.)
Ratings	Moody's: "Aa1", and Standard & Poor's: "AA+". See the section entitled "MISCELLANEOUS - Ratings" for more information.
Underwriter	________________________________, __________, ______________.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parties; Other", herein.
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Book-Entry-Only	The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled "BASIC DOCUMENTATION - Book-Entry-Only System"
Registration Agent	Regions Bank, Nashville, Tennessee.

*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 “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of DTC, New York, New York.

Disclosure ....In accordance with Rule 15c2-12 of the U.S. Securities and Exchange Commission as amended, the County 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 this *Preliminary Official Statement* is deemed “final” within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission as of the date which appears on the cover hereof except for the omissions of certain pricing information allowed to be omitted pursuant to Rule 15c2-12. For more information concerning the County or this *Preliminary Official Statement* contact Tim Burchett, County Mayor, 400 Main Street, County Building Suite 615, Knoxville, Tennessee 37902, (865) 215-2005, or the County's Financial Advisor, Cumberland Securities Company, Inc., 813 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 BALANCES
Summary of Changes In Fund Balances
For the Fiscal Year Ended June 30

	2010	**2011**	**2012**	**2013**	**2014**
Beginning Fund Balance	$53,277,773	$51,797,913	$52,582,335	$61,339,133	$66,265,258
Revenues	153,576,072	148,421,781	154,439,392	161,309,341	158,864,154
Expenditures	149,537,519	151,787,439	146,135,527	152,727,690	159,138,472
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	$4,038,553	$(3,365,658)	$8,303,865	$8,581,651	$(274,318)
Other Financing sources (Uses)	$(5,518,413)	4,150,080	452,933	(1,606,594)	97,583
Adjusted from prior period	-	-	-	(2,048,932)	-
Ending Fund Balance	**$51,797,913**	**$52,582,335**	**$61,339,133**	**$66,265,258**	**$66,088,523**

Source: Comprehensive Annual Financial Reports of Knox County, Tennessee.

NOTICE OF SALE

$17,850,000*
KNOX COUNTY, TENNESSEE
General Obligation Refunding Bonds, Series 2015

NOTICE IS HEREBY GIVEN that the County Mayor of Knox County, Tennessee (the "County" or "Issuer") will receive electronic or written sealed bids for the purchase of all, but not less than all, of the County's $17,850,000* General Obligation Refunding Bonds, Series 2015 (the "Bonds") at the office of the County's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, until **10:15 a.m. E.S.T.** on Wednesday, **February 18, 2015**. Prior to accepting bids, the County reserves the right to adjust the principal amount 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 9:15 a.m., Eastern Standard 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 System 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-only form (except as otherwise described in the "Detailed Notice of Sale") and dated their date of issuance and delivery (assume March 25, 2015) and will mature on April 1, 2016 through April 1, 2019 inclusive, with term bonds optional, and will not be subject to optional redemption prior to maturity. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or no more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the County 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 County Mayor of the County 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 undersigned Tim Burchett, County Mayor, County Building, Suite 615, 400 Main Street Knoxville, Tennessee 37902, (865) 215-2005; or from the County'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.

/s/ Tim Burchett
County Mayor

* Preliminary, subject to change.

DETAILED NOTICE OF SALE

$17,850,000*
KNOX COUNTY, TENNESSEE
General Obligation Refunding Bonds, Series 2015

NOTICE IS HEREBY GIVEN that the County Mayor of Knox County, Tennessee (the "County" or "Issuer") will receive electronic or written sealed bids for the purchase of all, but not less than all, of the County's $17,850,000* General Obligation Refunding Bonds, Series 2015 (the "Bonds") at the office of the County's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, until **10:15 a.m. E.S.T.** on Wednesday, **February 18, 2015**. Prior to accepting bids, the County reserves the right to adjust the principal amount 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 9:15 a.m., Eastern Standard 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 book-entry-only form without coupons and will 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. Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2015.

The Bonds will mature and be payable on April 1 of each year as outline below:

Due (April 1)	Amount*
2016	$4,405,000
2017	4,435,000
2018	4,475,000
2019	4,535,000

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 or more fully-registered bond certificates will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The Book-Entry-Only 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 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 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 County will

* Preliminary, Subject to change

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-Only 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 County, 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 County 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 are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

Purpose. The Bonds are being issued for the purposes of providing funds for (i) refinancing the Outstanding Bonds, as described herein; and (ii) payment of costs incident to the issuance of the Bonds.

Optional Redemption. The Bonds will not be subject to optional redemption prior to maturity.

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 series of 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 County 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 same manner as above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The County 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 no more than one hundred and twenty-five percent (125%) of par.

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 County 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 this Detailed Notice of Sale, this Detailed Notice of Sale shall prevail. An electronic bid made through the facilities of ***PARITY***® shall be deemed an offer to purchase in response to this Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, sealed written bid delivered to the County. The County 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 bids prior to the established date and time by FACSIMILE transmission sent to the County'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 County 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 County's Financial Advisor, 350 Lighthouse Pointe Drive, Lenoir City, TN 37772. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the County to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the County Mayor of the County 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 County Mayor shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

The County reserves the right to reject all bids and to waive informalities in the bids accepted.

Adjustment and/or Revision. While it is the County'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 County Mayor reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to $4,400,000. Among other factors the County 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 the amount of the premium and the amount of proceeds needed, and/or other preferences of the County. Additionally, the County Mayor reserves the right to change the dated date of the Bonds. The maximum adjustment will only occur if the bidder bids the maximum price of 125% of par.

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 Standard 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 County'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 County'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 County as liquidated damages.

In the event of the failure of the County to deliver the Bonds to the purchaser in accordance with the terms of this Detailed Notice of Sale 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 County 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 underwriters 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 County.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the County 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 all 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 County 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 County. 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; is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings of certain corporations for purposes of the alternative minimum tax on 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 opinions contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the County 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 relating to the County by not later than twelve months after each of the County's fiscal years (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by the County 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 the County 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 the County 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 the County'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 the successful bidder. Delivery will be made in book-entry form through the facilities of DTC, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds. Delivery is currently expected on or about March 25, 2015.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the County. The County 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 County has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The County will furnish the successful bidder at the expense of the County 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(s) 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 County 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 County's Financial Advisor, Cumberland Securities Company, Inc., 813 S. Northshore Drive, Suite 201A 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.

/s/ Tim Burchett, County Mayor

BID FORM
(Written Alternative)

Honorable Tim Burchett, County Mayor
County Building, Suite 615
400 Main Street
Knoxville, Tennessee 37902

February 18, 2015

Dear Mr. Burchett:

For your legally issued, properly executed $17,850,000* General Obligation Refunding Bonds, Series 2015 (the "Bonds") of Knox County, Tennessee (the "County") in all respects as more fully outlined in your Notices 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 delivery (assume March 25, 2015) and shall be callable in accordance with the Detailed Notice of Sale. The Bonds shall mature on April 1 and bear interest at the following rates:

Due (April 1)	**Amount***	**Rate**
2016	$4,405,000	______%
2017	4,435,000	______%
2018	4,475,000	______%
2019	4,535,000	______%

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

Term Bond 1: Maturities from April 1, 20_______ through April 1, 20_______ @ _______%.
Term Bond 2: Maturities from April 1, 20_______ through April 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 County 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
Knox County, Tennessee, this
18th day of February, 2015.

____
Tim Burchett, County Mayor

Respectfully submitted,
____
____

Total interest cost from
March 25, 2015 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.

$17,850,000*
KNOX COUNTY, TENNESSEE
General Obligation Refunding Bonds, Series 2015

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This *Preliminary Official Statement*, which includes the Summary Statement and appendices, is furnished in connection with the offering by Knox County, Tennessee (the "County" or "Issuer") of the $17,850,000* General Obligation Refunding Bonds, Series 2015 (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 (the "Resolution") adopted by the County Commission on August 25, 2014.

The Bonds are being issued for the purposes of providing funds for the (i) refinancing the Outstanding Bonds, as described herein; and (ii) payment of costs incident to the issuance of the Bonds

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from their date of issuance and delivery (assume March 25, 2015). Interest on the Bonds will be payable semi-annually on April 1 and October 1, commencing October 1, 2015. The Bonds are issuable in book-entry-only form in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the County Mayor and shall be attested by the County Clerk. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of the authentication noted thereon.

REFUNDING PLAN

The County intends to refinance its General Obligation Refunding Bonds, Series 2002A dated May 30, 2002, maturing April 1, 2016 through April 1, 2019, callable on May 1, 2015 at par plus accrued interest (the "Outstanding Bonds").

* 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 County through its governing body, shall annually levy and collect a tax on all taxable property within the County, 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 County 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 OF THE BONDS

The Bonds shall not be subject to optional redemption prior to maturity.

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 County shall redeem Bonds maturing April 1, 20__, and April 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 County 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 County 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 County 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 County 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 County 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 County pursuant to written instructions from an authorized representative of the County (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.

PAYMENT OF BONDS

The Bonds will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for, on the dates provided herein, such interest being computed upon the basis of a 360-day year of twelve 30-day months. Interest on each Bond shall be paid by check or draft of the Bond Registrar to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date. The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of the Bond Registrar.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the County 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 follows. However, if the winning bidder certifies to the County 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, its successor or the Issuer 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 effect 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 Issuer 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 Issuer 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 Issuer believes to be reliable, but the Issuer, 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 Issuer, 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 County as follows:

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

(b) an amount, which together with investment earnings thereon and legally available funds of the County, if any, that will be sufficient to pay principal of, premium, if any, and interest on the portion of the Outstanding Bonds being refunded shall be applied to the payment of such outstanding portion of the Outstanding Bonds; and.

(c) the remainder of the proceeds of the sale of the Bonds shall be used to pay the costs of issuance the Bonds, and all necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, bond insurance premium, if any, administrative and clerical costs, rating agency fees, registration agent fees, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

If the County 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); or

(c) By delivering such Bonds to the Registration Agent for cancellation by it; and

if the County shall also pay or cause to be paid all other sums payable hereunder by the County 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 County to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the County 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 County 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 County, 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 County, including, but not limited to, the right to require the County 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 County 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

There are no claims against the County, including claims in litigation, which, in the opinion of the County, would materially affect the County's financial position as it relates to its ability to make payments on the Bonds. There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the County to sell or issue the Bonds.

TAX MATTERS

Federal

General. Bass, Berry & Sims PLC, Knoxville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the County and assuming compliance by the County 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 (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 for purpose of the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the County 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 County 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 County 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 2015 Bonds. See also "Changes in Federal and State Tax Law" 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. 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”, “Continuing Disclosure”, and “Additional Information”.

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MISCELLANEOUS

RATINGS

Moody’s Investor Services, Inc. (“Moody’s”) and Standard & Poor’s Corporation (“Standard & Poor’s”) have given the Bonds the ratings of “Aa1” and “AA+”, respectively to the Bonds. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings should be obtained from such agencies.

There is no assurance that such rating will continue for any given period of time or that the rating may not be suspended, lowered or withdrawn entirely by 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 rating, 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 Moody's and Standard & Poor’s.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on February 18, 2015. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* dated February 5, 2015.

The successful bidder for the Bonds was an account led by ___________________, _______, _______ (the “Underwriters”) who contracted with the County, 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 an original issue discount of $__________) or ____% of par plus accrued interest, if any, to the date of delivery.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by the County 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 County 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 County 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 County 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, Inc.'s role as serving as the County's Dissemination Agent. If the County 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.

ADDITIONAL DEBT

The County has not authorized any additional debt at this time. However, the County has ongoing capital needs that could require additional debt in the future.

DEBT LIMITATIONS

Pursuant to Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, there is no limit on the amount of bonds that may be issued when the County uses the statutory authority granted therein to issue bonds. (see "DEBT STRUCTURE - Indebtedness and Debt Ratios" for additional information.)

DEBT RECORD

There is no record of a default on principal and interest payments by the County from information available. Additionally, no agreements or legal proceedings of the County relating to securities have been declared invalid or unenforceable.

CONTINUING DISCLOSURE

The County 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 County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 (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 County. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the County 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 U.S. Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year Filing History. While it is believed that all appropriate filings were made with respect to the ratings of County's outstanding bond issues, which some 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. In the past five years, the County has filed its Annual Reports at www.emma.msrb.org under the base CUSIP Number 499512 which is the base CUSIP Number for the County; however, the County inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the County was an obligated person. The County 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. With the exception of the foregoing, for the past five years, the County has complied in all material respects with its existing continuing disclosure agreements in accordance with SEC Rule 15c2-12.

Content of Annual Report. The County's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the County for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the County'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:

1. 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-6;

2. Property tax rates and 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-7;

3. The ten largest taxpayers as shown on page B-8;

4. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-10;

5. Information about the Bonded Debt Service Requirements - General Fund as of the end of such fiscal year as shown on page B-11;

6. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on page B-12;

7. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-14;

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to each of the Repositories or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the County shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the County shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults, if material;

    c. Unscheduled draws on debt service reserves reflecting financial difficulties;

    d. Unscheduled draws on credit enhancements reflecting financial difficulties;

e. Substitution of credit or liquidity providers, or their failure to perform;

f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

g. Modifications to rights of Bondholders, if material;

h. Bond calls, if material, and tender offers;

i. Defeasances;

j. Release, substitution, or sale of property securing repayment of the securities, if material;

k. Rating changes;

l. Bankruptcy, insolvency, receivership or similar event of the obligated person;

m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination of Reporting Obligation. The County'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 County 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, 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 County 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 County. 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 County 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 County 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 County 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 County 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 County has deemed this PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12(b) of the U.S. 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 County, 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/ ______________________________
County Mayor

ATTEST:

/s/ ______________________________
County Clerk

APPENDIX A

LEGAL OPINION

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 Knox County, Tennessee (the "Issuer") of the $____________ General Obligation Refunding Bonds, Series 2015 (the "Bonds"), dated ___________________, 2015. 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 Board of County Commissioners 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 its 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 territorial limits of the Issuer.

4. 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, for purposes of computing the alternative minimum tax imposed on certain corporations, 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

COUNTY OF KNOX, TENNESSEE

SUPPLEMENTAL INFORMATION STATEMENT

In addition to providing audited financial information as of and for the year ended June 30, 2014, the County of Knox, Tennessee, intends that this Supplemental Information Statement will be used, together with information specifically provided by the County for that purpose, in connection with the offering and issuance by the County of its securities.

The County 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. Chris Caldwell, Director of Finance, City/County Building, 400 Main Avenue, Room 630, Knoxville, Tennessee 37902, 865-215-2350, for questions regarding information in this Supplemental Information Statement, copies of Comprehensive Annual Financial Reports, or placement on the mailing list for the Supplemental Information Statement.

The date of this Supplemental Information Statement is as of June 30, 2014, unless otherwise noted. 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 County since the date of this Supplemental Information Statement.

No person, except as noted on the cover page, has been authorized by the County 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.

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COUNTY OF KNOX, TENNESSEE

INTRODUCTION

Knox County (the "County") is located in the eastern portion of the State. Founded in 1791 where the French Broad and Holston Rivers converge to form the Tennessee River, The City of Knoxville (the "City"), the County seat, is the largest city in East Tennessee and ranks third largest in the state. The County is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast.

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. Knoxville, the County seat, 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.

The City of Knoxville is the largest incorporated municipality in the County with 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. The City 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.

GOVERNMENTAL STRUCTURE

The County has operated under a County Mayor/County Commission form of government since September 1, 1980, and a Home Rule Charter since September 1, 1990. Policy making and legislative authority are vested in the County Mayor (the Executive Branch of the County) and the County Commission (the Legislative Branch of the County). The County Commission is responsible, among other things, for passing ordinances, adopting the budget and appointing committees. The County Mayor is the Chief Fiscal Officer of the County and is responsible, among other things, for carrying out the policies and ordinances of the County Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of many of the County's departments. The executive and administrative powers are vested in the County Mayor, who is elected at large for a four-year term. The County Mayor is authorized to administer, supervise and control all departments and to appoint all members of boards and commissions created by the County Charter or by ordinance enacted pursuant to the County Charter unless otherwise accepted. A majority plus one vote of the County Commission is required to override the County Mayor's veto. The Charter also provides for a commission chairperson who is elected by the Commission for a one-year term and is the presiding officer of the Commission. The Commission is the legislative body of the County government and is composed of 11 members who are elected for four-year terms with one member elected from each of nine districts and two at large members.

The County and its Component Units, which are separate entities for which the County is financially accountable, provide a full range of services including, but not limited to, the construction and maintenance of highways, streets, and infrastructure; police protection; emergency telephone services; elementary and secondary education; community services; sanitation services; recreation and cultural events.

ADMINISTRATION

The following are brief personal resumes of County Administration Officials:

TIM BURCHETT, COUNTY MAYOR

Mr. Burchett was elected to serve a four-year term for Knox County from September 1, 2010 to August 31, 2014 and was subsequently re-elected to a second four-year term ending August 31, 2018. Mr. Burchett attended the University of Tennessee and earned a degree in education. Before being elected County Mayor, Mr. Burchett had served 16 years in the Tennessee General Assembly. In 1994 Mr. Burchett was elected to the Tennessee State House of Representatives, and then in 1998 he was elected to the first of three terms as 7th District Tennessee State Senator. He served as the chairman of the Budget Subcommittee in Finance, and was secretary of the Finance, Ways and Means Committee. Mr. Burchett also sat on the State and Local Government Committee, as well as the Commerce, Labor and Agriculture Committee.

CHRIS CALDWELL – DIRECTOR OF FINANCE

Mr. Caldwell accepted the position of Senior Director of Finance for Knox County in 2012. Before accepting the position, he was the Accounting & Budgeting Director and has worked for Knox County since 2002. He has a Bachelor's of Business Administration from Lincoln Memorial University and a Master's in Business Administration from Bellevue University. He is currently a member of Government Finance Officers Association (GFOA) and Tennessee Government Finance Officers Association (TGFOA).

RICHARD ARMSTRONG - LAW DIRECTOR

Mr. Armstrong grew up in the Skaggston community of east Knox County, Tennessee. He received his Bachelor of Arts from the University of Tennessee, a Doctorate in Education from Columbia University, and Juris Doctorate from Nashville School of Law. Mr. Armstrong came to the Law Director's office from private practice where he represented clients across Tennessee. Prior to entering private practice, Mr. Armstrong worked as an environmental scientist for the Tennessee Valley Authority for thirty-two years. During his time with TVA, Bud advised local, state, and federal agencies on regulatory matters. Mr. Armstrong has served as a member of the Knox County Commission and on several local boards including the East Tennessee Historical Society, the Candoro Arts & Heritage Center and East Knox Business and Professional Association. He is a Past Master of Woodward Lodge F&AM, Knoxville Scottish Rite, and Kerbela Shrine.

FINANCIAL MANAGEMENT SYSTEM

DEPARTMENT OF FINANCE

The Department of Finance is responsible for all fiscal affairs, financial management and related systems of the County. The Director of Finance/Administration is in charge of overall County financial policy and reports directly to, and is appointed by, the County 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: Payroll, Accounting, Budget/Program, Purchasing, Mail, Finance Systems, and Risk Management.

FISCAL YEAR

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

FINANCIAL REPORTING

The County maintains a financial reporting system that provides timely and accurate reports on the County's financial position and the results of its operation. The County's financial statements are audited annually by independent certified public accountants. The reports of such accountants with respect to the County's financial statements for the fiscal year ended June 30, 2014, are included elsewhere in the Official Statement. The County is required to undergo this annual 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 groups of the primary government (i.e. the County) 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 Knox County Board of Education (the School Board), Knox County Emergency Communications District (the District) and the Development Corporation of Knox County are reported as discretely presented Component Units in the County's annual financial statements.

Because of the close relationship between the County and the School Board and the fact that the School Board does not issue financial statements separate from those of the County, many of the supplemental schedules and other financial information are consolidated in the annual financial statements to more properly reflect the activities of the County and the School Board.

ACCOUNTING SYSTEM

The Finance/Administration Department maintains separate accounting systems for the County and its Component Units except for the Development Corporation of Knox County and the Great Schools Partnership (a discretely presented component unit of the Knox County Board of Education), which maintain their own systems.

BASIS OF ACCOUNTING

The County follows generally accepted accounting principles set forth in statements and interpretations issued by the Governmental Accounting Standards Board (GASB). 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. Budgetary control is maintained at each of the appropriate funds by a formal appropriation and encumbrance system. Salary expenditure and commitments such as purchase orders and contracts are recorded when the liability is incurred.

A comprehensive statement of the County's accounting policies, including significant changes in accounting practices during the fiscal year ended June 30, 2014 is presented in the Notes to Financial Statements in Appendix C.

FUND STRUCTURE

The County has the following fund types:

1. **Governmental** Funds are used to account for the County'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 County in a trustee capacity or as an agent on behalf of others.

CASH MANAGEMENT SYSTEM

Cash is invested in certificates of deposit, obligations of the U.S. Government, corporate bonds, and the State of Tennessee Local Government Investment Pool.

The County's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. Accordingly, the majority of deposits were either insured by federal depository insurance or collateralized.

BOND AUTHORIZATION

Bonds are authorized on behalf of the County by an initial resolution (if not a refunding) and a detailed resolution of the County Commission, each of which requires a simple majority. The initial resolution must be published one time in a newspaper of general circulation in the County. Unless ten percent of the registered voters of the County protest the issuance of the Bonds within 20 days of publication, the Bonds may be issued as authorized.

SHORT TERM BORROWING

Under the present Tennessee law, counties in Tennessee are authorized through their respective governing bodies upon approval by the State Director of Local Finance, to issue interest bearing bond anticipation notes and capital outlay notes for all municipal purposes for which general obligation bonds can be legally authorized and issued.

DEBT LIMIT

Present Tennessee law provides that bonds may be issued by a county without regard to any limit on indebtedness.

PROPERTY TAX

ASSESSMENTS

The property tax on real estate and personal property provides the County with a major source of revenue for a variety of functions. The property tax that can be levied is without limit as to rate or amount. The County Commission reserves and allocates a portion of the property tax rate among general government, public education and the repayment of the debt service.

All real estate and personal property, including some utilities not under the jurisdiction of the State of Tennessee, are assessed by the Knox County Assessor of Property. Utilities and carriers (railroads, truck lines, airlines, bus lines, etc.) are assessed by the State, 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 County for the 2013 tax year collections and FY 2014. The 2014 appraised value is approximate market value as of that time. 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, railroads, 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 is generally 40% of the current value.

With the 2014 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 were 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 State of Tennessee for utilities and carriers are made annually based upon returns and are also maintained at current market value. The County plans to revise all assessments every four years in the future based on current market values.

Public utilities are assessed by the State of Tennessee 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 County 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 for Fiscal Year	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		Collections in Subsequent Years	TOTAL COLLECTION TO DATE	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2005	$198,457	$191,042	96.3%	$7,255	$198,297	99.9%
2006	206,845	198,584	96.0%	8,094	206,677	99.9%
2007	214,490	207,118	96.6%	7,147	214,265	99.9%
2008	223,260	215,195	96.4%	7,761	222,956	99.9%
2009	232,382	221,475	95.3%	10,448	231,923	99.8%
2010	237,485	227,064	95.6%	9,680	236,744	99.7%
2011	240,087	230,908	96.2%	8,041	238,949	99.5%
2012	243,810	234,803	96.3%	7,288	242,091	99.3%
2013	248,519	240,734	96.9%	5,000	245,734	98.9%
2014	252,270	244,964	97.1%	-	244,964	97.1%

* Amounts expressed in thousands

Source: 2014 Knox County, Tennessee Comprehensive Annual Financial Report.

Property Taxes are normally due on August 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.

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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	$6,016,745,230	$24,913,019,758	$517,162,396	$1,853,628,659	$237,929,088	$ 6,771,836,714
2005	7,002,705,225	26,825,229,773	532,543,347	1,775,144,490	253,178,224	7,788,426,796
2006	7,255,065,650	27,802,132,373	542,154,459	1,807,181,530	255,770,424	8,052,990,533
2007	7,635,792,420	29,423,731,801	499,933,519	1,832,466,531	246,497,046	8,382,222,985
2008	7,976,427,050	30,721,021,883	508,763,916	1,864,833,649	253,346,840	8,738,537,806
2009	9,362,397,250	32,825,951,200	560,310,232	1,867,700,773	280,334,439	10,203,041,921
2010	9,487,154,290	33,269,026,900	528,662,092	1,762,206,973	263,184,246	10,279,000,628
2011	9,616,297,845	33,731,135,812	543,061,119	1,812,105,998	274,110,589	10,433,469,553
2012	9,711,747,868	33,930,700,639	591,845,675	1,976,239,726	273,717,371	10,577,310,914
2013	10,012,139,066	34,680,083,345	616,746,814	2,055,289,398	264,507,966	10,893,393,846

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.

PROPERTY TAX RATE DISTRIBUTION

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
General Government	$0.97	$0.97	$0.97	$0.97	$0.96
Schools	$1.08	$1.08	$1.08	$1.08	$1.06
Debt Service Fund	$0.31	$0.31	$0.31	$0.31	$0.30
Total Tax Levy	**$2.36**	**$2.36**	**$2.36**	**$2.36**	**$2.32**

Source: 2014 Knox County, Tennessee Comprehensive Annual Financial Report.

TAX RATE LIMITATIONS

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

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TEN LARGEST TAXPAYERS

Taxpayer	Industry	Assessed Property Valuation	Total Assessed Property Valuation
Metro Knoxville	Government	$ 61,823,680	0.57%
Bell South	Telephone	53,206,781	0.49%
Verizon Wireless Communication	Telephone	31,471,225	0.29%
AT&T Mobility Inc	Telephone	30,113,327	0.28%
West Town Mall	Commercial	27,749,840	0.26%
Tennessee Holding LLC	Real Estate	17,720,000	0.16%
Exedy America Corp	Manufacturing	16,708,076	0.15%
Hart TC L-LI LLC	Commercial	14,401,120	0.13%
Hertz Knoxville One	Commercial	13,600,000	0.13%
Rohm & Hass Chemicals	Manufacturing	12,810,940	0.12%
FY 2014 Assessed Property Valuation for ten largest payers		**$279,604,989**	**2.57%**
Balance of Assessed Valuation		10,613,788,857	97.43%
TOTAL ASSESSED VALUATION		**$10,893,393,846**	**100.00%**

Source: 2014 Knox County, Tennessee Comprehensive Annual Financial Report.

GENERAL SALES TAX

The County's General (Local) Sales Tax is currently levied at a rate of 2.25%.

FINANCIAL INFORMATION

BUDGETING AND APPROPRIATIONS PROCEDURES

The County's financial plans are embodied in the annual capital improvement plan and operating budget. The budget reflects the projection of all revenues from and expenditures to all sources and present the level of governmental services and the method of distributing costs to the various segments of the County through the collection of taxes and fees.

The Commission has the final responsibility for establishing program and fiscal policies, approving the annual operating budget and the capital improvements plan, and setting the tax rate and fees for services. The administration is responsible for proposing programs and recommending funding levels to the Commission and for implementing service programs in accordance with the established goals and objectives.

Operating Budget - The annual operating budget is submitted to the Commission approximately 30 days prior to the end of the fiscal year. By the last day of the fiscal year, the Commission is expected to approve the operating budget. No later than the passage of the operating budget resolution, the Commission must enact such revenue measures required to balance the budget.

Capital Improvement Plan - The capital improvement plan is prepared annually to detail capital expenditures planned 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 plan is prepared and recommended by the County Mayor and transmitted to the Commission for adoption. The capital improvement plan authorizes in detail the capital expenditures to be made or incurred in the next five ensuing fiscal years and is adopted by the Commission concurrently with the operating budget.

Additional appropriations for each capital project in the capital improvement plan must precede the expenditures of the funds. Generally, the timetable for approval of the capital plan closely parallels that of the operating budget.

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KNOX COUNTY, TENNESSEE
Outstanding General Obligation Debt by Issues

Purpose & Series	Interest Rate	Due Date	Outstanding Amounts: Primary Government	Outstanding Amounts: Component Unit - School Board	As of June 30, 2014 Unless Noted: Total Bonded Debt
Series B-19-A (Women's Hall of Fame)	Fixed	6/1/2018	$ 2,425,000	$ -	**2,425,000**
Series 2002A Refunding Bonds	Fixed	4/1/2019	14,055,810	24,559,190	**38,615,000**
Series 2003A Refunding Bonds	Fixed	2/1/2017	4,978,742	11,341,258	**16,320,000**
Series C-1-A Bonds	Synthetic Fixed[3]	6/1/2029	38,783,333	19,391,667	**58,175,000**
Series VI-A-1 Bonds	Synthetic Fixed[3]	6/1/2029	27,642,857	36,857,143	**64,500,000**
Series 2004 Refunding Bonds	Fixed	4/1/2020	10,396,414	14,668,586	**25,065,000**
Series 2005A Refunding Bonds	Fixed	5/1/2021	22,581,250	13,548,750	**36,130,000**
Series 2005B (Taxable) Refunding Bonds (10-30-2014)	Fixed	5/1/2015	-	1,150,000	**1,150,000**
Series D-3-A Bonds	Synthetic Fixed[3]	6/1/2029	43,311,688	23,388,312	**66,700,000**
Series VI-K-1 Bonds	Variable[2]	6/1/2034	50,450,000	18,550,000	**69,000,000**
Series 2007 Bonds (Taxable) (10-30-2014)	Fixed	6/1/2016	3,500,000	-	**3,500,000**
Series C-3-A Bonds	Variable[2]	6/1/2029	21,654,750	11,660,250	**33,315,000**
General Obligation Bonds, Series 2010A (Federally Taxable Build America Bonds)	Fixed	6/1/2035	900,000	15,000,000	**15,900,000**
General Obligation Refunding Bonds, Series 2010B	Fixed	4/1/2035	30,065,000	-	**30,065,000**
General Obligation Bonds, Series 2010C	Fixed	4/1/2024	8,770,000	17,100,000	**25,870,000**
Qualified School Construction Bond, Series 2010 Loan Agreement (Estimated)	Fixed	2027	-	24,067,205	**24,067,205**
General Obligation Bonds, Series 2010D (Federally Taxable Build America Bonds)	Fixed	6/1/2035	16,925,000	-	**16,925,000**
General Obligation Bonds, Series 2012	Fixed	4/1/2032	5,850,000	8,450,000	**14,300,000**
EESI Loan, Series 2012	Fixed	7/1/2024	-	4,237,354	**4,237,354**
Capital Lease, Series 2013	Fixed	2/1/2028	-	12,372,703	**12,372,703**
General Obligation Bonds, Series 2013	Fixed	6/1/2035	20,965,000	18,110,000	**39,075,000**
Capital Lease, Series 2014	Fixed	8/1/2030	-	14,872,404	**14,872,404**
General Obligation Bonds, Series 2014A (10-30-20014)	Fixed	6/1/2036	15,505,000	14,535,000	**30,040,000**
General Obligation Bonds, Series 2014B (Federally Taxable) (10-30-2014)	Fixed	6/1/2027	52,810,000	4,030,000	**56,840,000**
Total Long-Term Debt - Primary Government			**$ 391,569,844**	**$ 307,889,822**	**$ 699,459,666**
Current Issue					
General Obligation Refunding Bonds, Series 2015	Fixed	6/1/2036	6,865,000	10,985,000	**17,850,000**
Less: Debt Being Refunded			(6,774,993)	(10,840,007)	**(17,615,000)**
			$ 391,659,851	**$ 308,034,815**	**$ 699,694,666**

Notes:

1. The above figures do not include short-term notes outstanding and leases, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein. Additionally, does not include a 2013 lease of $5,962,500 for computers (the "2013 Lease") entered into by the County for the Knox County Board of Education. The 2013 Lease has a final payment in 2016 and had a balance at June 30, 3014 of $4,471,875.

2. Knox County budgets to account for interest rate risk.

3. The Series C-1-A, Series VI-A-1 & Series D-3-A Bonds have been swapped to a synthetic fixed rate. The County budgets to account for basis risk.

KNOX COUNTY, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS - General Obligation

F.Y. Ended 6/30	Existing Debt - General Obligation (1) As of October 30, 2014				General Obligation Bonds, Series 2015			% Principal Repaid (2015 Bonds)	Less Bonds Being Refunded			Total Bonded Debt Service Requirements				% Principal Repaid (All Debt)
	Principal	Interest (2)	Estimated U.S. Treasury Rebate (4)	TOTAL	Principal	Interest (3)	TOTAL		Principal	Interest	TOTAL	Principal	Interest (2)	Estimated U.S. Treasury Rebate (4)	TOTAL	
2015	$ 44,739,494	$ 26,814,759	$ (577,356)	$ 70,976,896	$ -	$ -	$ -	0.00%	$ -	$ -	$ -	$ 44,739,494	$ 26,814,759	$ (577,356)	$ 70,976,896	6.39%
2016	45,819,544	26,533,497	(576,739)	71,776,301	4,405,000	159,337	4,564,337		(4,090,000)	(865,738)	(4,955,738)	46,134,544	25,827,097	(576,739)	71,384,901	
2017	43,756,126	24,296,707	(576,029)	67,476,804	4,435,000	134,700	4,569,700		(4,285,000)	(671,463)	(4,956,463)	43,906,126	23,759,945	(576,029)	67,090,042	
2018	40,465,860	22,559,540	(575,213)	62,450,187	4,475,000	101,438	4,576,438		(4,500,000)	(467,925)	(4,967,925)	40,440,860	22,193,052	(575,213)	62,058,699	
2019	41,113,450	21,000,364	(571,071)	61,542,743	4,535,000	56,688	4,591,688	100.00%	(4,740,000)	(242,925)	(4,982,925)	40,908,450	20,814,126	(571,071)	61,151,505	30.89%
2020	38,089,024	19,369,557	(566,435)	56,892,146	-	-	-		-	-	-	38,089,024	19,369,557	(566,435)	56,892,146	
2021	35,892,709	17,869,634	(555,327)	53,207,016	-	-	-		-	-	-	35,892,709	17,869,634	(555,327)	53,207,016	
2022	30,739,603	16,580,272	(542,436)	46,777,440	-	-	-		-	-	-	30,739,603	16,580,272	(542,436)	46,777,440	
2023	31,759,858	15,593,041	(524,414)	46,828,485	-	-	-		-	-	-	31,759,858	15,593,041	(524,414)	46,828,485	
2024	31,863,579	14,563,574	(506,392)	45,920,761	-	-	-	100.00%	-	-	-	31,863,579	14,563,574	(506,392)	45,920,761	54.95%
2025	30,244,621	13,500,544	(488,739)	43,256,427	-	-	-		-	-	-	30,244,621	13,500,544	(488,739)	43,256,427	
2026	31,881,044	12,454,169	(471,825)	43,863,388	-	-	-		-	-	-	31,881,044	12,454,169	(471,825)	43,863,388	
2027	33,037,306	11,293,714	(442,020)	43,889,000	-	-	-		-	-	-	33,037,306	11,293,714	(442,020)	43,889,000	
2028	33,241,139	9,960,985	(416,994)	42,785,130	-	-	-		-	-	-	33,241,139	9,960,985	(416,994)	42,785,130	
2029	33,527,467	8,536,115	(391,075)	41,672,507	-	-	-	100.00%	-	-	-	33,527,467	8,536,115	(391,075)	41,672,507	78.09%
2030	26,908,898	7,062,451	(364,263)	33,607,086	-	-	-		-	-	-	26,908,898	7,062,451	(364,263)	33,607,086	
2031	27,274,942	5,854,342	(318,982)	32,810,302	-	-	-		-	-	-	27,274,942	5,854,342	(318,982)	32,810,302	
2032	27,690,000	4,629,363	(272,109)	32,047,253	-	-	-		-	-	-	27,690,000	4,629,363	(272,109)	32,047,253	
2033	27,825,000	3,350,463	(219,471)	30,955,991	-	-	-		-	-	-	27,825,000	3,350,463	(219,471)	30,955,991	
2034	29,110,000	2,040,950	(163,992)	30,986,959	-	-	-	100.00%	-	-	-	29,110,000	2,040,950	(163,992)	30,986,959	97.93%
2035	12,620,000	670,638	(105,406)	13,185,232	-	-	-		-	-	-	12,620,000	670,638	(105,406)	13,185,232	
2036	1,860,000	65,100	-	1,925,100	-	-	-	100.00%	-	-	-	1,860,000	65,100	-	1,925,100	100.00%
	$ 699,459,666	$ 284,599,777	$ (9,226,289)	$ 974,833,154	$ 17,850,000	$ 452,162	$ 18,302,162		$ (17,615,000)	$ (2,248,050)	$ (19,863,050)	$ 699,694,666	$ 282,803,889	$ (9,226,289)	$ 973,272,266	

NOTES:

(1) The above figures do not include short-term notes outstanding and leases, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein. Additionally, does not included a 2013 lease of $5,962,500 for computers (the "2013 Lease") entered into by the County for the Knox County Board of Education. The 2013 Lease has a final payment in 2016 and had a balance at June 30, 3014 of $4,471,875.

(2) The County budgets to account for interest rate and/or basis risk. Gross Interest Shown on the Build America Bonds.

(3) Estimated Interest Rates. Estimated Average Coupon of 1.00%.

(4) The original federal subsidy of 35.0% on the General Obligation Bonds, Series 2010A (Federally Taxable Build America Bonds) and General Obligation Bonds, Series 2010D (Federally Taxable Build America Bonds) has been reduced by 7.3% for the federal fiscal year ending September 30, 2015 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2015, the sequestration rate will be subject to change.

KNOX COUNTY, 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 attached herein and the table should be read in conjunction with those statements. The table does not include future funding plans whether disclosed or not in this PRELIMINARY OFFICIAL STATEMENT / OFFICIAL STATEMENT.

	For the Fiscal Year Ended June 30					After Issuance
	2010	2011[1]	2012	2013	2014	2015
Estimated Population[2]	432,234	436,929	441,132	444,622	444,622	444,622
Actual Property Valuation[3]	35,335,884,365	35,634,176,018	36,172,663,337	36,535,452,150	37,341,347,465	37,341,347,465
Assessed Valuation	10,203,041,921	10,279,000,628	10,433,469,553	10,577,310,914	10,893,393,846	10,893,393,846
Total Long-Term Debt	643,970,934	692,186,467	669,015,766	644,798,509	663,879,665	699,694,666
Less: Debt Service Fund	(24,978,733)	(22,151,482)	(22,273,747)	(24,601,896)	(25,668,971)	(25,668,971)
Net Long-Term Indebtedness	618,992,201	670,034,985	646,742,019	620,196,613	638,210,694	674,025,695
Total Overlapping Debt	188,465,000	180,170,000	178,390,000	168,895,000	159,435,000	159,435,000
Total Overlapping Debt & Net Bonded Indebtedness	807,457,201	850,204,985	825,132,019	789,091,613	797,645,694	833,460,695
Bonded Debt per Capita - Total Debt	1,490	1,584	1,517	1,450	1,493	1,574
Bonded Debt per Capita - Net Debt	1,432	1,534	1,466	1,395	1,435	1,516
Overlapping & Net Bonded Debt per Capita	1,868	1,946	1,870	1,775	1,794	1,875
Debt Ratios						
Bond Debt to Actual Valuation - Total Debt	1.82%	1.94%	1.85%	1.76%	1.78%	1.87%
Bonded Debt to Actual Valuation - Net Debt	1.75%	1.88%	1.79%	1.70%	1.71%	1.81%
Overlapping & Net Bonded Debt to Actual	2.29%	2.39%	2.28%	2.16%	2.14%	2.23%
Bonded Debt to Assessed Valuation - Total Debt	6.31%	6.73%	6.41%	6.10%	6.09%	6.42%
Bonded Debt to Assessed Valuation - Net Debt	6.07%	6.52%	6.20%	5.86%	5.86%	6.19%
Overlapping & Net Bonded Debt to Assessed	7.91%	8.27%	7.91%	7.46%	7.32%	7.65%

Source: Knox County, Tennessee Comprehensive Financial Reports and Tax Aggregate Reports of Tennessee Prepared by the State Board of Equalization.

[1] In fiscal year 2011, the County completed a reappraisal of real and personal property.

[2] Population figures are from the US Census Bureau.

[3] Does not include actual utility property.

KNOX COUNTY, TENNESSEE

CAPITAL IMRPOVEMENT PLAN - ADOPTED PROJECTS SUMMARY

FY 2015 THROUGH FY 2019

DESCRIPTION	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
County-Wide Projects	$ 810,505	$ 600,000	$ 600,000	$ 600,000	$ 600,000	$ 3,210,505
Public Libraries	200,000	150,000	150,000	150,000	150,000	800,000
Parks & Recreation	300,000	150,000	150,000	150,000	150,000	900,000
Building Improvements/Major Maintenance	2,034,439	951,000	520,000	500,000	500,000	4,505,439
Engineering and Public Works						
Highways	$ 7,650,000	$ 10,550,000	$ 14,300,000	$ 10,050,000	$ 7,250,000	$ 49,800,000
Solid Waste	750,000	25,000	-	-	-	775,000
Stormwater Management	445,000	300,000	470,000	470,000	470,000	2,155,000
Facility Improvements	-	-	50,000	50,000	50,000	150,000
Total Engineering and Public Works	$ 8,845,000	$ 10,875,000	$ 14,820,000	$ 10,570,000	$ 7,770,000	$ 52,880,000
Knox County Schools -- School Debt	$ 14,980,000	$ 16,500,000	$ 38,000,000	$ 29,100,000	$ 38,000,000	$ 136,580,000
Major Equipment	$ 4,018,075	$ 771,000	$ 698,000	$ 478,000	$ 450,000	$ 6,415,075
TOTAL OF ALL PROJECTS	**$ 31,188,019**	**$ 29,997,000**	**$ 54,938,000**	**$ 41,548,000**	**$ 47,620,000**	**$ 205,291,019**

KNOX COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes in Fund Balances - General Fund

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Revenues:					
Local Taxes	$ 128,845,482	$ 121,594,774	$ 124,871,101	$ 128,381,088	$ 128,079,612
Licenses and Permits	3,252,786	3,342,613	3,586,182	3,701,844	3,827,598
Fines, Forfeitures and Penalties	2,923,102	1,861,142	1,904,656	2,710,496	2,246,055
Charges for Current Services	4,770,392	4,418,626	3,887,795	4,562,900	6,007,089
Other Local Revenues	3,227,966	5,843,758	3,894,081	8,749,400	7,088,972
State of Tennessee	9,186,252	9,589,371	11,291,662	11,229,915	9,757,201
Federal Government	983,063	702,981	667,926	734,813	1,297,509
Fees Received from County Officials	-	438,135	547,301	-	-
Other Governments & Citizen Groups	118,373	281,296	3,457,546	320,723	560,118
Payments from Component Unit	268,656	349,085	331,142	-	-
Increase in Equity Interest in Joint Venture	-	-	-	918,162	-
Total Revenue	$ 153,576,072	$ 148,421,781	$ 154,439,392	$ 161,309,341	$ 158,864,154
Expenditures:					
General Government:					
Finance and Administration	$ 28,538,468	$ 28,550,474	$ 26,454,382	$ 28,476,535	$ 29,291,740
Administration of Justice	12,870,114	16,949,427	15,327,858	15,719,185	16,229,625
Public Safety	69,275,190	68,778,789	68,423,646	69,976,568	72,151,783
Public Health and Welfare	25,402,412	21,746,478	19,159,669	19,659,334	20,698,855
Social and Cultural Services	4,652,601	4,761,659	4,158,762	4,287,559	4,527,355
Agricultural and Natural Resources	413,675	380,453	365,774	435,231	519,433
Other General Government	8,385,059	10,620,159	12,245,436	14,173,278	15,719,681
Total Expenditures	$ 149,537,519	$ 151,787,439	$ 146,135,527	$ 152,727,690	$ 159,138,472
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 4,038,553	$ (3,365,658)	$ 8,303,865	$ 8,581,651	$ (274,318)
Other Financing Sources (Uses)	$ (5,518,413)	$ 4,150,080	$ 452,933	$ (1,606,594)	$ 97,583
Excess Revenues and Other Financing Sources Over (Under) Expenditures	$ (1,479,860)	$ 784,422	$ 8,756,798	$ 6,975,057	$ (176,735)
Fund Balance, July 1	$ 53,277,773	$ 51,797,913	$ 52,582,335	$ 61,339,133	$ 66,265,258
Prior Period Adjustment	-	-	-	(2,048,932)	-
Fund Balance, June 30	**$ 51,797,913**	**$ 52,582,335**	**$ 61,339,133**	**$ 66,265,258**	**$ 66,088,523**

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

KNOX COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes in Fund Balances - Debt Service Fund

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Revenues:					
Local Taxes	$ 30,800,583	$ 31,879,441	$ 32,380,337	$ 32,886,294	$ 33,375,647
Other Local Revenues	-	946,025	-	-	70,000
Other Governments/Citizens Groups	129,126	125,494	-	-	-
Payments from Component Units	26,164,220	25,946,048	30,770,645	32,601,668	31,929,023
Interest Earned	166,065	1,069,078	2,066,857	2,093,793	2,013,916
Total Revenue	$ 57,259,994	$ 59,966,086	$ 65,217,839	$ 67,581,755	$ 67,388,586
Expenditures:					
Debt Service:					
Contracted Services	$ 2,990,434	$ 2,392,461	$ 2,599,751	$ 1,826,198	$ 1,628,599
Trustee Commission	622,401	639,603	650,744	678,399	680,090
Principal	31,080,467	34,695,467	35,615,702	37,766,083	40,630,308
Interest	22,292,340	25,297,513	25,888,063	24,982,926	23,577,780
Debt Issuance Costs	78,957	923,104	149,005	-	-
Total Expenditures	$ 57,064,599	$ 63,948,148	$ 64,903,265	$ 65,253,606	$ 66,516,777
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 195,395	$ (3,982,062)	$ 314,574	$ 2,328,149	$ 871,809
Other Financing Sources (Uses):					
Proceeds of Bonds	$ 4,698,957	$ 65,079,089	$ 22,618,363	$ -	$ -
Operating Transfers In - Other Funds	194,107	194,207	1,201,227	-	195,266
Operating Transfers to Other Funds	(2,472,000)	-	(943,818)	-	-
Payment to Refunded Bond Escrow Agent	(4,620,000)	(64,118,485)	(22,469,358)	-	-
Total Other Financing Sources (Uses)	$ (2,198,936)	$ 1,154,811	$ 406,414	$ -	$ 195,266
Excess Revenues and Other Financing Sources Over (Under) Expenditures	$ (2,003,541)	$ (2,827,251)	$ 720,988	$ 2,328,149	$ 1,067,075
Fund Balance, July 1	$ 26,982,274	$ 24,978,733	$ 22,151,482	$ 22,872,470	$ 24,601,896
Prior Period Adjustment	-	-	-	(598,723)	-
Fund Balance, June 30	**$ 24,978,733**	**$ 22,151,482**	**$ 22,872,470**	**$ 24,601,896**	**$ 25,668,971**

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

KNOX COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes in Fund Balances - Capital Projects Fund

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Revenues:					
Other Local Revenues	$ 771	$ -	$ 3,248,666	$ 548,095	$ 81,185
State of Tennessee	140,000	32,771	81,490	1,385,619	1,611,771
Federal Government	7,914	-	-	-	-
Other Governments and Citizens Groups	-	257,635		-	-
Payments from Component Unit	-	-	2,500,000	-	-
Interest Earned	2,167	(47,452)	27,266	105,943	(3,365)
Total Revenue	$ 150,852	$ 242,954	$ 5,857,422	$ 2,039,657	$ 1,689,591
Expenditures:					
Debt Proceeds Paid to Component Unit	$ 14,822,428	$ 29,004,906	$ 13,578,202	$ 13,182,024	$ 38,763,934
Other General Government	-	-	-	-	15,971
Debt Issuance Costs	247,856	441,307	106,387	13,295	745,863
Capital Projects	22,624,556	8,468,283	7,866,153	29,402,147	18,403,407
Total Expenditures	$ 37,694,840	$ 37,914,496	$ 21,550,742	$ 42,597,466	$ 57,929,175
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (37,543,988)	$ (37,671,542)	$ (15,693,320)	$ (40,557,809)	$ (56,239,584)
Other Financing Sources (Uses):					
Loan and Note Proceeds	$ -	$ -	$ 5,000,000	$ -	$ 5,962,500
Capital Lease Proceeds	11,651,171	-	-	13,182,024	14,872,404
Bond Proceeds	16,000,000	46,236,000	14,400,000	-	39,075,000
Operating Transfers In - Other Funds	-	-	4,816,643	5,855,375	1,574,999
Operating Transfers Out - Other Funds	-	-	-	-	-
Premium on Debt Issuance	58,806	54,824	254,526	-	350,920
Total Other Financing Sources (Uses)	$ 27,709,977	$ 46,290,824	$ 24,471,169	$ 19,037,399	$ 61,835,823
Excess Revenues and Other Financing Sources Over (Under) Expenditures	$ (9,834,011)	$ 8,619,282	$ 8,777,849	$ (21,520,410)	$ 5,596,239
Fund Balance, July 1	$ 15,429,262	$ 5,595,251	$ 14,214,533	$ 22,992,382	$ 1,471,972
Prior Period Adjustment	-	-	-	-	-
Fund Balance, June 30	**$ 5,595,251**	**$ 14,214,533**	**$ 22,992,382**	**$ 1,471,972**	**$ 7,068,211**

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

KNOX COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes in Fund Balances - General Government and Board of Education Funds

	Fiscal Year Ended June 30,				
	2010	**2011**	**2012**	**2013**	**2014**
Revenues by Source (A):					
Local Taxes (B) (C)	$ 396,301,816	$ 411,827,232	$ 426,266,094	$ 448,604,450	$ 477,577,375
Licenses and Permits	3,280,896	3,383,546	3,618,538	3,733,685	3,860,218
Fines and Forfeitures	3,428,205	2,247,102	2,814,573	3,635,407	2,949,034
Charges for Current Services	37,441,536	37,977,834	38,506,945	40,168,214	39,961,282
Interest and Other Local Fees (D)	27,637,078	48,876,434	30,987,854	21,786,781	17,492,462
State of Tennessee (C)	175,825,747	179,766,277	187,336,085	196,818,513	198,333,974
Federal Government	67,957,022	72,534,385	75,588,613	66,803,134	64,010,618
Payments from Component Unit	27,616,044	26,227,344	39,370,065	35,243,542	35,077,018
Other Governments and Citizens Groups	1,405,430	2,432,957	4,173,386	6,142,056	7,602,563
Total Revenues by Source	$ 740,893,774	$ 785,273,111	$ 808,662,153	$ 822,935,782	$ 846,864,544
Expenditures by Function (A):					
General Government (E)	$ 229,170,432	$ 246,294,952	$ 220,473,608	$ 258,001,076	$ 259,959,253
Education	483,647,070	487,374,999	516,299,828	477,309,655	533,338,188
Debt Service (F)	57,064,599	63,948,148	64,903,265	65,266,901	66,516,777
Capital Projects	22,624,556	8,468,283	8,146,618	69,041,008	53,329,006
Total Expenditures by Function	$ 792,506,657	$ 806,086,382	$ 809,823,319	$ 869,618,640	$ 913,143,224
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (51,612,883)	$ (20,813,271)	$ (1,161,166)	$ (46,682,858)	$ (66,278,680)
Other Financing Sources (Uses):					
Bond/Note Proceeds and Transfers In	$ 71,077,350	$ 59,205,143	$ 60,895,142	$ 51,772,943	$ 91,333,184
Transfers Out	(30,461,037)	(11,893,602)	(43,332,814)	(42,701,025)	(36,402,440)
Total Other Financing Sources (Uses)	$ 40,616,313	$ 47,311,541	$ 17,562,328	$ 9,071,918	$ 54,930,744
Excess Revenues and Other Financing Sources Over (Under) Expenditures	$ (10,996,570)	$ 26,498,270	$ 16,401,162	$ (37,610,940)	$ (11,347,936)
Fund Balance, July 1	158,524,775	147,528,205	174,026,475	190,427,637	150,949,161
Prior Period Adjustment	-	-	-	(1,129,650)	-
Fund Balance, June 30	**$ 147,528,205**	**$ 174,026,475**	**$ 190,427,637**	**$ 151,687,047**	**$ 139,601,225**

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

Notes:

(A) Includes the General, Special Revenue, Capital Projects, Debt Service and Other Funds for the County and the Total Governmental Funds for the Board.
(B) Local taxes includes Real and Personal Property Taxes, Hotel/Motel Taxes and Local Option Sales Tax.
(C) In fiscal year 1988, the Board acquired the City of Knoxville School System through a Countywide consolidation.
(D) Includes interest income, other local revenues, and payments from Component Unit to Primary Government.
(E) General government expenditures include administration, criminal justice, public safety, health, community services, recreation and public works.
(F) Debt Service includes principal and interest expenditures for General Bonded Debt and Capital Outlay Notes.

RETIREMENT SYSTEMS AND PLANS

KNOX COUNTY AND BOARD OF EDUCATION

County and Board employees are covered by a variety of retirement plans. These plans fall into two categories - defined contribution and defined benefit plans. The majority of County and Board employees participate in a *defined contribution plan*. Those not included in the defined contribution plan are: certificated teachers covered under the Board's Article 11 Defined Benefit Plan for former Knoxville City School teachers; all certificated County school teachers; certain non-certificated employees who elected not to transfer to the defined contribution plan; and sworn officers in the Sheriff's Office who elected to transfer to the Uniformed Officers Pension Plan (the "UOPP") as of July 1, 2007, plus the sworn officers who were hired between July 1, 2007 and December 31, 2013. The UOPP was closed to new members effective January 1, 2014. County certificated school teachers participate in the State Retirement Plan for Teachers as administered by the Tennessee Consolidated Retirement System (TCRS). Certain County Officials also participate in this plan.

The State of Tennessee provides benefits for participants in the TCRS, a multiple-employer Public Employee Retirement System (PERS). In a multiple-employer PERS, all risks and costs are shared proportionately among the participating employers. A single actuarial valuation is computed for the TCRS as a whole and all participating employer groups make payments to the TCRS based on a predetermined contribution rate. However, as the TCRS prepares a separate financial report on its multiple-employer defined benefit plan and since the County and the Board retain no investment risk associated with the County's defined contribution plan, the operations and activities of these plans are not included in the County's reporting entity, and are, therefore, not included in the accompanying financial statements.

The four defined contribution plans and the three single employer defined benefit plans are part of the County's financial reporting entity and are included in the accompanying financial statements. The operations of the closed Knox County Employee Benefit System and the UOPP (County DB Plans), the County's Asset Accumulation Plan, Voluntary 457 Plan, and the Sherriff's Total Accumulation Retirement Plan (County DC Plans) and the County's Medical Retirement Defined Contribution Plan (Medical Retirement DC Plan) are recorded as County pension trust funds. The operations of the Board's Certificated Teacher's Defined Plan (Teacher's DB Plan) are recorded in the Board's pension trust fund.

See the appropriate Notes to the financial statements in Appendix C-2 for a detailed description of the plans.

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 more than 5,400 service industries.

Forbes magazine in 2014 listed Knoxville as the fifth most affordable city in America based on housing prices, living costs and the consumer price index. 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 11,702 businesses and the MSA had 17,786 businesses operating in 2013. In 2013, 1,982 building permits totaled $566,337,000. There were 614 industrial buildings totaling over 32.9 million in square feet in 2014. The vacancy rate for these buildings was 16.4%. The County had 386 manufacturing facilities in 2013 and the MSA had 767 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 2014.

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.

RETAIL SALES
(In thousands)

Year	Knox County
2005	$8,202,638
2006	8,910,315
2007	9,181,773
2008	8,693,886
2009	7,963,468
2010	8,057,407
2011	8,661,782
2012	8,926,164
2013	8,931,454

Source: Knox County Metro Planning Commission 2014, the Tennessee Department of Revenue and the Tennessee Department of Economic and Community Development.

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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
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
2013	1,982	566,337,000

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.

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. In Bradley County the $2.4 billion *Wacker Polysilicon* plant will create 650 jobs to produce silicon used for the solar energy industry. It is expected to be completed in 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 almost finished 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.

EMPLOYMENT

For the month of November 2014, the unemployment rate for Knoxville stood at 5.9% with 83,500 persons employed out of a labor force of 88,770. For the month of November 2014, the unemployment rate for Knox County stood at 5.1% with 215,640 persons employed out of a labor force of 227,210.

The Knoxville MSA's unemployment for November 2014 was at 5.3% with 337,860 persons employed out of a labor force of 356,850. As of November 2014, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 5.8%, representing 490,350 persons employed out of a workforce of 520,600.

Unemployment

	Annual Average 2009	Annual Average 2010	Annual Average 2011	Annual Average 2012	Annual Average 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 2013:

Industry	Employment Number	Percentage
Goods Producing	**54,129**	**15.4%**
Agriculture/Forestry/Fishing/Hunting	996	0.3%
Construction	15,791	4.5%
Manufacturing	37,108	10.6%
Natural Resources/Mining	234	0.1%
Service Providing	**297,599**	**84.6%**
Accommodation /Food Services	33,977	9.7%
Administrative/Support/Waste Management	26,100	7.4%
Arts/Entertainment/Recreation	3,035	0.9%
Educational Services	34,639	9.8%
Finance/Insurance	13,490	3.8%
Health Care/Social Assistance	50,502	14.4%
Information	5,907	1.7%
Management of Companies/Enterprises	5,233	1.5%
Other Services (excludes Public Administration)	10,093	2.9%
Professional/Scientific/Technical Services	23,244	6.6%
Public Administration	10,013	2.8%
Real Estate/Rental/Leasing	3,914	1.1%
Retail Trade	46,340	13.2%
Transportation/Warehousing	11,504	3.3%
Utilities	2,312	0.7%
Wholesale Trade	17,296	4.9%
TOTAL	**351,728**	**100.0%**

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

	2009	**2010**	**2011**	**2012**	**2013**
National	$39,379	$40,144	$42,332	$44,200	$44,765
Tennessee	$34,439	$35,426	$37,151	$39,002	$39,558
Knox County	**$36,341**	**$37,367**	**$39,602**	**$40,972**	**$41,533**
Index vs. National	92	93	94	93	93
Index vs. State	106	105	107	105	105
Knoxville MSA	**$33,723**	**$34,714**	**$36,586**	**$37,997**	**$38,506**
Index vs. National	86	86	86	86	86
Index vs. State	98	98	98	97	97
Knoxville-Sevierville-Harriman CSA	**$32,548**	**$33,476**	**$35,223**	**$36,557**	**$37,039**
Index vs. National	83	83	83	83	83
Index vs. State	95	94	95	94	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

Total Year	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 50 elementary (including primary and intermediate), 14 middle, 15 high schools, and 10 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 59,516, while the system employed 3,927 teachers. In addition to public education, there are 52 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 2014 enrollment of more than 27,410 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 2014 total enrollment reached 1,348 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 2013 was listed as 10,836. 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 2014 enrollment was 5,832 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 2012 enrollment was 1,458 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 was acquired by Tennova in the summer of 2014 and will remain named Lakeway Regional Hospital in Morristown, TN. 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.

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 1,328,129.

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 2014 the Daily Circulation was more than 79,086 readers and Sunday Circulation was 106,017 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 six television stations including four national television networks, one public broadcasting service and one independent station.

There are 19 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 180 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 9.3 million visitors in 2013, 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. In 2011 it was announced a partnership with Starbucks to sell individual coffee packs of the Starbucks brand coffee. 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. 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. An $8 million coffee roasting equipment was installed and coffee silos were built in 2009. Green Mountain Coffee Company built 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. 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 resulted 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 resulted in 250 new jobs when completed 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 been completed in 2014 on a $119 million proton therapy center in the East Tennessee Healthcare Center. ProNova, a division of Provision Health Alliance, installed three cyclotron parts for its compact proton therapy system. The two-room ProNova SC360 system uses patent-pending superconducting magnet technology to treat cancer patients. It will be the first in the world to treat patients in this manner. The system is small and more cost effective than traditional proton therapy systems. The system is expected to be on line in December of 2014, and after testing should be treating patients in 2016.

The development is situated on 120 acres in the 90,000-square-foot facility Dowell Springs Business Park, a central location to physicians, hospitals, and area residences. 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.

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.

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.

NORTH KNOX COUNTY

WS Packaging Group, Inc. WS Packaging opened a new $43 million expansion in 2014 of its current operations by opening a new location in the PBR building in northwest Knox County. The expansion increased operations and consolidated its Knoxville facilities. The expansion brough 231 new jobs.

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 early 2015.

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.

DOWNTOWN BUSINESS DISTRICT

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 began 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 created 203 jobs for the company and was operational in 2014.

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.

In 2014 750 employees voluntarily retired or resigned from TVA. Another 1,000 vacant positions were eliminated to result in the largest staff reduction that the federal utility has undergone in more than 20 years. The goal is to reduce $500 million in annual expenses in 2015.

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.

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 2015. 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.

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.

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.

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 was completed 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 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 was in 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

KNOX COUNTY, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

June 30, 2014

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of Knox County for the fiscal year ended June 30, 2014 which is available upon request from the County.

KNOX COUNTY TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2014

Tim Burchett

Knox County Mayor

KNOX COUNTY, TENNESSEE
Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2014
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Introductory Section

OFFICIAL SEAL XVI AGRICULTURE COMMERCE 1792 KNOX COUNTY, TENN.

OFFICE OF COUNTY MAYOR TIM BURCHETT

400 Main Street, Suite 615, Knoxville, TN 37902

December 30, 2014

To the Board of Knox County Commissioners and the Citizens of Knox County, Tennessee:

The Comprehensive Annual Financial Report (CAFR) of Knox County, Tennessee (the County) for the fiscal year ended June 30, 2014, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentations, including all disclosures, rests with the County. County management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that has been established for that purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in financial position of the various funds of the County and its component units. All disclosures necessary to enable the reader to gain an understanding of the County's activities have been included.

The introductory section includes this transmittal letter, the County's organization chart, and a list of principal officials. The financial section includes Management's Discussion & Analysis (MD&A), the basic government-wide and fund financial statements, and notes to the financial statements. The Financial Section also includes Required Supplementary Information and other supplemental information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The reader is directed to the MD&A for a narrative introduction, overview and analysis of the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Knox County's MD&A can be found immediately following the report of the independent auditors.

State law requires that the County obtain an annual audit of its books and records. The independent audit performed by Pugh & Company, P. C., Certified Public Accountants, has been obtained to fulfill that requirement. The auditors have issued an unqualified ("clean") opinion on the County's financial statements for the year ended June 30, 2014. The independent auditors' report is located at the front of the financial section of this report. The County is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, as amended, and U.S. Office of Management and Budget's Circular A-133, *Audits of State and Local Governments.* Information related to this single audit, including schedules of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, is included in a separately issued report.

county.mayor@knoxcounty.org • phone 865.215.2005 • fax 865.215.2002

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the County) as well as 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 government-wide financial statements to emphasize 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 Knox County Board of Education (the Board), Knox County Emergency Communications District (the District), The Development Corporation of Knox County (the Corporation), and the Knox County Railroad Authority (KCRA) are reported as discretely presented component units. The County and its component units provide a full range of services including, but not limited to, the construction and maintenance of highways, streets and infrastructure, public health and welfare, police protection, emergency telephone services, elementary and secondary education, community services, sanitation services, and recreational and cultural events. Because of the close relationship between the County and the Board and the fact that the Board does not issue financial statements separate from those of the County, several of the supplemental schedules and other financial information have been consolidated to more properly reflect the joint activities of the County and the Board.

GOVERNMENTAL STRUCTURE

The County has operated under a County Mayor/County Commission form of government since September 1, 1980, and has been under a Home Rule Charter (Charter) since September 1, 1990. Policymaking and legislative authority are vested in the County Mayor (the executive branch of the County) and the County Commission (the legislative branch of the County). The County Commission is responsible for, among other things, passing ordinances, adopting the budget and appointing committees. The County Mayor, elected at-large for a four-year term, is responsible for carrying out the policies and ordinances of the County Commission, overseeing the day-to-day operations of the government and appointing the heads of many of the County's departments.

OFFICE OF THE COUNTY MAYOR

Knox County Mayor Tim Burchett took office on Sept. 1, 2010, shortly after the start of the 2010-2011 fiscal year. Since taking office, Mayor Burchett continues to focus on providing high-quality, efficient service to our citizens at a savings to taxpayers. Some of the achievements of Mayor Burchett’s tenure to date include:

- General Fund balance has increased by $14.2 million from the beginning of FY 2011 to the FY 2014 end of year.
- Restored 177 hours of operation per week within our public library system with no additional impact on the budget.
- Increased purchasing transparency by implementing first-in-the-state online, searchable databases for E-commerce card and purchase order transactions.
- Ensured more than $2 million in savings over four years by utilizing public-private partnerships to provide pediatric care, as well as translation services for Knox County Health Department clients.

- Implemented mileage reimbursement at the standard federal rate in lieu of monthly travel allowances, which saved approximately $78,000 annually.
- Sold unnecessary county vehicles, resulting in thousands of dollars in cost-avoidance savings through reduced maintenance, fuel and liability costs.
- Reduced Knox County's debt obligations by over $58 million since taking office.
- Identified a funding mechanism to use one-time dollars to pay for the construction of a new Carter Elementary School, therefore eliminating a potential $8 million in traditional bond interest payments. The school opened on time for the 2013-2014 school year.
- Sold the Solway greenwaste facility property for $2 million; prior to the sale, the upkeep on the property cost taxpayers an average of $245,000 annually.
- Engaged a committee of private sector experts to help advise Mayor Burchett on how to address the growing cost of employee health benefits in an attempt to bring those benefits more in-line with the private market; many of the committee's suggestions were implemented and the changes resulted in projected savings of $1.7 million.
- Provided, from a combination of revenue increases and sustainable savings, 3 percent employee pay increase, beginning January 1, 2012.
- Supported the Halls and Northeast Knox greenway projects, as well as the Knox-Blount greenway project.
- Moved forward with Clayton Park and Plumb Creek Park projects.
- Constructed and opened the Concord "Pet Safe" Dog Park.
- Restored the stream bank along Beaver Creek at Halls Community Park.
- Made parking improvements at the Knox County Sports Park.
- Saved the building that formerly was used for the Oakwood Elementary School. The condition of the building had deteriorated, and its future was uncertain. The County worked with developers and others in the private sector to make needed upgrades and repairs to the facility, which will be used for senior housing. This will provide for additional services to the community and place the property back on the County tax roll.
- Saved Historic Knoxville High School, which is now being redeveloped for private use.
- Sold State Street properties, which are now under development as a mixed-use residential project known as Marble Alley.

Legislative Initiatives

Impact of State Funding: Knox County, like the other 94 county governments in Tennessee, receives significant support from state-shared revenues -- mainly in the form of education and highway dollars. Because of this dependence, the legislative activities of the Tennessee General Assembly are carefully monitored. Thanks to the continuing leadership of our Governor, the State again passed a responsible, balanced budget. We at the local level are thankful for the fiscal responsibility demonstrated by the state budget. A healthy state budget means more stable and predictable revenues for all cities and counties.

Capital Improvement Initiatives

As evidence of the County's commitment to build the facilities necessary to serve the citizens of Knox County and promote economic development within the County and region, the County Commission adopted the Knox County Capital Improvement Plan. At the recommendation of the County Mayor, the five-year capital plan represents a road map of anticipated major capital projects. It does not represent appropriations and is subject to annual revisions or modifications. These individual projects will be primarily funded through general obligation bonded debt.

During the year, the County and the Board expended significant resources in the following major construction/renovation projects in accordance with the County's Capital Plan:

General Construction/Renovation:

- General Project Management
- Various Library Upgrades
- Juvenile Justice Center Expansion
- City County Improvements/Developments
- Many Parks and Greenways Improvements

Road Construction/Improvements:

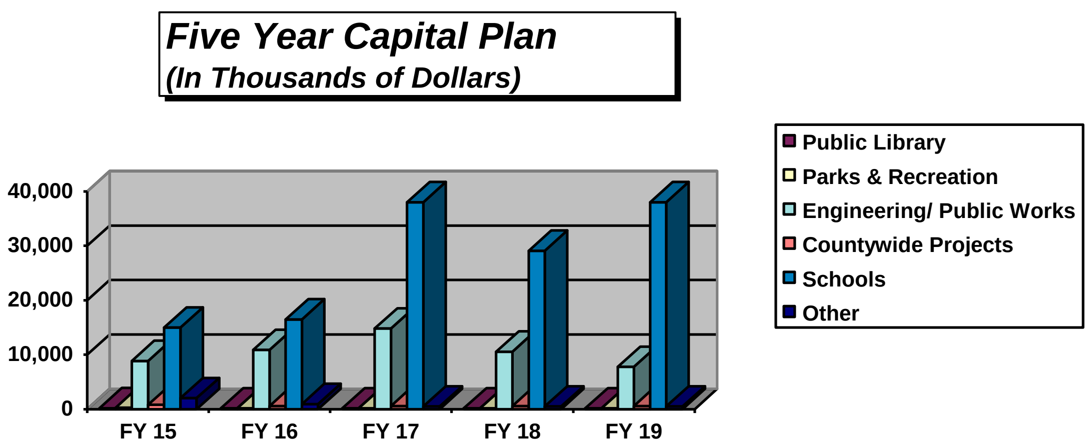
- Bridge Improvements
- Parkside Drive Extension
- Bob Gray Roundabouts
- General Road Improvements
- State Aid Road Projects

School Construction/Renovation:

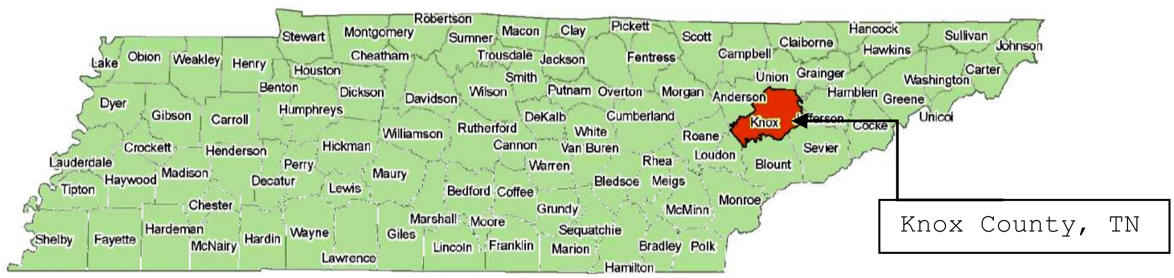
- Physical Plant Upgrades
- Energy Management Project
- Northshore Elementary School
- CTE Magnet High School

The following summarizes the capital improvement plan net of estimated allocations for project schedule variances (amounts expressed in thousands):

Project Description	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	TOTAL
Libraries	$ 200	$ 150	$ 150	$ 150	$ 150	$ 800
Countywide Projects	811	600	600	600	600	3,211
Parks & Recreation	300	150	150	150	150	900
Engineering & Public Works	8,845	10,875	14,820	10,570	7,770	52,880
Building Improvements & Other	2,034	951	520	500	500	4,505
Schools	14,980	16,500	38,000	29,100	38,000	136,580
Total – Approved Projects	$ 27,170	$ 29,226	$ 54,240	$ 41,070	$ 47,170	$ 198,876



ABOUT KNOX COUNTY



The County is the third most populous county in the State of Tennessee. Located in Middle Eastern Tennessee at the headwaters of the Tennessee River, it is the hub of the areas of East Tennessee, Southeast Kentucky, Southwest Virginia and Western North Carolina. This area encompasses over two million people. The U.S. Census Bureau’s 2012 census demographic population data reported that 441,311 citizens reside within the total land area of approximately 526 square miles that make up Knox County. (See Knoxville-Knox County Metropolitan Planning Commission for additional information regarding population information, demographics, and other information about Knox County.) Knoxville, the County seat, is about 50 miles west of the North Carolina state line.

The City of Knoxville’s 2012 census data was reported at 182,200. It is the largest incorporated municipality in the County. Farragut, the only other municipality in the County, has an estimated population of 20,676. Knoxville has a land area of approximately 104 square miles within its corporate limits and is located on the Tennessee River near the geographic center of East Tennessee.

Manufacturing and Commerce

Located in the northeastern portion of the State, Knox County, along with Anderson, Blount, Campbell, Grainger, Loudon, Morgan, Roane and Union counties, is part of the Knoxville Metropolitan Statistical Area (MSA). Because of its central location in the eastern United States, the County metropolitan area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 600 miles of approximately 40 percent of the population of the United States. For many years the County has been known as one of the South's leading wholesale markets. Based on 2012 estimates, there were approximately 885 wholesale distribution houses, 1,630 retail establishments, and more than 5,400 service industries located in the County.

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

The MSA includes more than 790 manufacturing firms, which produce a large variety of items including medical devices, electronic components, chemicals, manufactured housing, apparel, and automobile parts.

Business Climate

The County has a history of being a regional leader in economic activity. The County offers premier location opportunities for high-technology and precision manufacturing firms. The University of Tennessee, Tennessee Valley Authority and the Oak Ridge National Laboratory help to provide a stable, secure employment base. The Knoxville area is home to many medium-sized manufacturing and distribution operations as well as customer service centers. The Knoxville area boasts a strong and reliable workforce, and low union membership rates. These assets, combined with an excellent location at the intersections of Interstates 40, 75 and 81, make Knox County a great location for any business. The County is also well served by 125 truck lines, two railroads, six airlines, and three local river terminals that provide direct links to the Great Lakes and to the Gulf of Mexico. The Knoxville area continually receives recognition for high quality of life, combining an attractive natural setting with a moderate four-season climate. In addition, the Knoxville area ranks among the nation's top markets for low cost of living. Knoxville ranks as one of the top southeastern urban areas with an index of 89.3 compared to the average of all participating cities of 100. The County has over 6,000 acres of park and recreation space, with approximately 100 miles of greenways and walking trails. The arts and culture are well served, with the Knoxville Symphony, Knoxville Opera Company, Knoxville Museum of Art, and several performing arts organizations, including the Clarence Brown Theater, providing numerous cultural opportunities. Live entertainment includes touring Broadway productions and many concerts at numerous venues throughout the area, including the historic, beautifully renovated Tennessee and Bijou theaters.

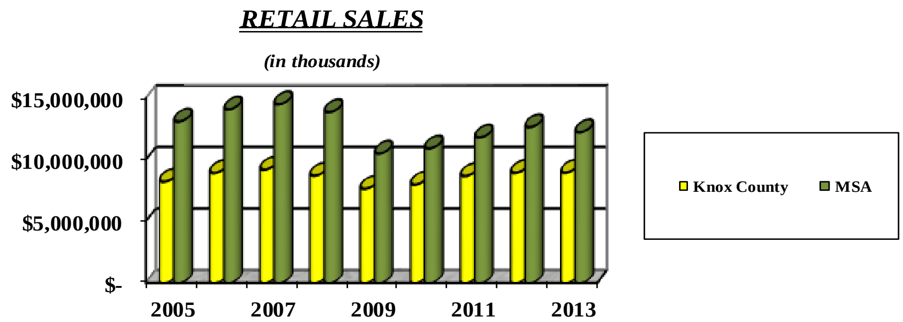
Industrial Investment

The Knoxville MSA has been recognized nationally as a leading location to live and do business. Commerce and industry vary from the media success of Scripps Television Networks (HGTV, DIY, Food Network, GAC, and Travel), to Sysco Corporation's (largest food service marketer and distributor in North America) regional warehouse and distribution center. In addition, many other local companies are recognized as national and global leaders, including Clayton Homes, Brunswick Corporation, Green Mountain Coffee, Bush Brothers, Pilot/Flying J Travel Centers, and Ruby Tuesday.

The area is also gaining a reputation as a prime location for corporate headquarters. High profile companies headquartered here in the MSA include the Tennessee Valley Authority, Jewelry Television, AC Entertainment, DeRoyal Industries, PetSafe/Radio Systems Corporation, and Regal Entertainment. Knox County has 7 business parks and a Technology Corridor to meet a wide range of corporate facility needs. In 2014, approximately 3,003 new jobs were created in Knox County among the more than 4,704 jobs created across the metro area.

Commercial Development

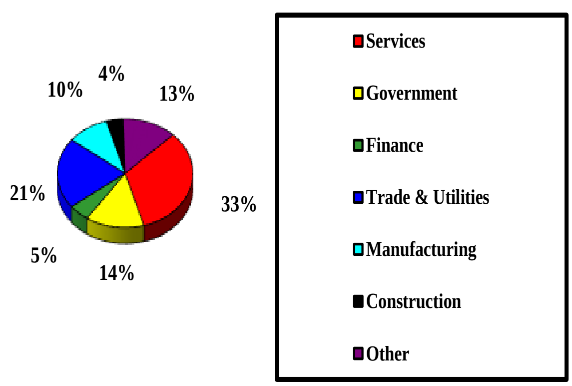
Four regional shopping malls and nearly 200 shopping centers and factory outlets meet the retail needs of Knox County citizens and visitors. Knox County has traditionally been the regional hub of the MSA. The 2013 retail sales in the MSA grossed over $13.2 billion, with approximately 67% of that total generated in Knox County.



Tourism

Although industry frequently is considered the core of an economic base, secondary and tertiary activities also make important contributions to economic development. The convention and tourism business contribute to the County's economic base by drawing income into the region, resulting in employment opportunities as well as investment opportunities in tourist-related facilities. The area draws thousands of enthusiasts every year for University of Tennessee sporting events, and minor league hockey and baseball are also available for sports fans. Opportunities for outdoor recreation are plentiful, with parks and recreation activities throughout the County and in the nearby Great Smoky Mountains National Park.

Non-Agricultural Employment



Knox County has demonstrated a very healthy diversity in employment. Services and trade are the two largest employment sectors in the County metropolitan area, followed by Government.

Unemployment

Historically, Knox County's unemployment rate has been low relative to the state and national rates. For the month of June 2014, the seasonally unadjusted unemployment rates for the County, state and nation stood at 6.3%, 6.6%, and 6.1%, respectively. The County's rate, while slightly higher than the nation's, reflects a full percentage decrease from the corresponding rate from June 2013, and the state and national rates reflect even larger reductions. These rates indicate improvements in economic conditions across the board.

Per Capita Income

In 2012, Knox County's per capita income was $41,127. This represents an increase of 5.7 percent compared to 2011.

FINANCIAL INFORMATION

Mayor Tim Burchett assumed the office of Knox County Mayor on September 1, 2010. The Mayor, during his mayoral campaign and throughout his first term, has expressed that priorities of his administration including keeping taxes low, and reducing the County's bonded debt levels. Therefore, the County has faced the challenge of maintaining essential services during the current difficult economy, while reducing the levels of debt. The approach taken has been based on careful budgeting and management of revenues and expenditures in both the annual budgets and the long-term budget for capital planning.

For the annual budget process, the FY 2014 adopted budget provided for a modest increase (3.6%) in General Fund expenditures. Most of the budgeted increase was for needed additional expenditures for public safety, combined with additional transfers and payments to other funds, primarily for schools. Education funding, provided for in the General Purpose School Fund (the general fund for the Board of Education component unit) has also increased by more than $18 million. The increases in budgeted funds for public safety and education reflect the Mayor's commitment to ensure that adequate funding is provided for these essential functions. By careful budgeting of expenditures in the overall budget, other essential services to Knox County citizens (road maintenance, parks and recreation, library services, etc.) have been maintained at appropriate levels. Revenues have been estimated conservatively, and actual results exceeded the budget. Much of this was due to local taxes, primarily property taxes, that exceeded originally budgeted estimates.

The planned reduction in the County's bonded debt levels are dependent on both the levels of debt service payments and the amounts of new debt added. Debt service expenditures are provided for in the County's annual budgets, and the amounts of debt retirement have been provided for based on the required upcoming debt service. The amount of new debt to be added is dependent on the amount needed for projects approved in the County's adopted Capital Improvement Plan, which covers the upcoming five-year period. This funding mechanism provides for a matching of debt service expenditures with the useful lives of the assets acquired with the bond proceeds. In order to reduce the overall levels of bonded debt, it has been necessary to reduce the approved projects to be funded from debt proceeds. This reduction is being accomplished. The total bonded debt as of

June 30, 2014 of $632,397,204 is $58,789,264 less than fiscal year 2011. This change resulted from the payments of bonded debt in the current year, combined with the deferral of the issuance of new debt approved based on the FY 2014 Capital Improvement Plan until subsequent to year end. Additional reductions are planned in future years to accomplish the Mayor's stated goal of reducing County bonded debt.

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Knox County Government for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the eighteenth consecutive year that the government 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 present report continues to meet the program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The County has also received, for the nineteenth consecutive time, the GFOA Award for Distinguished Budget Presentation for its 2015 Annual Operating Budget. In qualifying for the award, the County's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

Acknowledgments

The preparation of the CAFR was made possible by the dedicated service of the Department of Finance. Those involved have our sincere appreciation for the individual and collective contributions made in the preparation of the report. Jack Blackburn, Jennifer Bodie, Steve Campbell, Jeff Clark, Dora Compton, Susan Corlew, Patti Galvan-Balzer, Jason Lay, Peter Lin, and Melanie Wilck all went above and beyond the call of duty to design and generate this report. Thank you very much for your professional dedication in this effort. Thank you to the entire Department of Finance for your efforts to "get the job done well," every day. You serve the citizens of Knox County very well.

Recognition and appreciation are also extended to the County Commission and the Board of Education for their continued dedication in planning and conducting the operations of the County and the Board in a financially responsible and progressive manner.

Sincerely,

Tim Burchett
Knox County Mayor

Chris Caldwell
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Knox County

Tennessee

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

KNOX COUNTY, TENNESSEE
ROSTER OF PUBLICLY ELECTED OFFICIALS
As of June 30, 2014

Elected Officials:

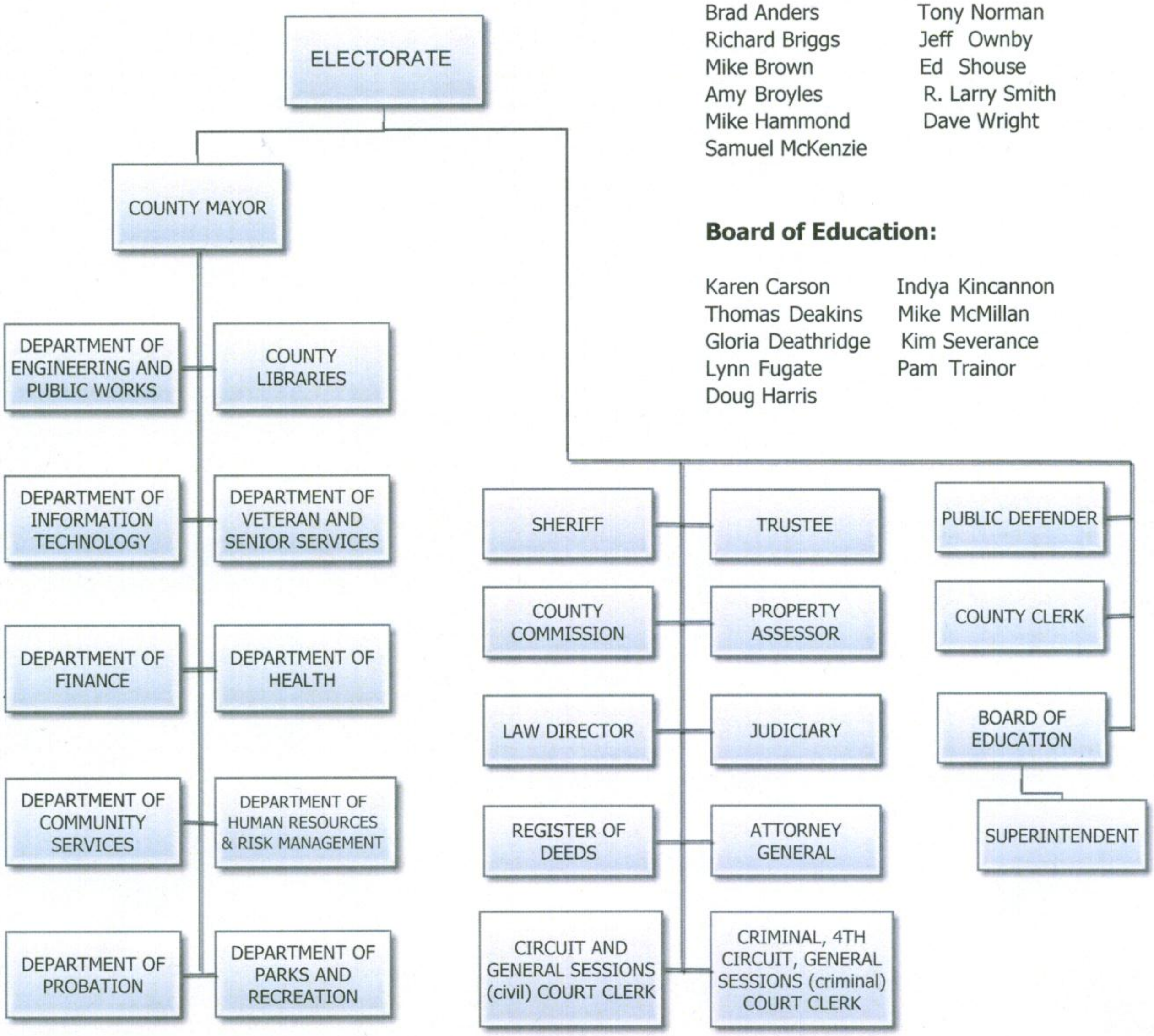
Assessor of Property - Phil Ballard
Attorney General - Randall Nichols
Circuit/General Sessions (civil) Clerk - Cathy Shanks
County Clerk - Foster D. Arnett, Jr.
County Mayor - Tim Burchett
Criminal/Fourth Circuit/Sessions (criminal) Clerk - Joy McCroskey
Law Director - Richard Armstrong
Public Defender - Mark Stephens
Register of Deeds - Sherry Witt
Sheriff - Jimmy " J.J." Jones
Trustee - Craig Leuthold

Board of Commissioners:

Brad Anders
Richard Briggs
Mike Brown
Amy Broyles
Mike Hammond
Samuel McKenzie
Tony Norman
Jeff Ownby
Ed Shouse
R. Larry Smith
Dave Wright

Board of Education:

Karen Carson
Thomas Deakins
Gloria Deathridge
Lynn Fugate
Doug Harris
Indya Kincannon
Mike McMillan
Kim Severance
Pam Trainor



Financial Section

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PUGH & COMPANY, P.C.
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and County Commissioners of
Knox County, Tennessee
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund, fiduciary fund types and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the County'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 Development Corporation of Knox County ("TDC"), a discretely presented component unit reported in the financial statements of the County. The TDC comprises 2.10% of assets, 6.26% of net position and .10% of revenues. We did not audit the financial statements of the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit reported in the financial statements of the Knox County Board of Education (the "BOE"). The Partnership comprises 2.25% of assets, .32% of net position and 1.15% of the revenues of the BOE. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the TDC and the Partnership 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 discretely presented component units, each major fund, fiduciary fund types and the aggregate remaining fund information of the County and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison statement for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 xv through xxix and the schedules of funding progress and employer contributions on pages 94 through 96 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 County's basic financial statements. The introductory section, supplemental section which includes the combining and individual nonmajor fund financial statements, Component Unit - Board of Education section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplemental and the Component Unit – Board of Education sections as listed in the table of contents is the responsibility of management and was derived from and relates 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in the introductory and statistical sections as listed in the table of contents has 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 it.

Other Reporting Required by Government Auditing Standards and OMB Circular A-133

In accordance with *Government Auditing Standards*, we have also issued, in a separately bound document, our report dated December 29, 2014, on our consideration of the County'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 County's internal control over financial reporting and compliance. In addition, we have also issued, in the same bound document, our report dated December 29, 2014 on the County's compliance for each major federal program, internal control over compliance and the schedules of expenditures of federal and state awards as required by OMB Circular A-133 and the Tennessee Comptroller of the Treasury.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 29, 2014

As management of the Knox County Government, we offer readers of the Knox County Government's financial statements this narrative overview and analysis of the financial activities of the Knox County Government for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-x of this report. All amounts, unless otherwise indicated, are expressed in dollars.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the governmental activities of the Knox County Primary Government exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $53,123,153 (net position). This amount includes a negative $247,035,437 of unrestricted net position. The negative unrestricted net position amount resulted from the process by which the Primary Government issues debt on behalf of the Board of Education component unit.

- The Primary Government's change in net position for its governmental activities was a reduction of $13,726,057. Total net position for the Primary Government (governmental and business-type activities) decreased by $13,801,672 in 2014.

- At June 30, 2014, the Primary Government's governmental funds reported total fund balances of $115,785,114, an increase of $7,880,393 for the fiscal year.

- The Knox County Government's total bonded debt at the end of the year totaled $632,397,204, an increase of 0.1 percent compared to the prior year total of $631,616,485. Of the current year total, $376,887,364 pertains to County general government activities and $255,509,840 pertains to the Knox County Board of Education component unit. Bond principal paid in FY 2014 totaled $38,294,281 and debt issued totaled $39,075,000.

- The County Property Tax Rate was $2.32 for the fiscal year. This is a reduction compared to the 2013 rate of $2.36, as a result of reappraisal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Knox County Government's basic financial statements. The Knox County Government's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Knox County Government's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the Knox County Government's assets, liabilities, and deferred inflows/outflows of resources with the difference between the two 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 Knox County Government is either improving or deteriorating. 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 event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Knox County Government that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Knox County Government include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. Knox County Government reports business-type activities for the operations of the Three Ridges Golf Course enterprise fund.

The government-wide financial statements include the Knox County Government itself (known as the primary government), and legally separate entities for which Knox County Government is financially accountable (component units): the school district – the Board of Education (The Board), a legally separate Emergency Communications District (The District), The Development Corporation (The Corporation), and the Knox County Railroad Authority (The Authority.) Financial information for these component units is reported separately from the financial information presented for the primary government itself. The District and Corporation issue separate financial statements. The Board and the Authority do not issue separate financial statements. The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Knox County Government, 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 Knox County Government 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the 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 reconciliations to facilitate this comparison between governmental funds and governmental activities.

The Knox County Government maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Constitutional Officers Special Revenue Fund, Capital Projects Public Improvement Fund and the Debt Service Fund, all of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Knox County Government adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund for information in the Basic Financial Statements section of the report. For a more detailed demonstration of budgetary compliance, the County also issues a separate Budget Report to Citizenry, which is available online at http://www.knoxcounty.org/finance/budget.php.

The basic governmental fund financial statements can be found on pages 3-7 of this report.

Proprietary funds. There are two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Knox County Government established an enterprise fund in 2009 to account for the operations of the Three Ridges Golf Course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Knox County Government's various functions. Knox County Government uses internal service funds to account for its fleet service operations, mailroom operations, employee benefits activities (including retirement), self-insurance activities, building operations, technical support operations, self-insurance healthcare activities, and fleet capital leasing activities. Because these services benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The eight internal service funds are combined into a single, aggregated presentation in the basic proprietary fund financial statements, along with the presentation of the Three Ridges Golf Course enterprise fund. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 8-10 of this report.

Fiduciary funds. 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 Knox County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 11-12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-93 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Knox County Government's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 94-96 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and the individual fund statements are presented on pages 97-135. Combining and individual fund statements for proprietary funds can be found on pages 136-157 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Knox County, Tennessee
Net Position - Primary Government -- Governmental Activities

	June 30, 2014	June 30, Restated 2013
Current and Other Assets	$ 336,902,146	$ 303,456,217
Capital Assets	610,249,972	617,025,295
Total Assets	947,152,118	920,481,512
Deferred Outflows of Resources	22,993,020	23,157,744
Long-term Liabilities Outstanding	658,196,962	644,516,582
Other Liabilities	91,331,483	86,408,285
Total Liabilities	749,528,445	730,924,867
Deferred Inflows of Resources	167,493,540	145,865,179
Net Position:		
Invested in Capital Assets	284,908,028	290,649,727
Restricted	15,250,562	9,075,310
Unrestricted (Deficit)	(247,035,437)	(232,875,827)
Total Net Position	$ 53,123,153	$ 66,849,210

Governmental Net Position. Note: The fiscal year 2013 amounts shown in the comparative schedules of net position and changes in net position have been restated to provide for a pro forma presentation reflecting the effects of GASB Statement No. 65, adopted in 2014. The adoption of the statement resulted in the reclassification of items previously reported as liabilities (unearned revenues for property taxes and unamortized amounts on debt refundings) as deferred outflows of resources. These changes did not affect net position as previously reported. GASB Statement No. 65 also requires that debt issuance costs, which previously had been reported as assets in the government-wide financial statements, be expensed as incurred. As a result, the statements have been restated to remove the remaining debt issuance costs as previously reported, resulting in a reduction in net position as of June 30, 2013 of $4,156,078. In addition, an adjustment to increase the liability for workers' compensation resulted in an additional decrease in net position of $4,220,569 from the amount previously reported.

Current and other assets consist primarily of receivables, mostly taxes, and cash and investments. By far the largest portion of the Knox County Government's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any outstanding related debt used to acquire those assets. The Knox County Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Knox County Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The reasons for changes in capital assets are discussed later in this section.

An additional portion of the Knox County Primary Government's governmental activities net position represents resources that are subject to external restriction on how they may be used. These include restricted for Debt Service $69,953 (last year $110,208) Capital Projects $7,068,211 (last year $1,471,972). Other restrictions include Public Health and Welfare $2,985,546, Public Safety $2,663,638, and Other Purposes $2,463,214 (last year the latter three combined totaled $7,493,130). The remaining balance of unrestricted net position deficit of $247,035,437 reflects a negative change of $14,159,610 compared to the restated prior year unrestricted net position deficit of $232,875,827. The reasons for the negative change in net position are discussed in the section describing governmental activities.

The unrestricted net position balance represents funds that would normally be available to be used to meet the government's ongoing obligations to citizens and creditors. The primary reason for the deficit balance of $247,035,437 as of June 30, 2014 results from the County's recognition of long-term debt issued on behalf of the Knox County Board of Education. Because the Board cannot by law issue its own debt, the County issues debt on behalf of the Board, and pays the proceeds (net of the effects of bond premiums and issuance costs) to the Board. The Board then uses these proceeds for its capital purposes, and records the capital assets on its own Statement of Net Position. Therefore, the assets are shown on the Board's Component Unit financial statements, whereas the related debt is shown on the County's Primary Government financial statements. At June 30, 2014, the amount of bonds, capital leases and loans issued by the County on behalf of the Board still outstanding was $291,464,178, compared to the prior year amount of $274,974,399. If these liabilities were shown with the Board's amounts to match the capital assets, the County would have had positive unrestricted net position of its governmental activities of $44,428,741 in 2014 and $42,098,572 in 2013 (which includes the effects of the restatement).

At the end of the current fiscal year, positive balances in total net position are reported for the total reporting unit, for the primary government and for each of the separate component units. The same situation held true for the prior fiscal year. The total reporting unit's net position decreased by $20,403,135 during the current fiscal year, compared to an increase of $26,159,352 (restated) for the prior year. For the total reporting unit, the amount of the decrease in net position is attributable to the underlying negative combined change in net position of the primary government and of the Board of Education component unit, totaling $22,998,549, combined with the positive change in net position of the nonmajor component units of $2,595,414 in the aggregate. The results for the Board, an overall negative change in net position of $9,196,877, resulted from increases in expenses for education purposes of $33,650,525, which were largely but not entirely offset by increases in the Basic Education Program funding from the State, tax revenues, and payments from the primary government. See the next section for discussion of factors driving the results of the primary government's change in net position.

Governmental activities. Governmental activities decreased the Knox County Primary Government's net position by $13,726,057 in 2014. This amount results from the overall realization of certain revenues, primarily state shared revenues and investment earnings, in amounts lower than in the prior year, combined with additional payments to component units.

The following table shows the changes in net position for the Primary Government-Governmental Activities for the fiscal years ended June 30, 2014 and 2013.

Knox County Primary Government
Governmental Activities

	2014	Restated 2013
Program Revenues:		
Charges for Services	$ 41,199,716	$ 41,555,546
Operating Grants and Contributions	15,068,332	14,465,074
General Revenues		
Local Taxes	186,395,268	185,958,839
Payments from Component Units	32,444,501	32,601,668
Other General Revenues	18,998,511	26,465,423
Total Revenues	294,106,328	301,046,550
Expenses:		
Finance and Administration	30,943,555	30,903,236
Administration of Justice	23,299,693	22,734,428
Public Safety	77,888,346	73,855,455
Public Health and Welfare	33,693,888	32,492,041
Social and Cultural Services	20,440,481	19,565,367
Other General Government	24,549,479	23,311,422
Engineering & Public Works	25,155,488	23,555,325
Debt Service	25,205,819	26,688,921
Payments to Component Units	46,655,636	36,004,093
Total Expenses	307,832,385	289,110,288
Change in Net Position	(13,726,057)	11,936,262
Net Position, July 1, restated	66,849,210	54,912,948
Net Position, June 30, restated 2013	$ 53,123,153	$ 66,849,210

Program revenues include charges for services, which consist of various items such as fees for services, licenses, and fines. Charges for services relate to numerous and various government functions. These amounts decreased by $355,830 compared to the prior year. These items represent an aggregation of numerous transactions, and there is not a concentration of revenues in any area. These tend, therefore, to be relatively stable from year to year. Program revenues also include operating grants, which consist largely of grants received from the federal and state governments. These amounts increased by $603,258 compared to the prior year. These revenues relate to numerous amounts received for various government functions. Both the 2014 and 2013 levels are similar, and in line with expectations based on activities in these functions.

General Revenues include local taxes, payments from component units, and other general revenues. Local taxes increased by $436,429 compared to the prior year, a minor change reflecting unchanged tax rates (except for the effects of reappraisal) and relatively stable overall tax bases. Payments from component units primarily consist of the amounts received for the Board for the portion of debt service related to the debt obligations that the Primary Government incurred on behalf of the Board. Remaining general revenue consists primarily of state shared revenues, investment revenue, and miscellaneous. The decrease from 2014 to 2013 in this category from the prior year of $7,466,912 was primarily attributable to decreased investment earnings. In 2014, investment earnings were $2,248,955. The 2013 corresponding total was $7,779,556, for a net change of $5,530,601. The largest component of investment revenue in each year related to the change in fair value of an interest rate swap accounted for as an investment derivative instrument. In 2014, the change in fair value was a negative $187,744, whereas the corresponding amount in 2013 was a positive $5,053,927, resulting in a difference between the years of $5,241,671. Although generally accepted accounting principles require recognition of this amount in the statement of activities, it should be noted that the County intends to hold the interest rate swap until maturity, and therefore the County has not realized any gain or loss in financial assets related to this amount.

Expenses for the Primary Government are categorized into functional areas. Total expenses increased by $18,722,097 compared to the prior year. This change was largely attributable to the increase in the amounts paid to component units of $10,651,543. The amounts paid to the Board are primarily the result of debt issued by the County on behalf of the Board. As previously noted, the County issues debt on behalf of the Board for capital purposes because the Board may not incur its own debt obligations. Therefore, the net proceeds of such debt issues are paid to the Board, thus resulting in an expense to the Primary Government. Expenses in other categories were generally comparable to 2013 amounts and in line with expectations. Increases totaling $5,633,054 were experienced in the areas of public safety and engineering and public works (mostly for roads), which reflected necessary increases in the cost of providing essential government services.

Proprietary Net Position and Activities-Business-type Activities. Proprietary activities included as business-type activities in the government-wide statements consist solely of the operations of the County's Three Ridges Golf Course, an enterprise fund. These proprietary activities decreased the net position of the primary government by $75,615 in 2014, comprising 0.5% of the total change in net position of the primary government and 0.4% of the change in net position of the total reporting unit. The golf course is supported by user fees: greens fees, cart fees, pro shop and snack bar. The results of operations for the golf course include the effects of depreciation, a noncash expense, totaling $58,090. If the effects of depreciation were removed from the results of operations, the golf course would have had a decrease in net position of only $17,525. Of the ending net position, $453,946 was invested in capital assets, with the remaining amount of $73,842 unrestricted. These amounts reflect the results of ordinary business operations.

Knox County, Tennessee
Net Position-Primary Government-Business-type Activities

	June 30, 2014	June 30, 2013
Current and Other Assets	$ 178,940	$ 225,132
Capital Assets	453,946	503,880
Total Assets	632,886	729,012
Current Liabilities	102,056	120,866
Noncurrent Liabilities	3,042	4,743
Total Liabilities	105,098	125,609
Net Position:		
Invested in Capital Assets	453,946	503,880
Unrestricted	73,842	99,523
Total Net Position	$ 527,788	$ 603,403

Knox County, Tennessee
Primary Government-Business-type Activities

	June 30, 2014	June 30, 2013
Program Revenues:		
Charges for Services	$ 861,989	$ 877,775
Expenses:		
Operating Expenses	934,260	1,124,565
Nonoperating Expenses	3,344	-
Total Expenses	937,604	1,124,565
Change in Net Position	(75,615)	(246,790)
Net Position, July 1	603,403	850,193
Net Position, June 30	$ 527,788	$ 603,403

FINANCIAL ANALYSIS OF THE FUNDS

As noted earlier, the Knox County Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Knox County Government's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Knox County Government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year and to help ensure future stability of governmental operations.

The categories of fund balance are:
Nonspendable fund balance relates to amounts that cannot be spent because they are in a form that is not expected to be converted to cash (e.g., inventories and prepaid items), as well as the long-term portion of certain receivables and the County's investment in joint venture.
Restricted fund balance includes amounts restricted for specific purposes by parties outside of the County (e.g., grantors, other governments) or imposed by law through constitutional provisions or enabling legislation.
Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Commission.
Assigned fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are not restricted or committed.
Unassigned fund balance is the residual balance in the General Fund.

Knox County, Tennessee
Primary Government--Governmental Fund Balances

	June 30, 2014	June 30, 2013
Nonspendable	$ 10,713,849	$ 13,011,776
Restricted	15,250,562	9,075,310
Committed	31,405,405	29,617,875
Assigned	5,388,302	4,747,018
Unassigned	53,026,996	51,452,742
Total Fund Balances	$ 115,785,114	$ 107,904,721

As of the end of the current fiscal year, the Knox County Government's governmental funds reported combined ending fund balances of $115,785,114, an increase of $7,880,393 in comparison with the prior year total of $107,904,721. The majority of the overall increase, $6,816,125, resulted from operations of the County's four major governmental funds. Factors that affected the results for each of those individual funds are discussed below.

The General Fund is the chief operating fund of the Knox County Government. At the end of the current fiscal year, unassigned fund balance of the General Fund was $53,026,996 compared to $51,452,742 last year, an increase of $1,574,254. Total fund balance decreased by $176,735 resulting in total ending fund balance in 2014 of $66,088,523 compared to $66,265,258 in 2013. Total fund balance represents 41.5% of actual expenditures compared to 43.4% last year. The County has adopted a formal fund balance policy calling for the maintenance of a minimum level of unassigned fund balance equivalent to three months (25%) of regular operating expenditures plus transfers out. The County strives to maintain levels exceeding that minimum level in order to provide for unanticipated needs. The actual results reflect the achievement of this goal. Factors that affected the results of operations of the General Fund are discussed further in the following section.

The Debt Service Fund has a total fund balance of $25,668,971, which compares to $24,601,896 in 2013. The majority of the fund balance consists of amounts committed for debt service purposes by County Commission of $21,679,018, compared to the prior year amount of $18,766,688. The net increase in fund balance during the current year was $1,067,075, compared to an increase of $2,328,149 last year. The County had planned for a decrease in the Debt Service Fund, and had budgeted for $6,961,236 to be applied to the current year budget. As the current year result of operations was an actual increase in fund balance of $1,067,075, the fund experienced a positive variance of $8,028,311 of actual results compared to the original adopted budget. This resulted from the significant savings from conservatively budgeting for its expenses that the County experienced from its variable rate debt, combined with the County's practice of issuing debt as close to the time of the anticipated cash needs as practicable in order to minimize total interest costs. The County plans to continue its conservative financial planning.

The Public Improvement Capital Projects Fund experienced a net increase in fund balance of $5,596,239 in 2014, compared to a decrease in fund balance of $21,520,410 in 2013. Fund balance at June 30, 2014 totaled $7,068,211, compared to the June 30, 2013 balance of $1,471,972. This change results from the timing of the issuance of bonds for capital purposes compared to the expenditures made therefrom. The County's practice is to issue debt for capital purposes generally on an annual basis, with the intent that debt proceeds be received as close as practicable to the timing of the planned expenditures. This is done to help keep interest charges as low as practicable. During FY 2014, the County issued debt while also spending proceeds from debt. The remaining fund balance represents amounts available to be spent for future capital projects, a normal result for this fund.

The Constitutional Officers Special Revenue Fund experienced an increase in the fund balance in the current year of $329,546, resulting in fund balance at June 30, 2014 totaling $3,986,924 compared to the June 30, 2013 total of $3,657,378. This fund is used to account for the operations of various County offices that receive fees for providing various services to the public. A portion of these fees are used to pay for certain operating expenses, and the remaining fees are transferred to the County General Fund. Amounts transferred to the General Fund in 2014 totaled $9,661,030, an increase of $953,181 from the prior year total of $8,707,849. These results were in line with expectations.

Proprietary funds-Internal Service Funds. The Knox County Government's proprietary fund statements provide underlying detail information included in the government-wide financial statements.

Net position of the Internal Service Funds at the end of the year amounted to $8,454,187, compared to $3,042,687 (restated) at the end of 2013. The increase of $5,411,500 was primarily due to self-insurance healthcare claims activity. In FY 2014, this fund experienced an increase in fund net position of $3,478,721, a difference of $2,241,979 compared to the FY 2013 increase of $1,236,742. This was primarily attributable to the lower than expected claims activity for the year. In addition, the General Fund provided an additional transfer of resources expected to have been needed to the Employee Benefits Fund to cover a small deficit expected to be experienced from operations of that fund. The Internal Service Funds are used to accumulate and distribute costs as a planning tool, and are expected to break even over the long run. The total change in net position for all Internal Service Funds, an increase of $5,411,500, represents 7.7% of total charges for services of $70,110,032. As the intent of these funds is to "break even," these results are positive in relation to original expectations, and reflect the variability and uncertainty in predicting the activity for the year. Total net position at year-end of $8,454,187 reflects a modest accumulated net position for these funds over time, in line with expectations.

GENERAL FUND BUDGETARY HIGHLIGHTS

The total fund balance of the County's General Fund decreased by $176,735 during 2014, compared to last year's $6,975,057 increase. The General Fund's original budget planned for a net use of fund balance for the year of $4,515,232. Therefore, the actual unassigned fund balance of $53,026,996 was $4,338,497 greater than originally planned. Key factors in the outcomes for the General Fund are as follows:

- Revenues exceeded budget in nine of twelve categories; total revenues of $158,864,154 totaled 103.2% of the total budget of $153,994,655. Local tax revenues, which include property and sales taxes (among others), exceeded the budget by $1,055,705. While the County has the ability to raise tax rates, the government has chosen to keep tax rates steady (adjusted only for the effects of reappraisal) due to the recent economic recession and not further burden County taxpayers. Therefore, revenues were budgeted conservatively and in line with the previous year. Various other revenues exceeded the conservatively budgeted amounts, which also contributed to the General Fund positive budgetary outcome.

- The General Fund budget was adopted in amounts intended to provide funds for essential services while not providing for significant increases due to recent economic conditions. Expenditures of $159,138,472 totaled 98.7% of the budget of $161,257,723, reflecting the close monitoring of the budget to achieve results as planned.

Differences between the original budget and the final amended budget were within the normal course of County business and totaled a net $3,768,598 increase in the total budgeted expenditures. Included in the increase were normal carryover appropriations for projects not completed during the previous fiscal year and appropriations for additional expenditures related to numerous additional revenues received for specific purposes during the year that were in addition to the revenues estimated in the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Knox County Government Total Reporting Unit reported a total balance of capital assets (net of accumulated depreciation) as of June 30, 2014, of $1,022,819,970, which compares to the prior year total of $1,015,388,348. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The net increase in the investment in capital assets for the current fiscal year was $7,431,622 (0.7 percent), which reflects the capital additions for the year in amounts more than, although approximating, depreciation expense.

Spending for major capital asset additions during the current fiscal year included the following: energy management projects (Board), Juvenile Justice Center, County additions/renovations, City/County Building Improvements, various school upgrades, numerous road projects, and various other projects.

The County Primary Government's investment in capital assets for its governmental activities as of June 30, 2014 amounts to $973,345,120, less accumulated depreciation of $363,095,148, leaving a net book value of $610,249,972. The prior year net book value totaled $617,025,295. Investment in capital assets includes land and land improvements, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the County, such as roads and streets, bridges, sidewalks, lighting systems, and similar items. The net decrease for the year was $6,775,323. The decrease resulted primarily from depreciation expense in excess of additions. This was a planned result, reflecting the County's commitment to reduce borrowing for capital purposes which results in lower amounts of capital asset additions. Although a certain level of long-term borrowing for capital purposes is both necessary and desirable to service the needs of County citizens, the County is committed to reducing its debt level in order to minimize the burden on County taxpayers resulting from additional debt issuances.

Additional information on the Knox County Government's capital assets can be found in Note III.C of this report and on pages 184-186.

Long-term debt. At the end of the current fiscal year, the Knox County Government had total bonded debt outstanding of $632,397,204, compared to $631,616,485 at the end of 2013. All of the bonded debt was backed by the full faith and credit of the County government. $255,509,840 of the total is outstanding debt which the government issued on behalf of the Board for school purposes. The remaining $376,887,364 of the Knox County Government's debt represents bonds issued for general government purposes.

KNOX COUNTY GOVERNMENT'S Bonded Debt Changes during FY 2014:

Rollforward of Debt:	**Primary Government**	**Board**	**Total**
Beginning Balance	$ 374,464,500	$ 257,151,985	$ 631,616,485
Principal Paid	(18,540,042)	(19,754,239)	(38,294,281)
Issued Amounts	20,962,906	18,112,094	39,075,000
Ending Amount – Bonds	$376,887,364	$255,509,840	$632,397,204

Knox County's total bonded debt increased by $780,719 (0.1 percent) during the current fiscal year. The net change in bonded debt was planned, combined with reductions already achieved in previous years, as a result of the Mayor's commitment to lower the overall bonded debt levels of the County.

Knox County's debt is rated "AA+" by Standard & Poor's, the highest rating in County history. In addition, the County's debt is rated "Aa1" rating by Moody's. These ratings were reaffirmed subsequent to June 30, 2014.

State statutes set no limit for the amount of general obligation debt a county may issue. Current bonded debt outstanding for the County Government is $632,397,204. This translates to approximately $1,363 per capita. This compares to the FY 2013 per capita amount of $1,378.

Additional information on the Knox County's long-term debt can be found in the Note III.I to the Financial Statements of this report and on pages 179-182.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Knox County for June 2014 was 6.3%, which is a decrease from the final unemployment rate figure of 7.5% percent for June 2013. This compares favorably to the state's average rate of 6.6% percent for June 2014, and 8.5% for June 2013. The national unemployment averages were 6.1% for June 2014 and 7.6% for June 2013.

- The General Fund budget adopted for 2015 reflects a balanced budget totaling $164,275,513. The budget does not anticipate using existing fund balance except for a minor anticipated use of restricted resources.

- Additional information regarding the County's budget may be found at http://www.knoxcounty.org/finance/pdfs/2014_2015_budget/2014-2015adopted_budget_detail.pdf.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Knox County Government's finances for all those with an interest in the government's finances. The County's CAFR and additional information regarding the County may be located online at: http://www.knoxcounty.org/index.php. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Knox County Government
Department of Finance
Suite 630
City/County Building
400 Main Street
Knoxville, TN 37902

Basic Financial Statements

KNOX COUNTY, TENNESSEE

Statement of Net Position

June 30, 2014

	Primary Government			Component Units		
	Governmental Activities	**Business-type Activities**	**Total**	**Knox County Board of Education**	**Nonmajor Component Units**	**Total Reporting Unit**
Assets						
Cash and Cash Equivalents	$ 85,628,635	$ 96,086	$ 85,724,721	$ 21,081,683	$ 24,988,456	$ 131,794,860
Accounts Receivable	16,035,243	7,346	16,042,589	39,650,997	1,669,917	57,363,503
Local Taxes Receivable, net	166,179,741	-	166,179,741	106,283,112	-	272,462,853
Notes Receivable	11,499,419	-	11,499,419	-	-	11,499,419
Investments	40,258,236	-	40,258,236	28,344,926	-	68,603,162
Due from Component Units	1,525,518	-	1,525,518	-	-	1,525,518
Due from Primary Government	-	-	-	219,741	3,575	223,316
Internal Balances	14,436	(14,436)	-	-	-	-
Advances to Other Governments	2,465,000	-	2,465,000	-	-	2,465,000
Inventories	374,057	75,298	449,355	2,398,492	-	2,847,847
Land Held for Resale	-	-	-	-	22,017,217	22,017,217
Prepaid Items	287,740	210	287,950	1,573,462	60,452	1,921,864
Pension Asset	5,857,917	-	5,857,917	-	-	5,857,917
Other Post-Employment Benefits Asset	354,018	-	354,018	-	-	354,018
Equity Interest in Joint Venture	6,422,186	-	6,422,186	-	-	6,422,186
Capital Assets:						
Land and Construction in Process	134,778,476	880	134,779,356	45,332,244	4,477,565	184,589,165
Other Capital Assets, Net of Accumulated Depreciation	475,471,496	453,066	475,924,562	358,271,054	4,035,189	838,230,805
Total Assets	947,152,118	618,450	947,770,568	603,155,711	57,252,371	1,608,178,650
Deferred Outflows of Resources						
Deferred Outflows of Unamortized Amount on Refundings	2,541,998	-	2,541,998	-	-	2,541,998
Deferred Outflows of Hedging Derivatives	20,451,022	-	20,451,022	-	-	20,451,022
Total Deferred Outflows of Resources	22,993,020	-	22,993,020	-	-	22,993,020
Liabilities						
Accounts Payable	14,371,478	60,238	14,431,716	55,668,374	495,642	70,595,732
Due to Component Units	223,316	-	223,316	-	-	223,316
Due to Primary Government	-	-	-	1,524,967	551	1,525,518
Unearned Revenue	3,426,462	-	3,426,462	3,795,687	-	7,222,149
Accrued Interest	4,001,229	-	4,001,229	-	-	4,001,229
Self-insurance Liability	16,218,020	-	16,218,020	-	-	16,218,020
Long-term Obligations:						
Accrued Pension Obligation	-	-	-	3,075,588	-	3,075,588
Other Post-Employment Benefits Obligation	937,656	-	937,656	-	-	937,656
Fair Value of Interest Rate Swap Derivatives	27,651,278	-	27,651,278	-	-	27,651,278
Other Long-term Obligations:						
Due in Less than One Year	53,090,978	27,382	53,118,360	2,818,961	238,772	56,176,093
Due in More than One Year	629,608,028	3,042	629,611,070	10,968,218	26,530	640,605,818
Total Liabilities	749,528,445	90,662	749,619,107	77,851,795	761,495	828,232,397
Deferred Inflows of Resources						
Deferred Inflows of Property Taxes and Other Receivables	167,493,540	-	167,493,540	98,712,773	-	266,206,313
Net Position						
Investment in Capital Assets	-	453,946	453,946	403,603,298	8,512,754	412,569,998
Net Investment in Capital Assets (see note below)	284,908,028	-	284,908,028	-	-	(6,556,150)
Restricted for:						
Debt Service	69,953	-	69,953	-	-	69,953
Capital Projects	7,068,211	-	7,068,211	-	-	7,068,211
Public Health and Welfare Purposes	2,985,546	-	2,985,546	-	-	2,985,546
Public Safety Purposes	2,663,638	-	2,663,638	-	-	2,663,638
Education Purposes	-	-	-	19,589,721	-	19,589,721
Other Purposes	2,463,214	-	2,463,214	-	18,742	2,481,956
Unrestricted (see note below)	(247,035,437)	73,842	(246,961,595)	3,398,124	47,959,380	95,860,087
Total Net Position	$ 53,123,153	$ 527,788	$ 53,650,941	$ 426,591,143	$ 56,490,876	$ 536,732,960

The sum of the rows that report the net position categories for Net Investment in Capital Assets and Net Position-Unrestricted applicable to the primary government and the component units do not equal the related amounts shown in the Total Reporting Entity column. The difference of $291,464,178 results because the debt incurred by the Primary Government on behalf of the Board of Education Component Unit reduces the unrestricted net position of the Primary Government, whereas the related assets are reported in the Board Component Unit totals. For the Total Reporting Unit, the $291,464,178 is deducted from the amount shown for Net Investment in Capital Assets to show the matching of the total assets with the total debt.

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2014

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 Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: The Board	Component Units: Nonmajor Component Units	Total Reporting Unit
Primary government:										
Governmental activities:										
Finance and Administration	$ 30,943,555	$ 20,581,958	$ 101,250	$ -	$ (10,260,347)		$ (10,260,347)			$ (10,260,347)
Finance and Administration-Payment to Component Unit	6,753,874	-	-	-	(6,753,874)		(6,753,874)			(6,753,874)
Administration of Justice	23,299,693	10,042,760	84,867	-	(13,172,066)		(13,172,066)			(13,172,066)
Public Safety	77,888,346	3,305,146	3,526,330	-	(71,056,870)		(71,056,870)			(71,056,870)
Public Safety-Payment to Component Unit	326,200	-	-	-	(326,200)		(326,200)			(326,200)
Public Health and Welfare	33,693,888	5,834,345	7,928,413	-	(19,931,130)		(19,931,130)			(19,931,130)
Public Health and Welfare-Payment to Component Unit	211,628	-	-	-	(211,628)		(211,628)			(211,628)
Social and Cultural Services	19,921,048	885,537	473,494	-	(18,562,017)		(18,562,017)			(18,562,017)
Agricultural and Natural Resources	519,433	-	-	-	(519,433)		(519,433)			(519,433)
Other General Government	23,803,616	282,845	1,342,207	-	(22,178,564)		(22,178,564)			(22,178,564)
Other General Government-Payment to Component Unit	600,000	-	-	-	(600,000)		(600,000)			(600,000)
Engineering and Public Works	25,155,488	267,125	1,611,771	-	(23,276,592)		(23,276,592)			(23,276,592)
Education - Payment to Component Unit	38,763,934	-	-	-	(38,763,934)		(38,763,934)			(38,763,934)
Debt Issuance Costs	745,863			-	(745,863)		(745,863)			(745,863)
Debt Service - Interest and Fees	25,205,819	-	-	-	(25,205,819)		(25,205,819)			(25,205,819)
Total governmental activities	307,832,385	41,199,716	15,068,332	-	(251,564,337)		(251,564,337)			(251,564,337)
Business-type activities:										
Three Ridges Golf Course	937,604	861,989	-	-	-	$ (75,615)	(75,615)			(75,615)
Total primary government	$ 308,769,989	$ 42,061,705	$ 15,068,332	$ -	(251,564,337)	(75,615)	(251,639,952)			(251,639,952)
Component units:										
Board of Education	$ 560,610,890	$ 15,155,847	$ 68,826,803	$ -				$ (476,628,240)		(476,628,240)
Nonmajor Component Units	7,397,708	6,078,468	37,029	883,814				-	$ (398,397)	(398,397)
Total component units	$ 568,008,598	$ 21,234,315	$ 68,863,832	$ 883,814				(476,628,240)	(398,397)	(477,026,637)
General Revenues:										
Property Taxes					145,415,011	-	145,415,011	115,339,172	-	260,754,183
Sales Taxes					11,133,979	-	11,133,979	128,518,755	-	139,652,734
Lodging Taxes					5,860,554	-	5,860,554	-	-	5,860,554
Business Taxes					7,566,636	-	7,566,636	-	-	7,566,636
Wheel Taxes					11,448,102	-	11,448,102	1,561,822	-	13,009,924
Other Local Taxes					4,970,986	-	4,970,986	1,073,324	-	6,044,310
Investment Revenue					2,248,955	-	2,248,955	207,532	21,763	2,478,250
Payments from Component Units					32,444,501	-	32,444,501	-	-	32,444,501
Payments from Primary Government					-	-	-	45,517,808	1,137,828	46,655,636
Shared Revenues					14,766,864	-	14,766,864	1,369,610	-	16,136,474
Other Revenues					288,487	-	288,487	-	-	288,487
Other Governments and Citizens Groups					728,102	-	728,102	-	90,080	818,182
Miscellaneous					966,103	-	966,103	214,340	5,000	1,185,443
Grants and Contributions Not Restricted for Specific Programs					-	-	-	173,629,000	1,739,140	175,368,140
Total General Revenues					237,838,280	-	237,838,280	467,431,363	2,993,811	708,263,454
Change in Net Position					(13,726,057)	(75,615)	(13,801,672)	(9,196,877)	2,595,414	(20,403,135)
Net Position, July 1, as restated (See Note IV H)					66,849,210	603,403	67,452,613	435,788,020	53,895,462	557,136,095
Net Position, June 30					$ 53,123,153	$ 527,788	$ 53,650,941	$ 426,591,143	$ 56,490,876	$ 536,732,960

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Balance Sheet
Governmental Funds
June 30, 2014

	General	Special Revenue Constitutional Officers	Capital Projects Public Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	$ 27,661,523	$ 4,443,700	$ 271,659	$ 20,835,956	$ 8,878,087	$ 62,090,925
Receivables:						
Accounts, Net	7,588,363	-	63,896	35,000	7,640,117	15,327,376
Local Taxes	111,332,636	-	-	54,847,105	-	166,179,741
Notes	1,151,000	-	-	7,475,000	2,850,946	11,476,946
Investments	31,021,172	-	9,237,064	-	-	40,258,236
Due from Other Funds	1,340,091	-	50,000	647,025	1,617,096	3,654,212
Due from Component Units	849,644	-	193,905	-	-	1,043,549
Advances to Other Governments	-	-	-	2,465,000	-	2,465,000
Inventories	125,767	-	-	-	10,530	136,297
Prepaid Items	212,181	-	-	-	23,185	235,366
Investment in Joint Venture	6,422,186	-	-	-	-	6,422,186
TOTAL ASSETS	$ 187,704,563	$ 4,443,700	$ 9,816,524	$ 86,305,086	$ 21,019,961	$ 309,289,834
LIABILITIES						
Accounts Payable and Accrued Liabilities	$ 6,507,480	$ -	$ 2,554,408	$ 4,714	$ 3,976,141	$ 13,042,743
Due to Other Funds	3,228,062	456,776	193,905	-	725,980	4,604,723
Due to Component Units	98,069	-	-	-	-	98,069
Unearned Revenue	29,258	-	-	-	3,345,355	3,374,613
TOTAL LIABILITIES	9,862,869	456,776	2,748,313	4,714	8,047,476	21,120,148
DEFERRED INFLOWS OF RESOURCES						
Deferred Property Taxes and Notes Receivable	111,753,171	-	-	60,631,401	-	172,384,572
FUND BALANCES						
Nonspendable	6,760,134	-	-	3,920,000	33,715	10,713,849
Restricted	2,557,432	-	7,068,211	69,953	5,554,966	15,250,562
Committed	2,342,583	-	-	21,679,018	7,383,804	31,405,405
Assigned	1,401,378	3,986,924	-	-	-	5,388,302
Unassigned	53,026,996	-	-	-	-	53,026,996
TOTAL FUND BALANCES	66,088,523	3,986,924	7,068,211	25,668,971	12,972,485	115,785,114
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	$ 187,704,563	$ 4,443,700	$ 9,816,524	$ 86,305,086	$ 21,019,961	$ 309,289,834

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2014

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

Ending Fund Balance - Governmental Funds			$	115,785,114
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				609,915,182
Other long-term assets, consisting of pension asset ($5,857,917) and other post-employment benefits asset ($354,018), are not available to pay for current-period expenditures and, therefore, are not reported as assets in the fund financial statements.				6,211,935
Internal service funds are used by management to charge certain costs (e.g., certain employee benefits, insurance, maintenance, and use of equipment) to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.				8,454,187
Long-term liabilities, including bonds payable and related unamortized premium, loans payable, other post-employment benefit obligation, compensated absences, and accrued interest are not due and payable in the current period and therefore are not reported in the funds.				
Bonds Payable	$	632,397,204		
Unamortized Bond Premium		6,497,791		
Fair Value of Interest Rate Swaps, net		7,200,256		
Loans Payable		8,709,231		
Accrued Interest		4,001,229		
Capital Lease Obligations		27,245,107		
Other Post-employment Benefit Obligation		937,656		
Compensated Absences		7,687,821		(694,676,295)
Certain revenues will be collected after year-end but not within the period considered available to pay current period expenditures. Therefore, these amounts are recorded as deferred inflows of resources in the fund financial statements but have been recognized as revenues under the accrual basis				4,891,032
Deferred outflows of unamortized amounts on refundings increase the amount of net position reported in the statement of net position, but are not reported as assets in the funds.				2,541,998
Net Position of Governmental Activities			$	53,123,153

KNOX COUNTY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2014

	General	Special Revenue Constitutional Officers	Capital Projects Public Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
County Property Taxes	$ 113,050,682	$ -	$ -	$ 33,375,647	$ -	$ 146,426,329
Local Option Sales Taxes	4,043,904	-	-	-	7,090,075	11,133,979
Lodging Taxes	-	-	-	-	5,860,554	5,860,554
Business Taxes	7,566,636	-	-	-	-	7,566,636
Wheel Taxes	519,752	-	-	-	10,928,350	11,448,102
Other Local Taxes	2,898,638	-	-	-	2,072,348	4,970,986
Licenses and Permits	3,827,598	-	-	-	-	3,827,598
Fines, Forfeitures and Penalties	2,246,055	-	-	-	702,979	2,949,034
Charges for Current Services	6,007,089	24,342,164	-	-	721,065	31,070,318
Other Local Revenues	7,088,972	-	81,185	70,000	1,295,825	8,535,982
State of Tennessee	9,757,201	-	1,611,771	-	6,768,923	18,137,895
Federal Government	1,297,509	-	-	-	9,940,643	11,238,152
Other Governments and Citizen Groups	560,118	-	-	-	162,901	723,019
Payments from Component Units	-	-	-	31,929,023	-	31,929,023
Investment Revenue	-	13,249	(3,365)	2,013,916	-	2,023,800
Total Revenues	158,864,154	24,355,413	1,689,591	67,388,586	45,543,663	297,841,407
Expenditures						
Current:						
Finance and Administration	22,537,866	7,897,189	-	-	101,250	30,536,305
Finance and Administration - Payments to Component Unit	6,753,874	-	-	-	-	6,753,874
Administration of Justice	16,229,625	6,467,648	-	-	90,003	22,787,276
Public Safety	71,825,583	-	-	-	3,133,321	74,958,904
Public Safety - Payments to Component Unit	326,200	-	-	-	-	326,200
Public Health and Welfare	20,487,227	-	-	-	12,332,469	32,819,696
Public Health and Welfare - Payments to Component Unit	211,628	-	-	-	-	211,628
Social and Cultural Services	4,527,355	-	-	-	12,767,521	17,294,876
Agricultural and Natural Resources	519,433	-	-	-	-	519,433
Other General Government	14,626,471	-	15,971	-	6,723,556	21,365,998
Other General Government - Payments to Component Unit	600,000	-	-	-	-	600,000
Engineering and Public Works	-	-	-	-	11,782,056	11,782,056
Decrease in Equity Interest in Joint Venture	493,210	-	-	-	-	493,210
Debt Proceeds Paid to Component Unit	-	-	38,763,934	-	-	38,763,934
Debt Issuance Costs	-	-	745,863	-	-	745,863
Capital Projects	-	-	18,403,407	-	12,321	18,415,728
Debt Service:						
Other Debt Service	-	-	-	1,628,599	-	1,628,599
Trustee's Commission	-	-	-	680,090	-	680,090
Principal	-	-	-	40,630,308	-	40,630,308
Interest	-	-	-	23,577,780	-	23,577,780
Total Expenditures	159,138,472	14,364,837	57,929,175	66,516,777	46,942,497	344,891,758
Excess (Deficiency) of Revenues Over (Under) Expenditures	(274,318)	9,990,576	(56,239,584)	871,809	(1,398,834)	(47,050,351)
Other financing sources (uses)						
Transfers from Other Funds	9,661,030	-	1,574,999	195,266	4,479,532	15,910,827
Transfers to Other Funds	(9,563,447)	(9,661,030)	-	-	(2,016,430)	(21,240,907)
Capital Lease Proceeds	-	-	14,872,404	-	-	14,872,404
Long-term Bonds Issued	-	-	39,075,000	-	-	39,075,000
Long-term Loan Issued	-	-	5,962,500	-	-	5,962,500
Premium on Long-term Debt Issued	-	-	350,920	-	-	350,920
Total Other Financing Sources (Uses)	97,583	(9,661,030)	61,835,823	195,266	2,463,102	54,930,744
Net Change in Fund Balances	(176,735)	329,546	5,596,239	1,067,075	1,064,268	7,880,393
Fund Balances, July 1	66,265,258	3,657,378	1,471,972	24,601,896	11,908,217	107,904,721
Fund Balances, June 30	$ 66,088,523	$ 3,986,924	$ 7,068,211	$ 25,668,971	$ 12,972,485	$ 115,785,114

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, 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, 2014

Amounts reported for governmental activities in the statement of activities are different because:	
Net Change in Fund Balances - Total Governmental Funds	$ 7,880,393
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($22,184,917) exceeded capital outlays ($18,454,998) in the current period.	(3,729,919)
Certain revenues will be collected after year-end but not within the period considered available to pay current period expenditures. Therefore, these amounts were recognized as revenues in the statement of activities but were not reported as revenues in the fund financial statements.	4,891,032
Amounts reported as fund revenues that met the criteria for revenue recognition under the full accrual method of accounting in the preceding fiscal year have been excluded from the current year statement of activities.	(5,902,350)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is reflected as an expenditure in the governmental funds, whereas the repayment reduces long-term liabilities in the statement of net assets. Debt proceeds ($59,909,904) exceeded principal payments ($40,997,261) by this amount.	(18,912,643)
Expenses reported in the statement of activities include amortization of the deferred amount on debt refunding ($674,498). In addition, the amortization of bond premium results in reduction of expenses of $1,405,693. These amounts do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	731,195
Debt issued at a premium provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets.	(350,920)
The decrease in the liability for accrued interest of $97,980, plus the increase in the balance of the net pension asset of $182,450 and the increase in the balance of the net other post-employment asset of $354,018, decreased expenses reported in the statement of activities. In addition, the increase in the balance of the liability for other post-employment benefits increased expenses by $155,294, and the increase in the compensated absences liability balance of $983,736 increased expenses by that amount. These amounts do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(504,582)
The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the assets sold is removed from the capital assets reported in the statement of net position and offset against the sale proceeds resulting in a gain on sale of capital assets in the statement of activities.	(3,052,019)
The increase in the fair value of an interest rate swap accounted for as an investment derivative instrument in the statement of activities did not provide current resources in governmental funds.	(187,744)
Internal service funds are used by management to charge certain costs (e.g., certain employee benefits, insurance, maintenance, and use of equipment) to individual funds. The net revenue (expense) amounts of the internal service funds are reported with governmental activities.	5,411,500
Change in Net Position of Governmental Activities	$ (13,726,057)

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (GAAP Basis) - General Fund
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
County Property Taxes	$ 111,328,000	$ 111,328,000	$ 113,050,682	$ 1,722,682
Local Option Sales Taxes	4,480,600	4,480,600	4,043,904	(436,696)
Business Taxes	7,900,000	7,900,000	7,566,636	(333,364)
Wheel Taxes	525,000	525,000	519,752	(5,248)
Other Local Taxes	2,678,000	2,790,307	2,898,638	108,331
Licenses and Permits	3,594,100	3,594,100	3,827,598	233,498
Fines, Forfeitures and Penalties	1,691,150	1,882,788	2,246,055	363,267
Charges for Current Services	4,171,905	4,865,597	6,007,089	1,141,492
Other Local Revenues	3,462,685	6,734,887	7,088,972	354,085
State of Tennessee	8,567,664	8,898,388	9,757,201	858,813
Federal Government	725,000	725,000	1,297,509	572,509
Other Governments and Citizen Groups	251,000	269,988	560,118	290,130
Total Revenues	149,375,104	153,994,655	158,864,154	4,869,499
Expenditures				
Current:				
Finance and Administration	23,274,534	23,333,239	22,537,866	795,373
Finance and Administration - Payments to Component Unit	8,153,874	6,753,874	6,753,874	-
Administration of Justice	16,278,957	16,452,013	16,229,625	222,388
Public Safety	71,129,531	72,087,406	71,825,583	261,823
Public Safety - Payments to Component Unit	326,200	326,200	326,200	-
Public Health and Welfare	20,244,036	20,575,140	20,487,227	87,913
Public Health and Welfare - Payments to Component Unit	256,628	211,628	211,628	-
Social and Cultural Services	4,355,040	4,529,703	4,527,355	2,348
Agricultural and Natural Resources	493,062	519,461	519,433	28
Other General Government	12,377,263	15,375,849	14,626,471	749,378
Other General Government - Payments to Component Unit	600,000	600,000	600,000	-
Decrease in Equity Interest in Joint Venture	-	493,210	493,210	-
Total Expenditures	157,489,125	161,257,723	159,138,472	2,119,251
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,114,021)	(7,263,068)	(274,318)	6,988,750
Other Financing Sources (Uses)				
Transfers from Other Funds	7,677,800	7,710,263	9,661,030	1,950,767
Transfers to Other Funds	(4,079,011)	(9,563,456)	(9,563,447)	9
Total Other Financing Sources	3,598,789	(1,853,193)	97,583	1,950,776
Net Change in Fund Balances	$ (4,515,232)	$ (9,116,261)	(176,735)	$ 8,939,526
Fund Balances, July 1			66,265,258	
Fund Balances, June 30			$ 66,088,523	

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Net Position
Proprietary Funds
June 30, 2014

	(Nonmajor) Enterprise Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 96,086	$ 23,537,710
Receivables:		
Accounts	7,346	707,867
Due from Other Funds	-	1,558,325
Due from Component Units	-	481,969
Notes	-	22,473
Inventories	75,298	237,760
Prepaid Items	210	52,374
TOTAL CURRENT ASSETS	178,940	26,598,478
Capital Assets:		
Land	880	-
Buildings	747,515	-
Machinery and Equipment	506,923	6,252,586
Computer Software	25,448	-
Land Improvements	66,463	-
Accumulated Depreciation	(893,283)	(5,917,796)
Capital Assets (Net of Accumulated Depreciation)	453,946	334,790
TOTAL ASSETS	632,886	26,933,268
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	60,238	1,328,735
Due to Other Funds	14,436	593,378
Due to Component Units	-	125,247
Unearned Revenue	-	51,849
Claims Liability	-	16,218,020
Compensated Absences Payable	27,382	145,667
TOTAL CURRENT LIABILITIES	102,056	18,462,896
Noncurrent Liabilities:		
Compensated Absences Payable	3,042	16,185
TOTAL LIABILITIES	105,098	18,479,081
NET POSITION		
Invested in Capital Assets	453,946	334,790
Unrestricted	73,842	8,119,397
TOTAL NET POSITION	$ 527,788	$ 8,454,187

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	(Nonmajor) Enterprise Fund	Internal Service Funds
Operating Revenues		
Charges for Services	$ 861,989	$ 70,110,032
Operating Expenses		
Cost of Sales and Services	367,835	2,551,132
General and Administration	420,557	13,460,746
Depreciation and Amortization	58,090	88,029
Medical Claims	-	21,970,143
Retirement Contributions	-	26,691,927
Other Employee Benefits	-	799,117
Worker's Compensation & Other Claims	-	4,330,872
Other Expenses	87,778	136,646
Total Operating Expenses	934,260	70,028,612
Operating Income (Loss)	(72,271)	81,420
Nonoperating Expense		
Loss on Disposal of Assets	(3,344)	-
Income (Loss) before Transfers	(75,615)	81,420
Transfers		
Transfers to Other Funds	-	(200,000)
Transfers from Other Funds	-	5,530,080
Change in Net Postion	(75,615)	5,411,500
Total Net Position, July 1, as restated	603,403	3,042,687
Total Net Position, June 30	$ 527,788	$ 8,454,187

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	(Nonmajor) Enterprise Fund	Internal Service Funds
Operating Activities		
Cash Received from Customers	$ 876,945	$ -
Cash Received from Interfund Services Provided	-	69,597,291
Cash Paid to Employees	(404,487)	(1,639,433)
Cash Paid for Goods and Services	(489,087)	(16,540,514)
Cash Paid on Behalf of Employees	-	(50,193,527)
Net Cash Provided by (Used in) Operating Activities	(16,629)	1,223,817
Noncapital Financing Activities		
Receipts of Subrogation Payments	-	25
Transfers from Other Funds	-	5,530,080
Transfers to Other Funds	-	(200,000)
Net Cash Provided by Noncapital Financing Activities	-	5,330,105
Capital and Related Financing Activities		
Loss on Disposal of Assets	(3,344)	-
Acquisition and Construction of Capital Assets	(11,500)	(94,644)
Net Cash Used in Capital and Related Financing Activities	(14,844)	(94,644)
Net Increase (Decrease) in Cash and Cash Equivalents	(31,473)	6,459,278
Cash and Cash Equivalents		
Beginning of Year	127,559	17,078,432
End of Year	$ 96,086	$ 23,537,710
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income (Loss)	$ (72,271)	$ 81,420
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	58,090	88,029
Loss on Disposal of Fixed Asset	3,344	-
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	14,310	(409,117)
(Increase) Decrease in Due from Other Funds	646	(243,233)
Decrease in Due from Component Units	-	95,887
(Increase) Decrease in Inventories	(1,703)	9,263
Decrease in Prepaid Items	1,466	31,607
Increase in Accounts Payable and Accrued Liabilities	21,441	67,522
Increase (Decrease) in Due to Other Funds	(24,948)	324,427
Decrease in Due to Component Units	-	(105,892)
Increase (Decrease)in Compensated Absences	(17,004)	31,321
Increase in Claims Liabilities	-	1,208,861
Increase in Unearned Revenue	-	43,722
Total Adjustments	55,642	1,142,397
Net Cash Provided by (Used in) Operating Activities	$ (16,629)	$ 1,223,817

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 3,172,778	$ 24,468,419
Investments, at Fair Value:		
Mutual Funds	405,524,382	-
Common Collective Trusts	30,306,536	-
Guaranteed Investment Contracts	28,283,442	-
Corporate Bonds	2,276,060	-
U.S. Treasuries	10,745,218	-
Federal Agency Debt Securities	3,740,136	-
Federal Agency Mortgage Backed Securities	6,597,370	-
Total Investments	487,473,144	-
Receivables:		
Accounts	-	7,649,115
Employee Contributions	211,111	-
Employer Contributions	199,132	-
Receivable for Investment Sold	299,869	-
Accrued Interest and Dividends	126,885	-
Total Receivables	836,997	7,649,115
TOTAL ASSETS	491,482,919	$ 32,117,534
LIABILITIES		
Accounts Payable and Accrued Liabilities	395,372	$ 8,654,322
Due to Other Governments	-	6,171,040
Due to Litigants, Heirs and Others	-	17,292,172
TOTAL LIABILITIES	395,372	$ 32,117,534
NET POSITION		
Held in Trust for:		
Pension and Other Employee Benefits	$ 491,087,547	

The Notes to the Financial Statements are an integral part of this statement.

KNOX COUNTY, TENNESSEE

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2014

		Pension and Other Employee Benefit Trust Funds
Additions		
Contributions:		
Employer	$	14,634,343
Employees		11,702,773
Rollovers		392,632
Total Contributions		26,729,748
Investment Earnings (Losses):		
Interest and Dividend Income		4,583,272
Net Appreciation (Depreciation) in Fair Value of Investments		61,061,141
Total Investment Earnings (Losses)		65,644,413
Less Investment Expenses		(503,134)
Net Investment Earnings (Losses)		65,141,279
Other Additions:		
Transfers from Other Plans		666,407
Legal Settlements		12,584
Total Other Additions		678,991
Total Additions		92,550,018
Deductions		
Benefits and Refunds		33,138,484
Administrative Expenses		1,873,917
Transfers to Other Plans		666,407
Total Deductions		35,678,808
Change in Net Position		56,871,210
Total Net Position Held in Trust for Pension and Other Employee Benefits, July 1		434,216,337
Total Net Position Held in Trust for Pension and Other Employee Benefits, June 30	$	491,087,547

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

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NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Knox County (the County), founded in 1792, is a political subdivision of the State of Tennessee. The County operates under a County Mayor – County Commission form of government pursuant to the Knox County Home Rule Charter (the Charter) established under Tennessee Code Annotated, Section 5-1-208, effective September 1, 1990. The County Mayor serves an elected term of four years. The eleven County Commissioners serve four-year terms and are elected by voters within the County. As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its Component Units. The County is considered to be the primary government. Component Units are legally separate entities for which the County is considered to be financially accountable. These Component Units are discretely presented in separate columns in the government-wide financial statements to emphasize they are legally separate from the County.

Discretely Presented Major Component Units - the County

The Knox County Board of Education (the Board) consists of nine members elected by voters of the County and one superintendent appointed by members of the Board. The Board is fiscally dependent on the County because the County levies taxes for the Board, issues debt on behalf of the Board and approves the Board's Budget. The Board is responsible for elementary and secondary education within the County's jurisdiction. The Board operates a total of 89 vocational and handicapped centers, primary, intermediate, middle and high schools. The full-time equivalent average daily membership during the 2013 - 2014 school year was 57,038 with a full time equivalent average daily attendance of 53,739. During the previous year, the full time equivalent average daily membership was 56,811 with a full time equivalent average daily attendance of 53,344.

The **Knox County Railroad Authority** (KCRA) was established by Knox County in April 1999, to provide for the continuation of rail service within the County. KCRA is governed by a two-member Board consisting of the County Mayor and a member selected by the County Commission. KCRA is fiscally dependent on the County for approval of all debt issuances.

The **Knox County Emergency Communications District** (the District) is an emergency response agency operating a consolidated public safety answering point service and emergency radio dispatch service for the residents of the County. The District is governed by an eleven-member Board of Directors, of whom the majority are appointed by the County. Debt issuances or lease agreements exceeding five years require County approval. The District has the authority to levy an emergency telephone service charge to be used to fund the emergency telephone service. The County, however, may reduce the levy provided the reduction does not preclude the District from the authorized activities established in the Tennessee Code Annotated.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Complete financial statements for the District may be obtained at the entity's administrative offices:

Knox County Emergency Communications District
605 Bernard Avenue
Knoxville, TN 37921

The **Development Corporation of Knox County** (the Corporation) is a not-for-profit organization organized for the primary purpose of promoting and encouraging community and economic development within the boundaries of Knox County. The Corporation is governed by an eleven-member board: four members appointed by the County, two members appointed by the City of Knoxville, and five members who are citizens of Knox County. For those five citizen members, terms are staggered so that one member's term ends each year. Appointments are made by nomination from the entire Corporation board, and presented to County Commission for approval. Commission may reject a board nomination; however, the Corporation board's nomination becomes effective upon the third nomination event. The County has agreed to provide a portion of the Corporation's funding, and therefore the Corporation has imposed a financial burden on the County.

Complete financial statements for the Corporation may be obtained at the Corporation's administrative office:

The Development Corporation of Knox County
17 Market Square, # 201
Knoxville, TN 37902-1405

The Board and KCRA do not issue separate financial statements from those of the County. Fund financial statements for the Board are, therefore, included in these financial statements. The activities of KCRA are accounted for in a single fund, and the information presented in the government-wide financial statements also constitutes the fund financial statements.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Discretely Presented Major Component Unit - the Board

The Great Schools Partnership Charitable Trust (the Partnership) was established during the fiscal year ended June 30, 2005. Its purpose is to provide financial and other support to the Knox County Schools by expending funds in furtherance of specific programs and activities conducted by the Board, or by distributions of funds directly to the Board. The Partnership is a legally separate, tax-exempt organization governed by a board consisting of representatives of the Board, Knox County, the City of Knoxville, and various other governmental, educational, and not-for-profit organizations. Although the Board does not control the timing or amount of expenditures made by the Partnership, the majority of the resources, or income therefrom, that the Partnership holds are restricted to the exempt purposes of the Board by the donors. Therefore, the Partnership is considered a component unit of the Board and is discretely presented in the Board’s financial statements. During fiscal year 2014, the Partnership entered into an agreement with a separate not-for-profit organization whereby that organization became a supporting organization of the Partnership. Amounts presented in the financial statements reflect this combined reporting presentation.

Complete financial statements for the Partnership may be obtained at the Partnership’s administrative office:

Great Schools Partnership Charitable Trust
912 South Gay Street L-210
Knoxville, TN 37902

B. Government-wide and Fund Financial Statements

The accompanying financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and employ the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are "measurable and available". "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County considers property tax revenues available if they are collected within 60 days after the fiscal year end. All other revenues are considered available if collected within one year after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting, except for debt and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are considered susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the County are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the County and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Fund Accounting: The accounts of the County are organized, operated and presented on the basis of funds. Funds are independent fiscal and accounting entities with self-balancing sets of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental Funds are used to account for the County's general government activities. The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund. The major revenue sources are property taxes and local option sales tax.

The *Constitutional Officers Fund* accounts for activities associated with the administrative functions of the County's Constitutional Officers. Revenues for this fund consist of user fees collected from the public for services performed by these offices. The major revenue source is fees collected by the elected officials.

The *Public Improvement Fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds, exclusive of construction activity related to the Americans with Disabilities Act. The major revenue source is proceeds from debt issuances.

The *Debt Service Fund* accounts for the servicing of general long-term debt not being financed by proprietary funds. The major revenue source is property tax collections.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds are used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise.

> *Enterprise funds* account for operations that provide services primarily to the general public on a user charge basis. During the fiscal year ended June 30, 2009, the County commenced the management and operation of the Three Ridges Golf Course. These operations are accounted for as an enterprise fund.
>
> *Internal service funds* account for operations of the County that provide services to other departments, agencies, other governments, component units, and joint ventures on a cost reimbursement basis.

Activities accounted for in the internal service funds include: (1) provision of gasoline and maintenance services for County vehicles, (2) operation of a central mailroom, (3) payment of retiree medical premiums, employee retirement, life insurance and other payroll related expenses, and unemployment claims, (4) accounting for the payment of workers' compensation and general liability claims, (5) provision of central maintenance for County buildings, (6) providing technical support for electronic data processing functions, (7) providing leased vehicles and equipment to County departments, and (8) accounting for the payment of employee health insurance claims.

Fiduciary funds account for assets held by the County in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Fiduciary funds include the following:

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The *pension trust and other employee benefit trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The pension and other employee benefit trust funds account for the assets of the County's defined benefit pension plan, defined contribution pension plan, defined contribution medical retirement plan, the pension trust funds for Uniformed Officers, and the employee disability plan. Plan member contributions are recognized in the period when contributions are due and payable in accordance with the terms of the plan. Employer contributions are recognized when due and the County makes a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Fiduciary funds also include agency funds used to account for the receipt and disbursement of funds held for various third parties. Agency funds include transactions related to (1) local sales taxes collected by the State of Tennessee and remitted to the County for distribution to other municipalities, (2) funds held on behalf of subdivision developers pending completion of road and hydrology requirements, (3) cash held by the County on behalf of several external agencies and County joint ventures, and (4) funds held by various elected officials on behalf of state agencies and/or other funds.

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, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. Operating expenses for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Component Units

The Board of Education uses two major governmental funds (general fund and school construction capital projects), three nonmajor governmental (special revenue) funds, and fiduciary funds (pension trust fund, agency). These fund types use the same measurement focus and basis of accounting as those of the County. KCRA follows the County's governmental funds measurement focus and basis of accounting. The District follows the County's proprietary funds measurement focus and basis of accounting. The Corporation's separately issued financial statements also are accounted for as a proprietary fund. The Partnership's separately issued financial statements are prepared in accordance with the requirements of the Financial Accounting Standards Board (FASB). The financial data included for the Partnership in this Comprehensive Annual Financial Report has been formatted to comply with the classification and display requirements of the Governmental Accounting Standards Board (GASB).

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

Deposits and Investments

The cash and cash equivalents of the County and its component units 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.

The County maintains a pooled cash system through the Knox County Trustee. The fair value of purchased investments and investment income at fiscal year-end is allocated to major funds based on the total cash position of that fund at fiscal year-end. In accordance with County directive, the majority of interest earned during the year is allocated to the General Fund.

State statutes and local ordinances authorize the County and the Board to invest in certificates of deposit, the State Local Government Investment Pool, U.S. Treasury obligations, U.S. agency issues, corporate bonds, equity funds, short-term bond funds, and guaranteed investment contracts.

The County's and its component units' investments are carried at fair value. Short-term investments, however, are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

Receivables, Payables, and Unearned Revenue

In the County's fund financial reporting, transactions between County funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Transactions between the County and its component units that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from Component Units." All other outstanding balances between the County and its component units are reported as "due to/from Component Units/Primary Government."

In the fund financial statements governmental funds report unearned revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current accounting period. Governmental funds also defer recognition of revenues in connection with resources that have been received, but not yet earned. The County accrues additional assets (receivables) for certain nonexchange revenues in governmental funds. As governmental funds are subject to the modified accrual basis of accounting, any additional revenues recognized as receivable before the resources are available have been reported as deferred inflows of resources with no resulting effect on fund equity. Unearned revenue in the government-wide financial statements consists of resources received that have not yet been earned.

All trade receivables are shown net of an allowance for doubtful accounts. Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. In Tennessee, this date is January 1st, and is referred to as the lien date. Revenues from property taxes, however, are recognized in the period for which the taxes are levied, which for the County is October 1st of the ensuing fiscal year. Property tax payments are due by February 28 of the following year. Since the receivable for property taxes is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated amount for uncollectible taxes, is reported as deferred inflows in the fund financial statements and in the government-wide financial statements as of June 30th.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

Property taxes receivable are also reported as of June 30th for the taxes that are levied and uncollected during the current fiscal year as well as the previous eight fiscal years. These property taxes receivable are presented on the fund balance sheet with offsetting deferred inflows to reflect amounts not available as of June 30th. Property taxes collected within 60 days of year-end are considered available and are accrued as revenue. Property taxes collected later than 60 days after year-end are not considered available and are accrued and reported as deferred inflows. An allowance for uncollectible taxes is also recorded representing the estimated amount of delinquent taxes receivable that will be filed with the court for collection. Delinquent taxes filed with the court for collection are considered uncollectible and are written off.

Inventories and Prepaid Assets

The County maintains material inventory balances in its proprietary and governmental funds. Inventories in the proprietary funds are stated at the lower of cost or market. Inventories in the governmental funds are stated at cost. Inventories are accounted for under the consumption method. Supplies for resale and the cost of oil and gasoline in the internal service funds use the first-in, first-out (FIFO) flow assumption in determining cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

The Board values school supplies inventories using the specific identification method. The Board's Central Cafeteria Fund inventories are composed of food supplies. These inventories are stated at cost.

The County's general fund inventory consists of land held for resale. The land is recorded at cost excluding the cost of infrastructure (roads, utilities, etc.).

Derivative Instruments

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (Statement No. 53) requires the County to recognize all its derivative instruments on the Statement of Net Position at fair value.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

The County analyzes its derivative instruments into hedging derivative instruments and investment derivative instruments, as defined by Statement No. 53. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as either deferred inflows or deferred outflows. If the derivative is classified as an investment derivative instrument, changes in its fair value are reported on the Statement of Activities in the period in which they occur. Such changes are included in the County's investment income (loss). See Note III. (H) for more detailed analysis. The County formally assesses the effectiveness of its hedging derivative instruments at each year-end.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacement. Public domain infrastructure includes long-lived assets, primarily roads; system infrastructure includes street lighting and other assets with shorter expected useful lives. Depreciation is computed using the straight-line method generally over the following useful lives:

Assets	Years
Buildings	45
Land Improvements	10 - 20
Public Domain Infrastructure	40
System Infrastructure	25
Vehicles	5
Machinery and Equipment	5 - 20
Intangibles	5 - 10

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

It is the County's and the District's policy to capitalize the cost of the rights to externally acquired software as an intangible asset.

Compensated Absences

It is the policy of the County and its component units to permit employees to accumulate, in varying amounts, earned but unused vacation, compensatory time and sick pay benefits. In general, unpaid accumulated sick leave does not vest and is not recorded as a liability. During FY 2014, the County implemented a policy whereby retiring employees may be paid for unused sick leave in varying amounts up to a maximum of $10,000, and a liability has been recorded for these estimated termination payments. Vacation, compensatory, and sick leave benefits from the County's and the Board's governmental funds are not reported in their respective fund financial statements because it is not expected that such amounts would be liquidated with expendable available financial resources. No expenditure is reported for these amounts. For the County and Component Unit governmental activities, compensated absences liabilities are generally liquidated by the respective general fund. The compensated absences liability and the related change in liability are reported in the government-wide and proprietary fund financial statements of the County and its component units.

Long-Term Obligations

The County and the Board record long-term debt in the government-wide financial statements. Similarly, long-term debt and other obligations financed by the County's proprietary funds and the District are recorded as liabilities in the appropriate funds.

Bond premiums and discounts, as well as deferred amounts on refundings, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount and deferred amounts on refundings.

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

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

Fund Equity

In the governmental fund financial statements, fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints related to the specific purposes for which amounts in the funds can be spent. The classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are (a) not in spendable form, or (b) legally or contractually required to be maintained intact (e.g., endowments.) Fund balance not in spendable form includes items not expected to be converted to cash (e.g., inventories and prepaid items), as well as long-term receivables and the County's investment in joint venture. The County does not have any nonspendable fund balance that is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted for specific purposes. These amounts result from constraints placed on the use of resources (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the County is the County Commission. For financial matters such as adopting the budget, establishing tax rates, approving the issuance of debt, and constraining amounts for specific purposes, the Commission utilizes resolutions to effect such actions. Amounts are reported as committed pursuant to resolutions passed by Commission (legislative branch), which have also been approved by the County Mayor (executive branch.)

Assigned fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The County Mayor is the head of the County executive branch, and the Mayor is the County's chief fiscal officer as set forth in the Knox County Charter. Therefore, assignments may be made upon the authority of the County Mayor or designee.

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)

Unassigned fund balance is the residual balance in the general fund (i.e., fund balance that is not nonspendable, and is not restricted, committed, or assigned.)

The County has adopted a policy requiring that a minimum level of unassigned fund balance in the General Fund equal to three months (25%) of regular, ongoing operating expenditures be maintained.

Generally, when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are expended first, and then unrestricted funds are used. Generally, when expenditures are incurred utilizing unrestricted funds, unassigned amounts are expended first, then assigned amounts, then committed amounts.

Net position in government-wide and proprietary fund financial statements are classified as investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by County law.

E. Additional Information

Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements to provide an understanding of the changes in the financial position and operations of the County and the Board. Comparative totals have not been included on statements where their inclusion would not provide enhanced understanding of the reporting entity's financial position and operations or would cause the statements to be unduly complex and difficult to understand.

Estimates

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

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

Budget Basis/Authority

Annual budgets, as required by the County Charter and applicable County ordinances, are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the Constitutional Officers Fund and the Capital Projects Funds.

The Constitutional Officers Special Revenue Fund is used to account for the transactions of the fee and commission accounts of the County Trustee, Register of Deeds, County Clerk, Criminal and Fourth Circuit Court Clerk, Circuit and General Sessions Court Clerk, and Clerk and Master. These separately elected officials pay salaries and related expenditures from fees and commissions earned by their offices.

Excess fees and commissions are transferred to other funds. In some instances, all fees and commissions earned are transferred to other funds. Transactions related to the Constitutional Officers Special Revenue Fund are not subject to the budgetary control of the County Commission. Therefore, this fund is presented as an unbudgeted special revenue fund.

The Drug Control Special Revenue Fund was established in the 1998 fiscal year pursuant to an amendment of Tennessee Code Annotated Section 39-17-420, stipulating drug control activities to be reported in a special revenue fund. The budget for this fund is a separately adopted budget proposed by the Sheriff and approved by the County Commission.

The County's Public Improvement Capital Projects Fund, Americans with Disabilities Act (ADA) Construction Capital Projects Fund, and the Board's School Construction Capital Projects Fund each adopt project-length budgets for major construction projects rather than annual budgets for these projects. The Board adopts annual budget amounts for certain expenditures within the School Construction Capital Projects Fund.

Budgets for portions of the County's State, Federal and Other Grants Fund and all of the Board's School General Projects and School Federal Projects Funds are generally adopted at the time the grant or program has been approved by the grantor, so the Commission can fulfill any requirement to appropriate local matching funds at the time of adoption.

With the exception of project length budgets and grants, all appropriations lapse at fiscal year-end.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Data (Continued)

Budgetary Process

On or before April 15, heads of all County departments and agencies submit requests for appropriations to the County Department of Finance. The Board prepares a comprehensive budgetary request that is also sent to the Department of Finance. This budget has been approved by the members of the Board of Education and is sent to the County for adoption.

The Department of Finance in conjunction with the Office of the County Mayor compiles the requests, negotiates with the various departments and submits a comprehensive budget to the County Commission. By July 1, the final County and Board budget is adopted by County Commissioners.

The appropriated County budget is prepared at the fund, department, and major category level. For the County, the legal level of budgetary control, that is, the level at which management cannot overspend funds without a budget amendment approved by the County Commission, is the major category level within departments. The major categories are Personal Services, Employee Benefits, Contracted Services, Supplies and Materials, Other Charges, Debt Service and Capital Outlay.

The budget adopted by the County for the Board is recommended by the County Mayor and adopted in total. The County does not exercise control over the Board at the department or major category level. After the budget for the Board is approved, the Board of Education may modify it within the total appropriation granted by the County Commission.

The budget and actual schedules included herein are not intended to demonstrate compliance at the legal level of budgetary control. Such statements and schedules are included in the County's separately issued *Budget Report to Citizenry*. Copies of the report may be obtained from the Knox County Department of Finance or online at: http://www.knoxcounty.org/finance/budget.php.

Knox County Department of Finance
Room 630
City County Building
400 Main Avenue
Knoxville, TN 37902

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Data (Continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are included in the balances of assigned, committed, or restricted fund balance based on the purposes for which the resources that will be used to liquidate the encumbrances have been classified. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Outstanding encumbrances are reappropriated in the subsequent year.

Supplemental Appropriations

The following schedule shows the annual budget originally adopted for the County and the Board, and the revisions to that budget as authorized by the County Commission, for the year ended June 30, 2014:

Fund	Original Budget	Revisions	Revised Budget
Governmental Funds:			
General Fund	$ 161,568,136	$ 9,253,043	$ 170,821,179
Special Revenue Funds:			
State, Federal and Other Grants	151,795	1,139,761	1,291,556
Governmental Library	125,000	22,000	147,000
Public Library	12,620,900	242,464	12,863,364
Solid Waste	3,994,897	-	3,994,897
Hotel/Motel Tax	5,715,000	161,089	5,876,089
Drug Control	660,495	534,938	1,195,433
Engineering & Public Works	11,637,900	1,356,818	12,994,718
Total Special Revenue Funds	34,905,987	3,457,070	38,363,057
Debt Service Fund	73,000,000	-	73,000,000
Total - Governmental Funds	$ 269,474,123	$ 12,710,113	$ 282,184,236

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Data (Continued)

Fund	Original Budget	Revisions	Revised Budget
Component Unit - the Board:			
General Fund:			
General Purpose School	$ 419,867,000	$ 14,917,639	$ 434,784,639
Special Revenue Funds:			
Central Cafeteria	26,146,452	750,000	26,896,452
Capital Projects Fund:			
School Construction	19,700,000	-	19,700,000
Total - the Board	$ 465,713,452	$ 15,667,639	$ 481,381,091

Remaining supplemental appropriations primarily represent funds designated during the previous fiscal year, encumbrances outstanding at June 30, 2014, and grant awards appropriated at the time the award is received.

A local ordinance requires a two-thirds approval of the County Commission before reducing any County fund balance below an amount equal to five percent of the total amount budgeted in the fund. State law stipulates that the Board’s General Purpose School Fund balance in excess of three percent of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for nonrecurring purposes but shall not be used for recurring annual operating expenses.

NOTE III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The County, the Board and the District maintain a cash and investment pool through the County Trustee's office. The County Trustee is the treasurer of the County and in this capacity is responsible for receiving, disbursing, depositing and investing most funds. The carrying amount of balances approximates bank balances.

The Trustee of Knox County utilizes a negotiated sweep agreement for a portion of funds held by the Trustee. These funds are invested each night in various instruments, but under the County’s policy these funds are classified as Cash and Cash Equivalents.

Other investments are held in the State of Tennessee’s Local Government Investment Pool (“LGIP”) and are not subject to categorization. Fair value of investments held in the LGIP approximates carrying value.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the County’s governmental activities investments are managed by an investment board, whose objectives are to maximize earnings while reducing the exposure to interest rate risks to a low level by utilizing a mixture of short and long-term maturity investments, primarily in investments in U.S. Government Securities and securities issued by agencies of the U.S. Government. The County’s and Board’s Pension Trust fund activities are managed by the Knox County Retirement Board, whose objectives are to maximize earnings while reducing the exposure to interest rate risks to an appropriate level by using a mixture of long-term and short-term investments in various debt and equity securities. The investments of the County’s defined benefit plan and the Board’s defined benefit plan are included in a single trust account. The following represents the County’s and the Board’s governmental activities investments and the activities of the County’s and the Board’s Pension Trust funds:

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

	Primary Government and Board Governmental Activities		Fiduciary Activities, Primary Government and Board	
	Fair Value or Carrying Amount	Weighted Average Maturity (Years)	Fair Value or Carrying Amount	Weighted Average Maturity (Years)
Cash Equivalents Classified as Investments	$ 39,134		$ 4,698,020	
Certificate of Deposits held greater than 90 days	$ 8,169,561		$ -	
Common Collective Trusts	$ -		$ 30,306,536	
Guaranteed Investment Contracts	$ -		$ 28,283,422	
Mutual Funds	$ -		$ 464,362,940	
Fixed Income Securities:				
U.S. Treasuries	$ 1,502,465	0.441	$ 14,342,467	9.700
Federal Agency Mortgage Backed Securities	4,430,534	0.971	8,803,824	25.200
Federal Agency Debt Securities	5,328,432	0.528	4,889,627	2.600
Corporate Bonds	-		3,103,849	6.900
Municipal Bonds	38,671,172	0.170	-	
Total Fixed Income Securities	$ 49,932,603	2.110	$ 31,139,767	12.700

Custodial credit risk

The County's policies limit deposits and investments to those instruments allowed by applicable state laws. Tennessee State Law requires financial institutions to secure a local government's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 105% of the average daily balance of deposits. Alternatively, financial institutions that hold public deposits may participate in the State's collateral pool.

A portion of the County's, the Board's and the District's deposits at June 30, 2014 were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee (the State). Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must equal between 90 – 115 percent of the average daily balance of public deposits held and must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required to pay an assessment to cover any deficiency.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Credit risk

The County's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable laws. The County's and Board's Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and County policies allow the Pension Trust funds a broader range of investments than those available to the governmental activities. The credit risk of the investments of the County's and Board's governmental activities and the County's and Board's Pension Trust funds investments in fixed-income securities is as follows:

	Primary Government and Board Governmental Activities		Fiduciary Activities, Primary Government and Board	
	Fair Value	S&P/Moody's Ratings	Fair Value	S&P/Moody's Ratings
U.S. Treasuries	$ 1,502,465	Aaa	$ 14,342,467	AA+
Federal Agency Mortgage Backed Securities	4,430,534	AA+	8,803,824	Aaa
Federal Agency Debt Securities	5,328,432	AA+	4,889,627	AA+
Corporate Bonds:				
Corporate Bonds	-		125,131	AAA
Corporate Bonds	-		205,586	AA+
Corporate Bonds	-		148,845	AA
Corporate Bonds	-		217,573	AA-
Corporate Bonds	-		403,900	A+
Corporate Bonds	-		588,135	A
Corporate Bonds	-		787,203	A-
Corporate Bonds	-		627,476	BBB+
Municipal Bonds	5,639,577	AAA	-	
Municipal Bonds	371,683	Aaa	-	
Municipal Bonds	8,525,700	AA+	-	
Municipal Bonds	2,676,811	Aa1	-	
Municipal Bonds	9,714,910	AA	-	
Municipal Bonds	3,260,739	Aa2	-	
Municipal Bonds	3,135,237	AA-	-	
Municipal Bonds	1,268,204	Aa3	-	
Municipal Bonds	1,301,171	A+	-	
Municipal Bonds	2,777,140	A	-	
Total Fixed Income Securities	$ 49,932,603		$ 31,139,767	

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The County's and Board's governmental activities investments and the County's and the Board's pension trust investments have no investments in any single issuer of fixed income securities that represent 5 percent or more of plan investments.

B. Receivables

Receivables for the County's individual major funds and nonmajor governmental, internal service, and fiduciary funds in the aggregate, as of year-end, including allowances for uncollectible accounts are:

Primary Government

	Major Governmental Funds							
	General	Debt Service	Capital Projects Public Improvement	Nonmajor Governmental Funds	Internal Service	Enterprise Fund	Total Primary Government	Trust and Agency
Receivables:								
Taxes	$ 113,383,573	$ 55,577,040	$ -	$ -	$ -	$ -	$ 168,960,613	$ -
Accounts	7,588,363	35,000	63,896	7,640,117	707,867	7,346	16,042,589	8,075,869
Contributions	-	-	-	-	-	-	-	410,243
Gross Receivables	120,971,936	55,612,040	63,896	7,640,117	707,867	7,346	185,003,202	8,486,112
Less: Allowances for Uncollectibles	(2,050,937)	(729,935)	-	-	-	-	(2,780,872)	-
Net Total Receivables	$ 118,920,999	$ 54,882,105	$ 63,896	$ 7,640,117	$ 707,867	$ 7,346	$ 182,222,330	$ 8,486,112

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Receivables for the County's component units as of year-end, including the allowances for uncollectible accounts are:

Component Units:	Government-wide Totals			
	The Board	The Partnership	The District	The Corporation
Receivables:				
Taxes	$ 108,478,325	$ -	$ -	$ -
Accounts	38,804,176	846,821	1,497,385	172,532
Gross Receivables	147,282,501	846,821	1,497,385	172,532
Less: Allowances for Uncollectibles	(2,195,213)	-	-	-
Net Total Receivables	$ 145,087,288	$ 846,821	$ 1,497,385	$ 172,532

The General Fund has the following note receivable at June 30, 2014:

(1) A note receivable from the Knoxville-Knox County Community Action Committee (CAC) with an initial balance of $2,300,000 was originated during the fiscal year ended June 30, 2004. The note resulted from an arrangement between the County and CAC whereby certain proceeds from debt issued by the County were used to construct a facility on CAC’s behalf. CAC agreed to reimburse the County by repaying the annual amounts of the County’s related debt service requirements. The resulting note receivable is due in varying principal installments, plus interest, through 2022. As of June 30, 2014, $1,151,000 remained outstanding.

The County’s Debt Service Fund has the following note and loan receivable at June 30, 2014:

(1) Note receivable from the West Knox Utility District of Knox County (WKUD) has a current balance of $1,455,000. The basis of this note is an agreement made by the County to participate with the district to expedite utility relocation and upgrading necessary for construction of improved roadways within the northwest portion of the County. The district was advanced up to $2,000,000, which was disbursed by the County in installments upon receipt of draw notices. The note is non-interest bearing and is payable in four varying installments every five years. The amount to be repaid also includes $140,000, recognized as revenue when received, that the district must pay to cover the County's administrative, accounting and financial costs associated with the agreement.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

(2) A loan receivable from the Industrial Development Board of Blount County was made for the purpose of providing financial assistance to the Board for the acquisition and development of property as a business and industrial park. The loan bears interest at 5% annually and is to be repaid from amounts to be received by the Board from land sales and other revenues related to the park. At June 30, 2014, the loan balance was $6,020,000.

The State, Federal and Other Grants Special Revenue Fund had $2,850,946 of notes receivable at June 30, 2014. These note agreements are from eligible County citizens participating in various state and federal low-income housing projects. These notes are executed with a range of below market interest rates and varying repayment terms.

Advances to Other Government

During the fiscal year ended June 30, 2006, the County advanced $2,500,000 to the Knoxville-Knox County Community Action Committee (CAC). An additional advance during the fiscal year ended June 30, 2009 for $3,500,000 was made to CAC from Knox County. These advances were made to provide funding for operations and are to be repaid from grant monies and other funding received by CAC. During the fiscal year ended June 30, 2011, CAC paid the County $3,500,000 towards the advances leaving a balance due to the County of $2,500,000. CAC made no payments during the fiscal years ended 2013 and 2014. Subsequent to the fiscal year 2014 year end, CAC made a payment to the County of $35,000, which has been reclassified as a current receivable.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Activity in the County's and the Component Unit's capital assets for the fiscal year ended June 30, 2014, was the following:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	$ 100,929,615	$ 2,604,822	$ 4,424,363	$ 99,110,074
Construction in Progress	48,697,405	11,345,610	24,374,613	35,668,402
Total Capital Assets, not being depreciated	149,627,020	13,950,432	28,798,976	134,778,476
Capital Assets being depreciated:				
Buildings	194,403,301	17,102,969	-	211,506,270
Land Improvements	20,357,037	3,820,662	-	24,177,699
Machinery and Equipment	41,972,001	3,513,730	1,671,905	43,813,826
Intangible Assets	15,665,627	52,145	22,040	15,695,732
Infrastructure	537,515,932	5,857,185	-	543,373,117
Total Capital Assets being depreciated	809,913,898	30,346,691	1,693,945	838,566,644
Less Accumulated Depreciation for:				
Buildings	79,038,680	4,217,018	-	83,255,698
Land Improvements	13,578,730	897,506	-	14,476,236
Machinery and Equipment	32,568,125	3,093,056	1,671,381	33,989,800
Intangible Assets	11,340,877	660,483	22,040	11,979,320
Infrastructure	205,989,211	13,404,883	-	219,394,094
Total Accumulated Depreciation	342,515,623	22,272,946	1,693,421	363,095,148
Total Capital Assets being depreciated, net	467,398,275	8,073,745	524	475,471,496
Governmental Activities Capital Assets, net	$ 617,025,295	$ 22,024,177	$ 28,799,500	$ 610,249,972

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Three Ridges Golf Course:				
Land and Construction in Progress	$ 880	$ -	$ -	$ 880
Buildings	747,515	-	-	747,515
Machinery and Equipment	504,423	11,500	(9,000)	506,923
Computer Software	25,448	-	-	25,448
Land Improvements	66,463	-	-	66,463
Less: Accumulated Depreciation	(840,849)	(58,090)	5,656	(893,283)
Total	$ 503,880	$ (46,590)	$ (3,344)	$ 453,946

Depreciation expense was charged to primary government governmental activities functions as follows:

Finance and Administration	$ 407,250
Administration of Justice	512,417
Public Safety	2,929,442
Public Health and Welfare	874,192
Social and Cultural Services	2,626,172
Other General Government	1,511,295
Engineering & Public Works	13,412,178
Total Depreciation Expense - Governmental Activities	$ 22,272,946

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Component Unit – the Board

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 21,960,430	$ -	$ 2,062	$ 21,958,368
Construction in Progress	57,713,142	23,986,484	58,325,750	23,373,876
Total Capital Assets, not being depreciated	79,673,572	23,986,484	58,327,812	45,332,244
Capital Assets being depreciated:				
Buildings	472,683,836	36,255,934	-	508,939,770
Land Improvements	2,391,826	121,769	-	2,513,595
Machinery and Equipment	57,036,730	25,834,392	1,244,007	81,627,115
Intangible Assets	508,678	1,494,101	-	2,002,779
Total Capital Assets being depreciated	532,621,070	63,706,196	1,244,007	595,083,259
Less Accumulated Depreciation for:				
Buildings	187,905,144	10,438,519	-	198,343,663
Land Improvements	1,138,657	152,003	-	1,290,660
Machinery and Equipment	31,439,349	6,545,879	1,244,007	36,741,221
Intangible Assets	498,458	35,123	-	533,581
Total Accumulated Depreciation	220,981,608	17,171,524	1,244,007	236,909,125
Total Capital Assets being depreciated, net	311,639,462	46,534,672	-	358,174,134
Governmental Activities Capital Assets, net	$ 391,313,034	$ 70,521,156	$ 58,327,812	$ 403,506,378

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund and Component Unit Receivables and Payables

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The composition of the County and component unit interfund receivables and payables as of June 30, 2014, is as follows:

Due to/from Other Funds - Primary Government:

Receivable Fund	Payable Fund	Amount
Major Funds:		
General	Constitutional Officers' Special Revenue Fund	$ 456,776
	State, Federal and Other Grants	161,844
	Governmental Library	29,279
	Public Library	165,074
	Solid Waste	144,100
	Drug Control	10,232
	Engineering & Public Works	92,953
	Vehicle Service Center	218,030
	Employee Benefits	17,000
	Self Insurance	1,019
	Building Operations	15,654
	Technical Support	13,694
	Three Ridges Golf Course	14,436
		1,340,091
Debt Service	General	647,025
Public Improvement	General	50,000
Total Major Governmental Funds		2,037,116
Nonmajor Special Revenue Funds:		
State, Federal and Other Grants	General	704,861
	Solid Waste	8,484
	Drug Control	9,156
		722,501
Engineering & Public Works	General	110,045
Governmental Library	General	50,000

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund and Component Unit Receivables and Payables (Continued):

Receivable Fund	Payable Fund	Amount
ADA Construction	Building Operations	127,372
Drug Control	General	150
Solid Waste	General	600,000
	State, Federal and Other Grants	7,028
		607,028
Total Nonmajor Governmental Funds		1,617,096
Total Governmental Funds		$ 3,654,212
Internal Service Funds:		
Vehicle Service Center	General	$ 67,139
	State, Federal and Other Grants	790
	Public Library	1,747
	Solid Waste	10,071
	Engineering & Public Works	78,122
	Self Insurance	71
	Building Operations	35
		157,975
Mailroom Services	General	20,063
	State, Federal and Other Grants	9
	Engineering & Public Works	52
	Employee Benefits	465
	Self Insurance	38
		20,627
Employee Benefits	General	12,761
	State, Federal and Other Grants	6,534
	Public Library	505
		19,800
Self Insurance	Employee Benefits	200,000
Self Insurance Healthcare	General	966,018
Technical Support	Public Improvement	193,905
Total Internal Service Funds		$ 1,558,325

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund and Component Unit Receivables and Payables (Continued)

Due to/from Primary Government and Component Units:

Receivable Fund	Payable Fund	Amount
Primary Government - Major Funds:		
General	Component Unit - the Board, General Purpose School	$ 666,955
	Component Unit - the Board, School Federal Projects	9,400
	Component Unit - the Board, School General Projects	84,400
	Component Unit - the Board, School Construction	88,889
		849,644
Public Improvement	Component Unit - the Board, General Purpose School	193,905
Total Primary Government - Major Funds		1,043,549
Primary Government - Internal Service Funds:		
Vehicle Service Center	Component Unit - the Board, School General Projects	90
	Component Unit - the Board, School General Projects	59
	Component Unit - the District	551
		700
Employee Benefits	Component Unit - the Board, General Purpose School	218,169
	Component Unit - the Board, School Federal Projects	36,379
	Component Unit - the Board, School General Projects	6,324
		260,872
Self Insurance	Component Unit - the Board, General Purpose School	220,397
Total Primary Government - Internal Service Funds		481,969
Total Primary Government		$ 1,525,518

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund and Component Unit Receivables and Payables (Continued)

Receivable Fund	Payable Fund	Amount
Component Unit - the Board, General Purpose School	Primary Government - General	$ 87,469
	Primary Government - Employee Benefits	121,672
		209,141
Component Unit - the Board, School Construction	Primary Government - General	10,600
Total Component Unit - the Board		$ 219,741
Component Unit - the District	Primary Government - Employee Benefits	$ 3,575

Due to/from Other Funds - The Board:

Receivable Fund	Payable Fund	Amount
Major Funds:		
General - General Purpose School	School Federal Projects	$ 12,506,897
	School General Projects	480,162
	School Construction	25,216,644
		38,203,703
Nonmajor Special Revenue Funds:		
School Federal Projects	General Purpose School	114,775
	School General Projects	120,033
		234,808
School General Projects	General Purpose School	741,072
	School Federal Projects	267,793
		1,008,865
Total Board of Education		$ 39,447,376

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

E. Transfers and Similar Transactions

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The composition of primary government transfers for the year ended June 30, 2014, is as follows:

Primary Government:

Transfers - In	Transfers - Out	Amount
Major Funds:		
General	Constitutional Officers - Special Revenue	$ 9,661,030
Debt Service	General	195,266
Public Improvement	General	1,279,749
	Engineering & Public Works	295,250
		1,574,999
Total Major Governmental Funds		11,431,295
Nonmajor Governmental Funds:		
Special Revenue Funds:		
State, Federal and Other Grants	General	1,555,567
Governmental Library	General	50,000
Public Library	General	1,130,000
	Hotel/Motel	540,000
		1,670,000
Solid Waste	General	600,000
Engineering & Public Works	General	510,000
Drug Control	General	93,965
Total Nonmajor Governmental Funds		4,479,532
Total Governmental Funds		$ 15,910,827

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

E. Transfers and Similar Transactions (Continued)

Transfers - In	Transfers - Out	Amount
Internal Service Funds:		
Vehicle Service Center	Engineering & Public Works	$ 250,180
Building Operations	General	1,648,900
	Public Library	725,000
	Solid Waste	51,000
	Engineering & Public Works	155,000
		2,579,900
Employee Benefits	General	2,000,000
Self Insurance	General	500,000
	Employee Benefits	200,000
		700,000
Total Internal Service Funds		$ 5,530,080

In addition, payments of $1,873,917 were made from the Pension Trust – Defined Benefit Funds for the County Retirement Board administrative expenses.

Transfers Within Component Unit – the Board:

Transfers - In	Transfers - Out	Amount
Special Revenue Funds (Nonmajor):		
General Purpose School	Central Cafeteria	$ 745,008
	School Construction	3,215,000
		3,960,008
School General Projects	General Purpose School	10,530,907
	School Federal Projects	567,038
		11,097,945
School Federal Projects	General Purpose School	62,271
	School General Projects	41,309
		103,580
Total Board of Education		$ 15,161,533

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

E. Transfers and Similar Transactions (Continued)

Transactions between Primary Government and Component Units:

Revenues and Other Sources	Expenses/Expenditures and Other Uses	Amount
Primary Government - Debt Service (Major Fund)	Component Unit - the Board, General Purpose School	$ 10,938,398
	Component Unit - the Board, School Construction	19,500,000
	Component Unit - the Board, School General Projects	1,490,625
Total Primary Government		$ 31,929,023
Component Unit - General Purpose School	Primary Government - General	$ 4,052,000
Component Unit - School Construction	Primary Government - Public Improvement	32,801,434
Component Unit - School General Projects	Primary Government - Public Improvement	5,962,500
Component Unit - Great Schools Partnership	Primary Government - General	2,701,874
		45,517,808
Component Unit - The District	Primary Government - General	537,828
Component Unit - The Corporation	Primary Government - General	600,000
Total Component Units		$ 46,655,636

Transactions between the Board and its Component Unit:

Revenues and Other Sources	Expenses/Expenditures and Other Uses	Amount
The Board, School General Projects	Component Unit, Great Schools Partnership	$ 3,147,995

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

F. Unearned Revenues

Amounts reported as unearned revenue in the fund financial statements consist of the following:

	Fund Financial Statements
Primary Government - Major Funds:	
General Fund:	
Unearned revenue	$ 29,258
Primary Government - Nonmajor Funds:	
General Grants Fund:	
Unexpended grant funds	3,344,995
Governmental Library Fund:	
Unearned revenue	360
Internal Service - Employee Benefits Fund:	
Unearned revenue	29,761
Internal Service - Building Operations Fund:	
Unearned revenue	7,894
Internal Service - Self Insurance Healthcare Fund:	
Unearned revenue	14,194
Total Internal Service Funds	51,849
Total - Primary Government	$ 3,426,462
Component Unit - the Board - Nonmajor Funds:	
School General Projects:	
Unexpended grant funds	$ 3,424,872
Central Cafeteria:	
Unearned revenue	370,815
Total Component Unit - the Board	$ 3,795,687

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Deferred Inflows

Amounts reported as deferred inflows in the fund financial statements and the government-wide financial statements consist of the following:

	Fund Financial Statements	Government-wide Financial Statements
Primary Government - Major Funds:		
General Fund:		
Taxes receivable, delinquent	$ 3,720,478	$ -
Taxes receivable, applicable to subsequent fiscal year	106,881,693	106,881,693
Notes receivable, applicable to subsequent fiscal year	1,151,000	1,151,000
	111,753,171	108,032,693
Debt Service Fund:		
Taxes receivable, delinquent	1,170,554	-
Taxes receivable, applicable to subsequent fiscal year	53,440,847	53,440,847
Notes receivable, applicable to subsequent fiscal year	6,020,000	6,020,000
	60,631,401	59,460,847
Total - Primary Government	$ 172,384,572	$ 167,493,540
Component Unit - the Board - Major Fund		
General Purpose School:		
Taxes receivable, delinquent	$ 4,118,327	$ -
Taxes receivable, applicable to subsequent fiscal year	97,974,887	97,974,887
Accounts receivable, applicable to subsequent fiscal year	737,886	737,886
Total Component Unit - the Board	$ 102,831,100	$ 98,712,773

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

H. Leases

Capital Lease

All capital leases pertain to governmental activities.

The Primary Government leases various equipment through capital leasing arrangements. The Primary Government's capital lease obligations are reflected as a liability in the Statement of Net Position.

The future minimum lease obligations are as follows:

Year Ending June 30,	Primary Government
2015	$ 1,030,955
2016	2,306,705
2017	2,053,020
2018	2,083,682
2019	2,115,263
2020 - 2024	11,084,219
2025 - 2029	10,997,668
2030 - 2031	2,262,496
Total Minimum Lease Payments	$ 33,934,008
Less: Amounts Representing Interest	(6,688,901)
Present Value of Minimum Lease Payments	$ 27,245,107

Capital lease obligations currently outstanding for the Primary Government are as follows:

Lessor	Purpose	Interest Rate	Last Maturity Date	Principal Balance
SunTrust Bank	Energy Management Equipment	2.19%	2/1/2028	$ 12,372,703
Bank of America Public Capital Corp.	Energy Management Equipment	3.09%	8/1/2030	$ 14,872,404

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities

Loans Payable

All loans payable pertain to governmental activities.

In November 2011, the County entered into a loan agreement whereby the County borrowed funds for Knox County Board of Education capital purposes. The original proceeds of $5 million, plus $7,192 accrued interest added to principal, are payable in monthly payments including interest at .75% through July 1, 2024. Debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	$ 406,066	$ 30,386	$ 436,452
2016	409,121	27,331	436,452
2017	412,201	24,251	436,452
2018	415,303	21,149	436,452
2019	418,428	18,024	436,452
2020 - 2024	2,139,853	42,407	2,182,260
2025	36,384	23	36,407
Total	$ 4,237,356	$ 163,571	$ 4,400,927

In addition, in August 2013, the County entered into a loan agreement whereby the County borrowed funds for the Board of Education, which acquired computer equipment for instructional purposes in various schools. The total borrowed of $5,962,500 is to be repaid in four equal annual installments of $1,490,625 ending in 2016. The first payment was made in 2013, resulting in a balance as of June 30, 2014 totaling $4,471,875.

The Partnership has reported non-capital related loans payable of $10,655,000, due in more than one year.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

General Obligation and Public Improvement Bonds

The County issues general obligation and public improvement bonds to provide funds for the acquisition and construction of major capital facilities. Except for the County's General Obligation Series 2007 (Taxable) pension obligation bonds issued pursuant to the establishment of the Uniformed Officers Pension Plan, all County bonded debt was issued for capital purposes. All bonded debt pertains to governmental activities.

For financial reporting purposes, the portion of those bond issues related to the Board are recorded as payments from the primary government in the Board's Capital Projects Fund. The County issues all the debt on behalf of the Board, in the County's name and with a full faith and credit pledge from the County. Therefore, from a legal perspective, the debt is County debt. In practice, the County's Five-Year Capital Plan, its Debt Service Fund and its Operating Budget are all developed with the Board providing funds from its operations to make the debt payments related to County debt issued on behalf of the Board. However, as all bonded indebtedness is County debt, the entire balance is recorded as a liability of the primary government in the government-wide financial statements.

As all bonded indebtedness is County debt, the portion issued on behalf of the Board is not considered capital-related debt in the primary government's statement of net assets. However, the total amount of the County's bonded indebtedness is considered capital-related in the total reporting entity column of the statement of net assets.

Bond indebtedness for the County is backed by the full faith and credit of the County.

Bonds payable to be repaid from resources of the County and the Board currently outstanding are as follows:

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

	Interest Rate	Last Maturity Date		Principal Balance
Governmental Activities:				
General Obligation - Refunding Series 2002A	4.00-5.50%	4/1/2019	$	14,055,818
General Obligation - Refunding Bonds, Series 2003A	5.00%	2/1/2017		4,978,776
General Obligation - Series 2003	Variable Rate Swap to 3.95%	6/1/2029		30,046,749
General Obligation - Refunding Series 2004	4.00-5.25%	4/1/2020		10,401,589
General Obligation - Series 2004	Variable Rate Swap to 3.40%	6/1/2029		42,385,714
General Obligation - Refunding Series 2005A	3.569-5.00%	5/1/2021		22,635,624
General Obligation - Series 2005	Variable Rate Swap to 3.89%	6/1/2034		43,311,690
General Obligation - Series 2007	Variable Rate (.618% at 6/30/14)	6/1/2034		50,450,000
General Obligation - Series 2007 (Taxable Pension Bonds)	4.75-5.75%	6/1/2027		50,975,000
General Obligation - Series 2008	Variable Rate (.06% at 6/30/14)	6/1/2029		21,654,750
General Obligation - Series 2009	3.00-4.00%	6/1/2018		2,425,000
General Obligation - Series 2010A (Federally Taxable Build America Bonds)	1.10-5.75% (1)	6/1/2035		993,748
General Obligation - Refunding Bonds, Series 2010B	2.00-5.00%	4/1/2035		30,065,000
General Obligation - Refunding Bonds, Series 2010C	2.00-4.00%	4/1/2024		8,770,000
General Obligation - Series 2010D (Federally Taxable Build America Bonds)	1.125-6.00% (1)	6/1/2035		16,925,000
General Obligation - Series 2012	2.0 - 4.0%	4/1/2032		5,850,000
General Obligation - Series 2013	2.0 - 4.35%	6/1/2035		20,962,906
Total Bonded Debt to be repaid by Governmental Activities				376,887,364
The Board:				
General Obligation - Refunding Series 2002A	4.00-5.50%	4/1/2019		24,559,182
General Obligation - Refunding Series 2003A	5.00%	2/1/2017		11,341,224
General Obligation - Series 2003	Variable Rate Swap to 3.95%	6/1/2029		28,128,251
General Obligation - Refunding Series 2004	4.00-5.25%	4/1/2020		14,663,411
General Obligation - Series 2004	Variable Rate Swap to 3.40%	6/1/2029		22,114,286
General Obligation - Refunding Series 2005A	3.569-5.00%	5/1/2021		13,494,376
General Obligation - Refunding Series 2005B	3.65-5.00%	5/1/2018		4,975,000
General Obligation - Series 2005	Variable Rate Swap to 3.89%	6/1/2034		23,388,310
General Obligation - Series 2007	Variable Rate (.618% at 6/30/14)	6/1/2034		18,550,000
General Obligation - Series 2008	Variable Rate (.06% at 6/30/14)	6/1/2029		11,660,250
General Obligation - Series 2010A (Federally Taxable Build America Bonds)	1.10-5.75% (1)	6/1/2035		14,906,252
General Obligation - Refunding Bonds, Series 2010C	2.00-4.00%	4/1/2024		17,100,000
General Obligation - Qualified School Construction Bonds	.0% (2)	7/1/2027		24,067,204
General Obligation - Series 2012	2.0 - 4.0%	4/1/2032		8,450,000
General Obligation - Series 2013	2.0 - 4.35%	6/1/2035		18,112,094
Total Bonded Debt to be repaid by the Board				255,509,840
Total Bonded Debt			$	632,397,204

(1) Stated interest rates on the Build America Bonds do not include the effects of the interest subsidy expected to be received from the federal government pursuant to the federal Build America Bonds program. The interest rate subsidy 35% at issuance of the bonds, is being reduced due to sequestration by the federal government at a current rate of 7.2%.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

(2) Stated interest rate is net of the interest rate subsidy to be received from the federal government pursuant to the federal Qualified School Construction Bonds program.

Annual debt service requirements to maturity for bonds to be repaid by the County and the Board are as follows:

Fiscal Year Ending June 30,	Primary Government Debt Principal	Interest	Total	To be Repaid By: County	Board	Total
2015	$ 42,104,281	$ 29,402,041	$ 71,506,322	$ 36,481,997	$ 35,024,325	$ 71,506,322
2016	42,414,281	27,397,539	69,811,820	36,588,520	33,223,300	69,811,820
2017	40,284,281	25,482,793	65,767,074	35,363,513	30,403,561	65,767,074
2018	36,774,281	23,690,842	60,465,123	33,868,507	26,596,616	60,465,123
2019	36,659,281	22,104,341	58,763,622	33,455,925	25,307,697	58,763,622
2020 - 2024	148,811,405	89,644,726	238,456,131	147,884,497	90,571,634	238,456,131
2025 - 2029	146,009,394	57,075,098	203,084,492	130,701,274	72,383,218	203,084,492
2030 - 2034	128,515,000	21,359,364	149,874,364	102,473,505	47,400,859	149,874,364
2035	10,825,000	542,713	11,367,713	6,307,704	5,060,009	11,367,713
Total	$ 632,397,204	$ 296,699,457	$ 929,096,661	$ 563,125,442	$ 365,971,219	$ 929,096,661

The total bonded debt service requirements to be repaid by the County and the Board include interest of $186,238,078 and $110,461,379, respectively, for a total of $296,699,457.

Changes in General Long-Term Liabilities

The following represents the changes in long-term liabilities for the County, the Board, and the District for the year ended June 30, 2014:

	Balance July 1	Additions	Deductions	Balance June 30	Current Portion
Primary Government					
Bonded Debt	$ 631,616,485	$ 39,075,000	$ (38,294,281)	$ 632,397,204	$ 42,104,281
Unamortized Bond Premium	7,552,564	350,920	(1,405,693)	6,497,791	1,251,155
Loans Payable	4,640,390	5,962,500	(1,893,659)	8,709,231	1,896,691
Capital Lease	13,182,024	14,872,404	(809,321)	27,245,107	764,145
Compensated Absences	6,882,044	8,767,923	(7,769,870)	7,880,097	7,102,088
Total - Primary Government	$ 663,873,507	$ 69,028,747	$ (50,172,824)	$ 682,729,430	$ 53,118,360
Component Unit - the Board					
Compensated Absences	$ 2,466,681	$ 2,712,609	$ (2,047,111)	$ 3,132,179	$ 2,818,961
Total Component Unit - the Board	$ 2,466,681	$ 2,712,609	$ (2,047,111)	$ 3,132,179	$ 2,818,961
Component Unit - the District					
Compensated Absences	$ 255,103	$ 324,481	$ (314,282)	$ 265,302	$ 238,772
Total - the District	$ 255,103	$ 324,481	$ (314,282)	$ 265,302	$ 238,772

For the primary government, compensated absences totaling $30,424 pertains to the non-major enterprise fund, with the remaining long-term liabilities related to governmental activities.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Subsequent Event – Debt Issuance

In October 2014, the County issued $86,880,000 in general obligation bonds. Bonds in the amount of $30,040,000 were issued to fund the cost of various capital projects as approved in the County's Capital Improvement Plan. The bonds bear interest at rates from 2.125% to 5.0% and mature in varying amounts through 2036. In addition, bonds totaling $56,840,000 were issued to provide funds for the current refunding of the County's General Obligation Refunding Bonds, Series 2005B and the General Obligation Bonds, Series 2007. The bonds bear interest at rates from .25% to 3.23% and mature in varying amounts through 2027.

Interest Rate Swaps

Series C-1-A

Under its loan agreement, the Public Building Authority of Blount County, TN (the "Authority"), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series C-1-A.

Objective of the interest rate swap. In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its $72 million Series C-1-A variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an effective hedge, and is therefore accounted for as a hedging derivative instrument. The fair value of the hedging derivative instrument is reported in the Statement of Net Position as a long-term obligation. Accumulated changes in fair values are reported as deferred outflows in the Statement of Net Position.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Terms. Under the swap, the Authority pays the counterparty a fixed payment of 3.95 percent and receives a variable payment computed as 63.2 percent of the five-year London Interbank Offered Rate (LIBOR). The swap has a notional amount of $72 million and the associated variable-rate bond has a $72 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series C-1-A Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association lndex™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2029. As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment by Authority	Fixed	3.95%
Variable payment to Authority	% of LIBOR	-1.07%
Net interest rate swap payments		2.88%
Variable-rate bond coupon payments		0.06%
Synthetic interest rate on bonds		2.94%

Fair value. As of June 30, 2014, the swap had a negative fair value of ($8,385,607), a change of $6,462 compared to the June 30, 2013 balance of ($8,392,069). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates 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 at their present value.

Credit risk. As of June 30, 2014, the County 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 becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 63.2% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.2% of LIBOR, then the synthetic rate on the bonds will decrease.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (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 the swap 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.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
Fiscal Year Ending June 30	Principal	Interest	Net Interest Rate Swap Payment	Total
2015	$ 2,475,000	$ 34,905	$ 1,670,553	$ 4,180,458
2016	2,625,000	33,420	1,599,481	4,257,901
2017	2,775,000	31,845	1,524,102	4,330,947
2018	2,950,000	30,180	1,444,415	4,424,595
2019	3,125,000	28,410	1,359,703	4,513,113
2020-2024	18,775,000	111,525	5,337,587	24,224,112
2025-2029	25,450,000	47,640	2,280,050	27,777,690
	$ 58,175,000	$ 317,925	$ 15,215,891	$ 73,708,816

Series VI-A-1

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series VI-A-1.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Objective of the interest rate swap. In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its $70 million Series VI-A-1 variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an ineffective hedge, and is therefore accounted for as an investment derivative instrument. The fair value of the investment derivative instrument is reported in the Statement of Net Position as a long-term obligation. Changes in the fair value of the derivative instrument are reported within the investment revenue classifications in the Statement of Activities.

Terms. Under the swap, the Authority pays a fixed payment of 3.40 percent and receives a variable payment computed as 59 percent of the five-year London Interbank Offered Rate (LIBOR). The swap has a notional amount of $70 million and the associated variable-rate bond has a $70 million original principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series VI-A-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association lndex™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2029. As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment by Authority	Fixed	3.40%
Variable payment to Authority	% of LIBOR	-1.00%
Net interest rate swap payments		2.40%
Variable-rate bond coupon payments		0.06%
Synthetic interest rate on bonds		2.46%

Fair value. As of June 30, 2014, the swap had a negative fair value of ($7,200,256), a change of $187,744 compared to the June 30, 2013 balance of ($7,012,512). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates 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 at their present value.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Credit risk. As of June 30, 2014, the County 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 becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 59% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 59% of LIBOR, then the synthetic rate on the bonds will decrease.

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 the swap 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 fixed 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.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
Fiscal Year Ending June 30	Principal	Interest	Net Interest Rate Swap Payment	Total
2015	$ 2,000,000	$ 38,700	$ 1,542,840	$ 3,581,540
2016	3,000,000	37,500	1,495,000	4,532,500
2017	3,200,000	35,700	1,423,240	4,658,940
2018	3,400,000	33,780	1,346,696	4,780,476
2019	3,600,000	31,740	1,265,368	4,897,108
2020-2024	21,360,000	123,690	4,931,108	26,414,798
2025-2029	27,940,000	52,014	2,073,625	30,065,639
	$ 64,500,000	$ 353,124	$ 14,077,877	$ 78,931,001

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Series D-3-A

Under its loan agreement, the Public Building Authority of Blount County, TN (the "Authority"), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series D-3-A.

Objective of the interest rate swap. In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its $77 million Series D-3-A variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an effective hedge, and is therefore accounted for as a hedging derivative instrument. The fair value of the hedging derivative instrument is reported in the Statement of Net Position as a long-term obligation. Accumulated changes in fair values are reported as deferred outflows in the Statement of Net Position.

Terms. Under the swap, the Authority pays the counterparty a fixed payment of 3.89 percent and receives a variable payment computed as 63.2 percent of the five-year London Interbank Offered Rate (LIBOR). The swap has a notional amount of $77 million and the associated variable-rate bond has a $77 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series D-3-A Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2034. As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment by Authority	Fixed	3.89%
Variable payment to Authority	% of LIBOR	-1.07%
Net interest rate swap payments		2.82%
Variable-rate bond coupon payments		0.67%
Synthetic interest rate on bonds		3.49%

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Fair value. As of June 30, 2014, the swap had a negative fair value of ($12,065,415), a change of $516,236 compared to the June 30, 2013 balance of ($11,549,179). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates 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 at their present value.

Credit risk. As of June 30, 2014, the County 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 becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 63.2 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.2 percent of LIBOR, then the synthetic rate on the bonds will decrease.

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 the swap 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.

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-Term Liabilities (Continued)

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
Fiscal Year Ending June 30	Principal	Interest	Net Interest Rate Swap Payment	Total
2015	$ 1,850,000	$ 444,489	$ 1,878,005	$ 4,172,494
2016	2,000,000	432,160	1,825,917	4,258,077
2017	2,100,000	418,832	1,769,605	4,288,437
2018	2,250,000	404,838	1,710,477	4,365,315
2019	2,375,000	389,844	1,647,126	4,411,970
2020-2024	8,250,000	1,729,974	7,309,298	17,289,272
2025-2029	5,925,000	1,519,059	6,418,160	13,862,219
2030-2034	41,950,000	860,656	3,636,347	46,447,003
	$ 66,700,000	$ 6,199,852	$ 26,194,935	$ 99,094,787

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

J. Fund Equity

The amounts reported on the balance sheets as fund balances for the County are comprised of the following:

Major Funds

	General	Constitutional Officers	Capital Projects Public Improvement	Debt Service	Total
Fund balances:					
Nonspendable:					
Inventories	$ 125,767	$ -	$ -	$ -	$ 125,767
Prepaids	212,181	-	-	-	212,181
Long-term Receivables	-	-	-	3,920,000	3,920,000
Investment in Joint Venture	6,422,186	-	-	-	6,422,186
	6,760,134	-	-	3,920,000	10,680,134
Restricted for:					
Finance and Administration	280,143	-	-	-	280,143
Administration of Justice	804,576	-	-	-	804,576
Public Safety	150,508	-	-	-	150,508
Public Health & Welfare	1,051,052	-	-	-	1,051,052
Social and Cultural	271,153	-	-	-	271,153
Debt Service	-	-	-	69,953	69,953
Capital Projects	-	-	7,068,211	-	7,068,211
	2,557,432	-	7,068,211	69,953	9,695,596
Committed to:					
Finance and Administration	39,640	-	-	-	39,640
Administration of Justice	102,505	-	-	-	102,505
Public Safety	88,000	-	-	-	88,000
Public Health & Welfare	55,000	-	-	-	55,000
Social and Cultural	27,438	-	-	-	27,438
Other General Government	2,030,000	-	-	-	2,030,000
Debt Service	-	-	-	21,679,018	21,679,018
	2,342,583	-	-	21,679,018	24,021,601
Assigned to:					
Finance and Administration	1,227,631	1,888,555	-	-	3,116,186
Administration of Justice	15,956	2,098,369	-	-	2,114,325
Public Safety	90,388	-	-	-	90,388
Public Health & Welfare	53,780	-	-	-	53,780
Social and Cultural	723	-	-	-	723
Other General Government	12,900	-	-	-	12,900
	1,401,378	3,986,924	-	-	5,388,302
Unassigned:	53,026,996	-	-	-	53,026,996
Total fund balances	$ 66,088,523	$ 3,986,924	$ 7,068,211	$ 25,668,971	$ 102,812,629

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

J. Fund Equity (Continued)

Nonmajor Governmental Funds

	State, Federal and Other Grants	Governmental Library	Public Library	Solid Waste	Hotel/Motel Tax	Drug Control	Engineering & Public Works	ADA Construction	Total
Fund balances:									
Nonspendable:									
Inventories	$ 10,530	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,530
Prepaids	21,460	-	1,725	-	-	-	-	-	23,185
	31,990	-	1,725	-	-	-	-	-	33,715
Restricted for:									
Finance and Administration	23,312	-	-	-	-	-	-	-	23,312
Administration of Justice	20,704	-	-	-	-	-	-	-	20,704
Public Safety	485,961	-	-	-	-	2,027,169	-	-	2,513,130
Public Health & Welfare	1,934,494	-	-	-	-	-	-	-	1,934,494
Social and Cultural	124,730	-	-	-	619,066	-	-	-	743,796
Other General Government	319,530	-	-	-	-	-	-	-	319,530
	2,908,731	-	-	-	619,066	2,027,169	-	-	5,554,966
Committed to:									
Public Health & Welfare	-	-	-	1,257,922	-	-	-	-	1,257,922
Social and Cultural	-	46,706	1,145,865	-	-	-	-	-	1,192,571
Engineering & Public Works	-	-	-	-	-	-	4,205,772	-	4,205,772
Capital Projects	-	-	-	-	-	-	-	727,539	727,539
	-	46,706	1,145,865	1,257,922	-	-	4,205,772	727,539	7,383,804
Total fund balances	$ 2,940,721	$ 46,706	$ 1,147,590	$ 1,257,922	$ 619,066	$ 2,027,169	$ 4,205,772	$ 727,539	$ 12,972,485

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

J. Fund Equity (Continued)

The amounts reported on the balance sheets as fund balances for the Board are comprised of the following:

	Major Funds		Nonmajor Special Revenue Funds			
	General Purpose Schools	School Construction Capital Projects	School Federal Projects	School General Projects	Central Cafeteria	Total
Fund balances:						
Nonspendable:						
Inventories	$ 819,050	$ -	$ -	$ 952,534	$ 626,908	$ 2,398,492
Prepaids	1,551,997	-	8,949	-	-	1,560,946
	2,371,047	-	8,949	952,534	626,908	3,959,438
Restricted for:						
Education	12,270,359	-	3,429	-	7,306,984	19,580,772
Committed to:						
Education	1,000,000	-	-	2,486,658	-	3,486,658
Assigned to:						
Education	494,534	-	-	-	-	494,534
Unassigned:	2,442,194	(6,147,485)	-	-	-	(3,705,291)
Total fund balances	$ 18,578,134	$ (6,147,485)	$ 12,378	$ 3,439,192	$ 7,933,892	$ 23,816,111

The School Construction Capital Projects Fund had a deficit balance of $6,147,485 at June 30, 2014. This deficit balance was caused by the timing of the recognition of various expenditures prior to the end of the year. Expenditures for this fund are funded primarily by debt proceeds. Subsequent to year end, in October 2014, the County issued $30,040,000 in general obligation bonds, of which $14,535,000 was allocated to the School Construction Fund. This source of funds eliminated the 6/30/2014 fund deficit.

K. Property Taxes

Property taxes levied by the County Commission are the primary source of revenue for the County and the Board. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

Personal Property	30 %
Railroads, Industrial and Commercial Property	40 %
Public Utility	55 %
Residential and Farm Real Property	25 %

NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)

K. Property Taxes (Continued)

Taxes were levied at a rate of $2.32 per $100 of assessed values. Tax collections of $244,964,416 for fiscal year 2014 were approximately 97 percent of the total tax levy.

The 2014 fiscal year property tax rate of $2.32 was divided between the County and the Board as follows:

		Amount	Total
Primary Government:			
General Fund	$	0.96	41.38%
Debt Service Fund		0.30	12.93%
Total - Primary Government		1.26	54.31%
Component Unit - the Board:			
General Fund - General Purpose School Fund		1.06	45.69%
Total Tax Levy	$	2.32	100.00%

The 2015 fiscal year property tax rate of $2.32 is divided as follows:

		Amount	Percent of Total
Primary Government:			
General Fund	$	0.96	41.38%
Debt Service Fund		0.30	12.93%
Total - Primary Government		1.26	54.31%
Component Unit - the Board:			
General Fund - General Purpose School Fund		1.06	45.69%
Total Tax Levy	$	2.32	100.00%

NOTE IV. OTHER INFORMATION

A. Joint Ventures

The County is a participant in a joint venture with the City of Knoxville and the 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 March 1987, the County issued public improvement bonds, which included $5,500,000 used to install the geographic information system. In accordance with the terms of the joint venture agreement, payments are shared between the County, the City of Knoxville and the Knoxville Utilities Board. In the 2014 fiscal year, the joint venture received 92 percent of its revenues from the participants in the joint venture. The Geographic Information Systems charged the County $346,742 for the year ended June 30, 2014. The County 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.

The County is a participant in a joint venture with the City of Knoxville in the operation of the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA). The Authority was created to purchase, construct, refurbish, maintain and operate certain public building complexes to house the governments of the County and the City of Knoxville. The County appoints six of an eleven-member board of directors, which oversee the operations of PBA. The fact that the County appoints a majority of the board is negated by the participants' agreements calling for joint control of PBA. The County retains an equity interest in the joint venture. Complete separate financial statements for PBA may be obtained at Room M-22, City County Building, 400 Main Street, Knoxville, TN 37902.

NOTE IV. OTHER INFORMATION (Continued)

B. Related Organizations

The County is responsible for all of the board appointments of the Knox County Industrial Development Board. However, the County has no further accountability for the organization.

The County is responsible for a minority of the board appointments for the Knoxville-Knox County Community Action Committee. During the year ended June 30, 2014, the County appropriated operating subsidies of $1,389,919 to the Community Action Committee.

In FY 2014, the County and the Hall of Fame Management, Inc., dba the Women's Basketball Hall of Fame (the Hall) were parties to a contract for the operations management of the Women's Basketball Hall of Fame. The County paid the Hall a management fee. Pursuant to that contract, the Hall managed the day-to-day operations and events at the facility, collected revenues for the County, and paid the operating expenses from these revenues. All revenues collected by the Hall were the property of the County and held by the Hall in trust as public funds and applied to pay operating expenses in accordance with the budget. To the extent revenues were insufficient, the Hall was to pay operating expenses out of its management fee.

In 2014, the County and the Knoxville Convention & Visitors Bureau, Inc., dba "Visit Knoxville" were parties to a contract whereby Visit Knoxville performed tourism marketing services for Knox County. Visit Knoxville received a percentage of hotel-motel tax collections as compensation for these services. The County appoints certain board members of Visit Knoxville.

NOTE IV. OTHER INFORMATION (Continued)

C. Risk Financing

The County has established risk-financing funds (the Self Insurance Healthcare Fund, and the Self Insurance Fund) associated with the employee's health insurance plan and payments to cover worker's compensation and general liability claims and settlements, respectively. The Board and the District (component units), the Geographic Information Systems (joint venture between the County and the City of Knoxville), and the Knox County-City of Knoxville Metropolitan Planning Commission (a separate governmental organization) also participate in the plan.

The risk financing funds are accounted for as internal service funds where assets are set aside for claim settlements. On January 1, 2008, Knox County became self-insured offering County employees and their families healthcare coverage using Cigna Healthcare of Tennessee as a third-party administrator until December 31, 2012. Beginning January 1, 2013, Knox County elected to use Humana and CVS Caremark as third-party administrators of their healthcare coverage. In the Self Insurance Healthcare Fund a premium is charged to each fund, participating Component Unit, joint venture, or outside entity that accounts for eligible employees. The total charges for the funds are calculated using trends in actual claims experience. In instances where medical claims materially exceed premiums received, each participating entity is charged a pro-rata basis for any fund deficits incurred.

In the Self Insurance Fund, each fund, participating Component Unit, and participating outside entity is charged for claims incurred during the year and estimated claims at year-end. The total charges for the funds are calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the funds are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation and recent claim settlements. Changes in the balances of claims during the past two fiscal years are as follows:

	Self Insurance Healthcare Fund - Medical Claims		Self Insurance Fund - General Liability, and Workers' Compensation	
	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
Unpaid Claims - Beginning Balance, as restated for 2013	$ 1,506,882	$ 1,986,894	$ 13,502,277	$ 11,752,558
Incurred Claims (Including IBNR's)	21,478,479	23,153,100	3,741,151	3,919,466
Claim Payments	(21,794,910)	(23,633,112)	(2,215,859)	(2,169,747)
Unpaid Claims - Ending Balance, as restated for 2013	$ 1,190,451	$ 1,506,882	$ 15,027,569	$ 13,502,277

NOTE IV. OTHER INFORMATION (Continued)

C. Risk Financing (Continued)

The County and the Board purchase insurance coverage for personal and real property. The District purchases insurance coverage for personal and real property, general liability and workers' compensation coverage. The County and its component units have had no significant reduction in insurance coverage over the last three years. Settlements have not exceeded insurance coverage in the past three fiscal years.

The Self Insurance Fund had a deficit net position balance of $4,834,003 at June 30, 2014. Management plans to eliminate the deficit by increasing revenue and by implementing additional procedures designed to reduce claims costs by additional monitoring and settlement procedures.

D. Other Post Employment Benefits

Retiree Healthcare

Plan Description

As authorized by County Resolution, the County provides post-retirement health care benefits for County and classified school retirees and their dependents. Retirees may participate only until they reach age 65 (except for a few "grandfathered" retirees who still have active medical insurance). The retiree is responsible for paying 100 percent of the related premium. The retirees who have chosen to participate in the County's medical insurance plan have not been evaluated on a separate experience rating from those of existing County and Board employees. Therefore, participating retirees contribute the same premium as existing employees, plus the amount the employer contributes for existing employees. Under this arrangement the retiree contributions are expected to be less than their expected health care cost, and a portion of the premiums the County pays on behalf of its active employees is deemed to subsidize the retirees' costs. This implicit subsidy is an Other Post-employment Benefit (OPEB) as defined by GASB Statement No. 45. The County's medical insurance plan, a single-employer defined benefit plan, does not issue a separate financial report.

Funding Policies

The contribution requirements of the County healthcare plan members and the County are established in the annual budget approved by County Commission. The required contribution is based on the annual premiums for the healthcare plan. The active employees pay a portion of the premium cost and the County pays the remaining premiums. For health insurance, the retiree contributes 100% of all premium payments. For the fiscal year ended June 30, 2014, the retirees contributed $305,632 to the active Humana medical plans. Retirees contributed 100% of the cost of the Medicare Advantage premium totaling $365,633.

NOTE IV. OTHER INFORMATION (Continued)

D. Other Post Employment Benefits (Continued)

Retiree Healthcare (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), 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 liability over a period not to exceed thirty years.

The plan contains both active employees and retirees. Although the County's annual contribution is 51.62% of premium payments for the combined participants, the share of claims related to retirees represents 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.

As the OPEB consists solely of the implicit subsidy of retiree healthcare contributions, the County has elected to have actuarial valuations performed biennially.

The following table shows the components of the County's annual OPEB cost, the amounts contributed to the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution	$	303,599
Interest on net OPEB Obligation		31,294
Adjustment to annual required contribution		(40,231)
Annual OPEB Cost		294,662
Contribution made		(139,368)
Increase (decrease) in net OPEB obligation		155,294
Net OPEB obligation July 1, 2013		782,362
Net OPEB obligation June 30, 2014	$	937,656

Annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 263,802	46.49%	$ 508,294
June 30, 2012	267,974	48.06%	647,490
June 30, 2013	278,805	51.62%	782,362
June 30, 2014	294,662	47.30%	937,656

NOTE IV. OTHER INFORMATION (Continued)

D. Other Post Employment Benefits (Continued)

Retiree Healthcare (Continued)

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the County healthcare plan was 0% funded. The actuarial accrued liability for benefits for June 30, 2014 was $2,809,911, resulting in an unfunded actuarial accrued liability (UAAL) of $2,809,911. The schedule of funding progress immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuations

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 annual required contributions of the County Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following these 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 liabilities.

Actuarial Methods and Assumptions

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 County 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE IV. OTHER INFORMATION (Continued)

D. Other Post Employment Benefits (Continued)

Retiree Healthcare (Continued)

Actuarial Methods and Assumptions (Continued)

In the June 30, 2013 valuation, the projected unit credit cost method was used. The actuarial assumptions included a funded interest rate of 4.0% and a participation rate of 12%. Annual health care costs are assumed to increase 9% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% by the year 2017. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2014 was 22 years.

Disability Plan

Plan Description

As authorized by County Resolution, the County provides disability benefits for eligible employees of the County who are participants in the UOPP, STAR, Closed Defined Benefit, or Asset Accumulation Plans and who become disabled after January 1, 2014. The Plan, a single-employer OPEB plan, is administered by the Knox County Retirement and Pension Board. Participating employees become eligible after five years of credited service, unless the disability occurs as a result of an act required to perform duties in the course of employment, in which case there is no service requirement. The employer pays 100 percent of the related premium. In the event of disability, eligible employees receive benefits equal to 60% of pre-disability compensation as of the date of the disability, subject to offset by Social Security, workers' compensation, and adjustments for earned income. Benefits continue until the employee is no longer disabled, reaches Social Security normal retirement age, or begins receiving benefits from a County-funded retirement plan, whichever is earliest. The Plan issues a stand-alone report, which may be obtained at Suite 371, City County Building, 400 Main Street, Knoxville, TN 17902.

NOTE IV. OTHER INFORMATION (Continued)

D. Other Post Employment Benefits (Continued)

Disability Plan (Continued)

Funding Policies

Annual required contributions to the Plan are determined each year as part of the actuarial valuation process. The annual required contributions for the current year were determined using the following significant assumptions:

Actuarial Measurement Date	June 30, 2014
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Valuation of Assets	Smoothed Market Value Over 5 Years
Inflation Rate	2.40%
Investment Return	7.00%
Projected Salary Increases	3.00%
Post Retirement Increases (Cost of Living Adjustments)	None

The amortization policy is that the unfunded actuarial accrued liability shall be amortized over 20 years.

As the effective date of the plan was January 1, 2014, there was no ARC for the year ended June 30, 2014. Actual employer contributions for the fiscal year totaled $354,018.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the County's annual OPEB cost, the amounts contributed to the plan, and changes in the County's net OPEB obligation.

Annual Required Contribution	$	-
Interest on net OPEB Obligation		-
Adjustment to annual required contribution		-
Annual OPEB Cost		-
Contribution made		(354,018)
Increase (decrease) in net OPEB obligation		(354,018)
Net OPEB obligation July 1, 2013		-
Net OPEB (asset) obligation June 30, 2014	$	(354,018)

NOTE IV. OTHER INFORMATION (Continued)

D. Other Post Employment Benefits (Continued)

Disability Plan (Continued)

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the County plan was 18.55% funded. The actuarial accrued liability for benefits for June 30, 2014 was $1,983,227, resulting in an unfunded actuarial accrued liability (UAAL) of $1,615,307. The market value of plan assets was $367,920. Covered payroll totaled $152,946,739, and the UAAL as a percentage of covered payroll was 1.06%.

Actuarial Valuations

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 regarding future employment and mortality trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the County Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following these notes to the financial statement, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Actuarial Methods and Assumptions

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 County 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE IV. OTHER INFORMATION (Continued)

E. Commitments and Contingencies

The County and its component units are parties to various legal proceedings, a number of which normally occur in governmental operations. As discussed in Note IV.C., amounts have been accrued in the County's Self Insurance Fund for the estimated amounts of claims liabilities.

The County receives significant financial assistance from the Federal and State governments in the form of grants and entitlements. These programs are subject to various terms and conditions, compliance with which is the responsibility of the County. These programs are subject to financial and compliance audits by the grantor agencies. Any costs disallowed as a result of such audits could become a liability of the County. As of June 30, 2014, the amount of any liabilities that could result from such audits cannot be determined. However, the County believes that any such amounts would not have a material adverse effect on the County's financial position.

The County and the Board utilize encumbrance accounting in their governmental funds. Encumbrances outstanding at June 30, 2014 that have been reappropriated in the subsequent year are as follows:

Primary Government:		
Major Funds:		
General	$	1,311,020
Capital Projects Public Improvement		4,721,594
Nonmajor Governmental Funds		543,027
Total Primary Government	$	6,575,641
Componet Unit - the Board:		
Major Funds:		
General Purpose School	$	494,534
School Construction Capital Projects		6,306,318
Nonmajor Governmental Funds		132,681
Total Component Unit - the Board	$	6,933,533

NOTE IV. OTHER INFORMATION (Continued)

E. Commitments and Contingencies (Continued)

The County and the Board have several outstanding construction projects as of June 30, 2014. The County also has a five-year Capital Improvement Plan which addresses major capital needs for the County and the Board. Although the Capital Improvement Plan does not represent legal appropriations or contractual commitments, it does represent priorities as determined by the County and the Board. Funding for the first year of the adopted Capital Improvement Plan has been appropriated by action of the County Commission.

The following represents capital projects funds spent to date, current contractual obligations, and appropriations for future projects as adopted in the Capital Improvement Plan for the fiscal year beginning July 1, 2014:

	Spent to Date	Contractual Commitment Remaining at June 30, 2014	Capital Improvement Plan July 1, 2014 - June 30, 2015
Primary Government:			
Ballcamp Road Improvements	$ 17,149,881	$ -	$ -
Energy Management Project - County	14,004,728	-	-
Dry Gap Pike	6,199,192	-	-
Stormwater Management Plan	8,159,780	-	-
Outlet Mall Drive/Synder Road	3,616,263	-	-
Parkside Drive	10,677,897	-	-
Dutchtown Road Functional Planning	12,829,422	-	-
Other Projects	141,578,015	4,721,594	16,208,019
Total - Primary Government	$ 214,215,178	$ 4,721,594	$ 16,208,019
Component Unit - the Board:			
Physical Plant Upgrades	$ 18,918,408	$ 4,853,282	$ 3,700,000
Gibbs Elementary School	15,404,720	-	-
Cedar Bluff - K-3	20,036,668	-	-
Northshore Elementary School	19,108,057	-	-
Other Projects	146,621,528	1,453,036	11,280,000
Total - the Board	$ 220,089,381	$ 6,306,318	$ 14,980,000

NOTE IV. OTHER INFORMATION (Continued)

E. Commitments and Contingencies (Continued)

Construction projects for both the County and the Board are primarily funded by general obligation bonds.

F. Constitutional Officers

The Constitutional Officers Special Revenue Fund includes the operations of the following elected officials:

Trustee - serves as the treasurer and primary investment manager of the County's funds and manages property tax collection efforts.

Knox County Clerk - serves as the Clerk of the County Commission. Principally engaged in the sale of motor vehicle licenses and acceptance of applications of motor vehicle registrations of the State of Tennessee.

Circuit and General Sessions, Criminal and Fourth Circuit Courts Clerks and Clerk and Master - serve as the clerical and support staff for the various courts for both civil and criminal proceedings.

Register of Deeds - collects various fees for the recording of conveyances, trust deeds, chattels, charters, plats and other legal instruments.

These officials, responsible for the collection and remittance of State, County and other funds, earn fees and commissions for their services.

The operations of the Constitutional Officers are operated under the provisions of Section 8-22-104, Tennessee Code Annotated (TCA). Salaries and related benefits of the officials and staff are paid from fees and commissions earned. Fees earned in excess of these costs are remitted to the County's General Fund, less an allowance of three months of anticipated operating expenses retained in the respective fee account. Salaries for clerical assistance were supported by chancery court decrees that were obtained under provisions of Section 8-20-101, et seq., TCA. These activities are accounted for in the County's Constitutional Officers' Special Revenue Fund.

NOTE IV. OTHER INFORMATION (Continued)

F. Constitutional Officers (Continued)

Collections and payments for litigants, heirs and others are accounted for in the County's Constitutional Officers' Agency Fund.

Other operating costs of these offices (excluding salaries and benefits) are accounted for in the County's General Fund. These budgeted amounts are approved by the County Commission in accordance with the County Charter. Fees remitted by the officials in excess of salaries and benefits are used to offset the cost to the General Fund.

Included in the Supplementary Schedules of the County's Comprehensive Annual Financial Report are schedules (reported on the cash basis of accounting) of detailed operations of the respective offices for the fiscal year ended June 30, 2014. These schedules only include the cash operations of the offices. They do not include the expenditures reported in the County's General Fund.

G. Accounting Pronouncements

The County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* required for fiscal periods beginning after December 15, 2012, in fiscal 2014. 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. As a result of the adoption of this Statement, certain property taxes and notes receivable recognized as assets before the related resources are available have been reported as deferred inflows of resources. See Note III (G.) for amounts reported as deferred inflows at June 30, 2014.

The County adopted 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 resolves conflicting guidance that resulted from the issuance of two subsequent pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

NOTE IV. OTHER INFORMATION (Continued)

G. Accounting Pronouncements (Continued)

The County adopted 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 replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The adoption of this statement resulted in certain changes in the accounting and financial reporting standards used in the separate financial statements issued by the County's pension plans.

The County 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 replaces the requirements of Statements No. 27, *Accounting for Pensions by State and Local Government Employers,* and No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered through trusts or equivalent arrangements that meet certain criteria. With the adoption of GASB Statement No. 68 in FY 2015, the County and Board will be required to record their net pension liability (NPL) on their respective financial statements by reducing net position, based upon actuarially computed valuations. The NPL, which is the difference between the total computed pension liability and the market value of assets held in trust for the participants, will then be adjusted annually through pension expense. In addition, expanded disclosures regarding the pension plans and additional required supplementary information are required by this Statement. Management is in the process of determining the effects that the adoption of this Statement will have on the County's and Board's financial statements.

The County plans to adopt GASB Statement No. 69, *Government Combinations 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, specific to the government environment, related to government mergers, acquisitions, and transfers as well as transfers or sales of government operations. Management is in the process of determining the effects that the adoption of this Statement will have on the County's financial statements.

NOTE IV. OTHER INFORMATION (Continued)

G. Accounting Pronouncements (Continued)

The County plans to adopt GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes consistency in the accounting and financial reporting standards applied to governments that extend nonfinancial financial guarantees, and to those that receive nonfinancial financial guarantees. This Statement will also enhance the information disclosed about a government's obligations and risk exposure from extending nonfinancial financial guarantees. Management is in the process of determining the effects that the adoption of this Statement will have on the County's financial statements.

The County plans to adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. Provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management is in the process of determining the effects that the adoption of this Statement will have on the County's financial statements.

H. Accounting Changes and Restatements

During the fiscal year ended June 30, 2014, the County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* As a result of the adoption of this Statement, certain items previously reported as assets or liabilities have been reclassified as deferred inflows or deferred outflows. Property taxes and other receivables, levied for future fiscal years or otherwise not available to finance expenditures of the current period, that previously had been reported as deferred revenue in the governmental fund financial statements and as unearned revenue in the government-wide financial statements have been reclassified as deferred inflows of resources. In addition, the unamortized amounts on refundings of debt, previously reported as an element of long-term obligations, have been reclassified as deferred outflows of resources. As deferred inflows and outflows of resources are components of net position along with assets and liabilities, these changes did not affect the total net position as previously reported.

The Statement also requires that debt issuance costs, which previously were reported as assets in the government-wide financial statements, should be expensed as incurred. As a result of the adoption of this Statement, the beginning net position of governmental activities has been restated to reflect the writeoff of deferred debt issuance costs totaling $4,156,078 reported as assets in the prior year statement of net position.

NOTE IV. OTHER INFORMATION (Continued)

H. Accounting Changes and Restatements (Continued)

During the preceding fiscal year, the Board had recorded a receivable of $1,270,515 to recognize an estimate of the amount due from the Town of Farragut for mixed drink taxes that the Town had collected but not remitted to the Board as required by State law. During the current fiscal year, the Town and the Board reached an agreement whereby a portion of the total receivable totaling $737,886 will be paid to the Board in installments during 2015 and 2016. As a result of the adoption of the Statement, these long-term installments are recognized as deferred inflows of resources as they are not available to finance expenditures of the current period.

Also during the current fiscal year, the County received information indicating that the amount of its estimated liability for workers' compensation, reported in the Self Insurance Fund in the internal service fund financial statements and included in governmental activities in the government-wide financial statements, should be increased, and that a portion of the increase pertained to preceding fiscal years. As a result, the beginning balances of net position in the related fund and government-wide financial statements has been restated by $4,220,569.

As a result of these adjustments, fund balances and net position as of the beginning of the fiscal year have been restated, as follows:

	Beginning Fund Balance/ Net Position, as Previously Reported	Reclassify Non-current Receivables as Deferred Inflows	Adjustment to Expense Deferred Debt Issuance Costs	Adjustment to Workers' Compensation Liability	Beginning Fund Balance/ Net Position, as Restated
Fund Balance:					
Component Unit - the Board:					
General Fund	$ 32,906,545	$ (737,886)	$ -	$ -	$ 32,168,659
Net Position:					
Internal Service Fund:					
Self Insurance Fund	$ 536,549	$ -	$ -	$ (4,220,569)	$ (3,684,020)
Primary Government:					
Governmental Activities	$ 75,225,857	$ -	$ (4,156,078)	$ (4,220,569)	$ 66,849,210
Component Unit - the Board:					
Governmental Activities	$ 434,501,516	$ (737,886)	$ -	$ -	$ 433,763,630

NOTE V: EMPLOYEE RETIREMENT PLANS

A. General Information

County and Board employees are covered by a variety of retirement plans. These plans fall into three categories - defined contribution, defined benefit and OPEB plans. The majority of County and Board employees participate in *defined contribution plans*. Those not included in the defined contribution plan are certificated teachers covered under the Board's Article IX Defined Benefit Plan for former Knoxville City School teachers, all certified County school teachers, certain non-certified employees who elected not to transfer to the primary defined contribution plan or sworn officers in the Sheriff's Department who elected to transfer to the Uniformed Officers Pension Plan (UOPP) effective July 1, 2007, or were hired as a sworn officer on or after June 1, 2007. County certified school teachers participate in the State Retirement Plan for Teachers as administered by the Tennessee Consolidated Retirement System (TCRS). Certain County Officials also participate in TCRS.

The State of Tennessee provides benefits for participants in the TCRS, a cost-sharing multiple-employer Public Employee Retirement System (PERS). In a multiple-employer PERS, all risks and costs are shared proportionately among the participating employers. A single actuarial valuation is computed for the TCRS as a whole and all participating employer groups make payments to the TCRS based on a pre-determined contribution rate. However, as the TCRS prepares a separate financial report on its multiple-employer defined benefit plan, the operations and activities of this plan are not included in the County's reporting entity and are not included in the accompanying financial statements.

The four defined contribution plans, the three defined benefit plans and the one OPEB (employee disability) plan are part of the County's financial reporting entity and are included in the accompanying financial statements. The operations of the Knox County Closed Defined Benefit Plan (County DB Plan), the County's Defined Contribution Plan (County DC Plan), the Sheriff's Total Accumulation Retirement Plan (STAR DC Plan), the Employee Disability Plan (OPEB) Plan), the County's Uniformed Officers Pension Plan (UOPP DB Plan), Voluntary 457 Plan (DC Plan) and the County's Medical Expense Retirement Defined Contribution Plan (MERP DC Plan) are recorded as County pension and other employee benefit trust funds. The operations of the Board's Teacher's Defined Benefit Plan (Teacher's DB Plan) is recorded in the Board's pension trust fund. Complete separate financial statements for the four defined contribution plans, the three defined benefit plans, and the OPEB plan may be obtained by contacting the Knox County Retirement and Pension Board at Suite 371, City County Building, 400 Main Street, Knoxville, TN 37902.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

B. Defined Contribution Plans

The Asset Accumulation Plan is a defined contribution plan established by Knox County under Section 401(a)(9) of the Internal Revenue Code. The plan covers a majority of the full time employees of the County and classified employees of the School Board. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Participation begins on the first day of employment and all eligible employees not participating in another County, Board or state retirement plan are required to participate. The plan requires all participants to contribute a minimum of 6% of compensation and the employer matching contribution is 6%. Participants are 100% vested in the employer contributions after completing five years of credited service.

At June 30, 2014, there were 5,821 active plan members. During the year, the County's and Board's employer and member contributions (net of forfeitures) amounted to $7,866,315 and $7,755,315 respectively.

The Asset Accumulation Program incorporated both a 401(a) Plan and a 457(b) Plan in the Defined Contribution Plan for Knox County participants and classified Board participants. The Knox County Voluntary 457 Plan incorporates voluntary pre-tax contributions by the participant with an employer match based on length of service with the County and/or Board. The employer will match:

Years of Service	Maximum % Match
0 - 5	0%
5 - 9	2%
10 - 14	4%
15 or more	6%

The employer matching contributions for the 457 Plan are deposited into the participants asset accumulation plan account.

In January 2008, the Pension Board added two additional outside 457 Vendors as investment alternatives. Knoxville Teachers Credit Union (Board employees only) and Security Benefit were added January 1, 2008 and volunteer contributions made by participants in the Asset Accumulation Plan would also be eligible for the match offered by the employer. In September 2008, Nationwide, a third 457 Vendor was added to the Program. Each vendor prepares separate financial reports and are not included in the Knox County Voluntary 457 Plan Trust.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

B. Defined Contribution Plans (Continued)

Effective July 1, 2008 the option of contributing to a 457(b) Plan was expanded to those active participants in the closed Defined Benefit (DB) Plan. The employer match for the closed DB Plan participants is a maximum of 3% of pay. Closed DB participants are eligible for the same 457 Plans/Vendors that are offered under the Asset Accumulation Plan.

As of June 30, 2014, there were 883 Plan members in the Knox County Voluntary 457(b) Plan. During the year, member contributions amounted to $2,494,026 and the employer contributed $1,470,978.

The *Medical Expense Retirement Plan*, a voluntary defined contribution plan was established by the County under Section 401(a)(9) of the Internal Revenue Code. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Voluntary participation begins upon enrollment; eligible employees may begin participation on the first day of employment. The Plan was specifically created to assist employees in planning and investing for anticipated medical expenses upon retirement. Plan provisions and contribution requirements are established and may be amended by the Knox County Retirement and Pension Board.

Effective July 1, 1999:

(1) A participant reaching age 40 and completing at least five years of credited service received a one-time lump sum distribution for each year of eligible service from the Knox County Retirement & Pension Board, and

(2) A participant making contributions through payroll deductions to the Medical Expense Retirement Plan would be eligible for a percent match contribution from the Knox County Retirement & Pension Board based on the percent approved by the Board for the year in question.

(3) Retirees are eligible for an additional distribution of a specific amount approved by the Board annually to help defer the retiree's medical costs. The history of this distribution is as follows:

Calendar Year	
2014	$120
2013	120
2012	120

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

B. Defined Contribution Plans (Continued)

Prior to calendar year 2010, the contributions were funded using excess funds as actuarially determined from the *County DB Plan* and recorded as a transfer from the *County DB Plan* to the *Medical Expense Retirement DC Plan.* MERP funding for calendar years 2010 – 2014 is funded through additional contributions to the DB Plan from Knox County. This bonus will be paid to all retirees as of January 1 of each year and payment will occur during the first quarter of the same year.

Effective January 1, 2010, the Knox County Commission approved the funding for the retiree bonus in the amount of $120 annually for each of the next five years. Active employees contributing to the Medical Expense Retirement Plan will receive a 25% match from the Retirement & Pension Board up to a maximum annual match of $104. The Knox County Commission also committed to funding this for five years.

At June 30, 2014, the Medical Expense Retirement Plan had 1,542 members and 577 of them contributed funds to the plan. During the year employer and member contributions amounted to $46,033 and $193,213, respectively.

Plan provisions and contribution requirements for the defined contribution plans are established and may be amended by the Knox County Retirement and Pension Board. Administrative costs of the plans are paid with plan assets in the DB Plans**.**

In November 2012, the Knox County voters approved the closing of the Uniform Officers Pension Plan (UOPP) to all new officers and to have the Pension Board design another plan for officers employed by the Knox County Sheriff's Department. Effective January 1, 2014, the UOPP Plan was closed to all new-hires or re-hires. The new officer plan is called the Sheriff's Total Accumulation Retirement Plan (STAR). STAR is a Defined Contribution Plan where the officer contributes 6% of pay and the County contributes a total of 12% of pay. Vesting by the officer is 10 year cliff vesting on the first 10% employer contribution and 15 year cliff vesting on the remaining 2% employer contribution. Employees have the responsibility of investing their contribution plus the 10% employer contribution from an array of investment options. The Pension Board manages the investment of the additional 2% of the employer contributions.

At June 30, 2014, the STAR Plan had 43 members. During the year employees contributed $18,278 and the employer contributed $30,463 for the basic 10% contribution and $6,094 for the 2% supplemental contribution.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans

Plan Descriptions

*Primary Government***.** The *County DB Plan* is a public employee retirement pension plan established by the County Commission pursuant to House Bill Number 886 of Chapter 246 of the 1967 Private Acts of the State of Tennessee as amended and continued by the County's charter.

On October 1, 1991 through January 31, 1992, approximately one-half of the participants in the *County DB Plan* transferred from the *County DB Plan* to the *County DC Plan*. The transferred participants plus "new" enrollees in the defined contribution plan are non-contributing participants and continue to be covered under the *County Plan* disability and death benefit provisions. Effective September 30, 1991, the *County DB Plan* was closed to new participants.

The *County DB Plan* covered virtually all full-time County and classified School Board employees prior to October 1, 1991. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

The *Uniformed Officers Pension Plan (UOPP)* was approved by the voters of Knox County during the November 2006 elections. The Plan was established July 1, 2007 with approximately 600 sworn Sheriff's Office employees electing to transfer their retirement balance from the Asset Accumulation Plan or the closed Defined Benefit Plan to the UOPP. The amount transferred from the participant's accounts totaled $39,429,351. In addition, Knox County issued $57 million of pension obligation bonds, and transferred the proceeds (net of issuance costs) totaling $56,510,846 to the Plan.

All new employees hired between June 1, 2007 and January 1, 2014, who are sworn officers of the Sheriff's Department, were required to join the UOPP. Each participant contributes 6% of pay until the participant has reached 30 years of credited service with the UOPP. All remaining funding needed for the Plan is the responsibility of Knox County. The UOPP plan was closed to new members January 1, 2014 (see Note V (B)).

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

The *Board*. The *Teachers' DB Plan*, established under Article IX of the Knox County Employee Benefit System, is a single-employer public employee retirement pension plan. Retirement benefits are provided to certain "covered certificated members" who are participants in Divisions A and B of the City of Knoxville Pension Plan. Pursuant to the abolition of the Knoxville City Schools on June 30, 1987, and the execution of the "Certificated Employees Participation Agreement" in November, 1994, both the City of Knoxville and the Board are each jointly and severally responsible for providing a portion of benefits. The County has established a trust for the purpose of funding its portion of total benefits attributable to the "covered certificated members." A "covered certified member," is defined as that certified teacher who (1) became an employee of the Knox County Board of Education as a result of the abolition of the Knoxville City Schools and (2) is entitled to maintain at his/her option a local pension plan membership as provided by decree of the Court of Appeals of Tennessee, Docket Number 736 dated December 30, 1987.

The *Teachers DB Plan* consists of Divisions A and B. There were no remaining Division B participants active as of June 30, 1995. Both Divisions A and B are closed to new Plan members. The Plan provides retirement, disability benefits, and death benefits to the Plan members and their beneficiaries.

In the *Defined Benefit Plan* and the *Teacher Plan*, provisions and contribution requirements are established and may be amended by the Knox County Retirement and Pension Board in compliance with state law. For the *Uniformed Officers Plan*, some provisions and employee contribution changes are limited based on wording in the Knox County Charter (Article VII, Section 7.05) while other provisions and employer contributions can be determined by the Knox County Retirement and Pension Board in compliance with state law. The Knox County Retirement Board administers the Plans and the Board's administrative costs are paid from the assets of these three DB plans. Separate financial reports are prepared for all three plans.

Participant data at January 1, 2014 was as follows:

Description	County DB Plan	UOPP DB Plan	Teachers' DB Plan
Actives Contributing	85	753	4
Retirees, Beneficiaries and Disabled	924	88	446
Terminated Participants entitled but not yet receiving benetits	260	12	7
Total Participants	1,269	853	457

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

As a result of the November 2012, Knox County Election, the UOPP is closed to new participants as of January 1, 2014. All law enforcement and correction officers (including the Sheriff and Chief Deputy) hired after January 1, 2014, are enrolled in a new Defined Contribution Plan called STAR (see Note V (B) for more details.)

Along with the closing of the UOPP Plan effective January 1, 2014, an OPEB - Employee Disability Plan created under IRC Section 501c(9) was implemented for all eligible participants in all the Knox County Retirement Systems (except City A Teachers) who become disabled on or after January 1, 2014. This has closed the disability benefits section of both the Closed DB Plan and the UOPP Plan for any new claims. See Note IV (D) for additional information regarding the Employee Disability Plan.

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

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

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

During FY 2015, TCRS will provide the County and Board with its Net Pension Liability (NPL) as determined by GASB Statement No. 67. Currently TCRS is in the process of calculating the County's and Board's NPL which cannot be reasonably determined at this time by TCRS. Also see Note IV (G) for discussion related to GASB Statement No. 68.

The TCRS issues publicly available financial reports that include financial statements and required supplementary information for the SETHEEPP and PSPP. These reports may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs.

Funding Policy

In the *County DB Plan,* plan members are required to make contributions at the rate of 5% of earnable compensation. The County, however, is required to make contributions only to the extent necessary to maintain the funded status of the plan as actuarially determined.

In the *Teachers' DB Plan,* most plan members are required to contribute 3% of the first $4,800 then 5% thereafter of salary to the plan.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

In the *Uniform Officers Pension Plan*, participants contribute 6% of earnable compensation until they have 30 years of credited service with the UOPP Plan. The participant makes no contribution if he or she has 30 plus years of service. The County is required to make contributions to the extent necessary to achieve the funding status of the plan as actuarially determined.

Under the *TCRS plan*, most teachers are required by state statute to contribute 5% of salary to the plan. The employer contribution rate for Knox County Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2014 was 8.88% of annual covered payroll.

The employer contribution requirement for Knox County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2014, 2013 and 2012 were $21,792,648, $20,904,288, $20,246,139, respectively, equal to the required contributions for each year.

The TCRS plan for Knox County Mayor and Officials requires employees to contribute 5% of earnable compensation.

Knox County Mayor and Officials are required to contribute at an actuarially determined rate; the rate for the County for the fiscal year ending June 30, 2014 was 10.70% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Knox County Mayor and Officials is established and may be amended by the TCRS Board of Trustees.

The TCRS State Employee Plan is the retirement system for all Assistant District Attorneys (ADAs) on the Knox County Payroll System. All ADAs transferred to the TCRS State Employee Plan in September 2013 when it was discovered based on TN State Legislation that all ADAs are considered state employees when it comes to retirement. ADAs do not contribute to the TCRS Legacy Plan but may elect to voluntarily contribute to the 401(k) or the 457(b) plan offered by the State. The County's contribution in FY14 on behalf of the ADAs was 15.07% of compensation. For those ADAs who elect to contribute at least $50 per month to the State 401(k), the County will match $50 per month. TCRS is introducing a new Hybrid Retirement Plan effective for ADAs starting on or after July 1, 2014, who have no prior service with TCRS. This will have an impact on the County's cost in FY 2015.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

The annual required contributions for the current year were determined as part of actuarial valuations using the following significant assumptions:

	Primary Government			Component Unit - The Board
	County DB Plan	UOPP DB Plan	TCRS	Teachers' DB Plan
Actuarial Measurement Date	June 30, 2014	June 30, 2014	July 1, 2013	June 30, 2014
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal	Frozen Entry Age	Individual Entry Age Normal
Actuarial Valuation of Assets	Smoothed Market Value Over 5 Years	Smoothed Market Value Over 5 Years	Smoothed Market Value Over 10 Years	Smoothed Market Value Over 5 Years
Inflation Rate	2.35%	2.35%	3.00%	2.35%
Investment Return	7.00%	7.00%	7.50%	7.00%
Projected Salary Increases	3.00%	3.00%	4.75%	3.00%
Post Retirement Increases (Cost of Living Adjustments)	3.00%	3.25%	2.50%	3.00%
Vesting	100% after 5 years of Service	100% after 5 years of Service	100% after 10 years of service	100% after 5 years of Service

Under the Entry Age Normal cost method, the annual cost is equal to the normal cost, plus amortization of unfunded accrued liabilities over a fixed period of years selected within the minimum (10 years) and the Maximum (5 to 30 years) periods permitted by law.

In the TCRS, the unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2013 was 7 years.

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

The changes in the Net Pension Obligation (Asset), components of the Annual Required Contribution, and adjustments to the Annual Required Contribution are as follows:

	Primary Government County DB Plan			Primary Government Uniformed Officers Pension Plan			Component Unit - The Board Teachers' DB Plan		
Description	2014	2013	2012	2014	2013	2012	2014	2013	2012
NPO: Net Pension Obligation (Asset), Beginning of Year*	$ (4,191,619)	$ (3,737,810)	$ (3,933,101)	$ (1,483,848)	$ (1,083,243)	$ (801,195)	$ 3,107,272	$ 3,139,282	$ 3,166,041
Annual Pension Cost:									
Annual Required Contribution (ARC)	2,467,803	2,378,622	1,497,424	4,483,986	4,609,314	4,108,886	1,726,537	1,183,029	1,046,949
Interest on NPO (Asset)	(293,413)	(261,647)	(294,983)	(103,869)	(75,827)	(60,743)	217,509	219,750	237,453
Adjustments to ARC**	336,154	299,760	328,224	119,000	86,873	67,588	(249,193)	(251,760)	(264,212)
Total Annual Pension Cost	2,510,544	2,416,735	1,530,665	4,499,117	4,620,360	4,115,731	1,694,853	1,151,019	1,020,190
Contributions Made	2,678,157	2,870,544	1,335,374	4,513,954	5,020,965	4,397,779	1,726,537	1,183,029	1,046,949
Increase (Decrease) in NPO (Asset)	(167,613)	(453,809)	195,291	(14,837)	(400,605)	(282,048)	(31,684)	(32,010)	(26,759)
NPO (Asset), End of Year	$ (4,359,232)	$ (4,191,619)	$ (3,737,810)	$ (1,498,685)	$ (1,483,848)	$ (1,083,243)	$ 3,075,588	$ 3,107,272	$ 3,139,282
Amortization Period (in years)	25	25	25	25	25	25	25	25	25
Remaining Amortization Period (in years)	19	19.5		29	29.5		19	19.5	
Interest Rate (per annum)	7.00%	7.00%	7.50%	7.00%	7.00%	7.50%	7.00%	7.00%	7.50%
Percentage of Contributions/APC	106.68%	118.78%	87.24%	100.33%	108.67%	106.85%	101.87%	102.78%	102.62%

* *A positive balance reflects a liability while a negative amount is an asset.*

** *The adjustment to the Annual Required Contribution is a level dollar amortization of the Net Pension Obligation (Asset) at the beginning of the period.*

Trend Information (TCRS)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$ 90,961	100.00%	$ -
June 30, 2013	$ 89,091	100.00%	$ -
June 30, 2012	$ 86,548	100.00%	$ -

NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)

C. Defined Benefit Plans (Continued)

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the pension and OPEB liabilities for benefits. The following are the three most recent actuarial valuations:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - EAN (prior to 1/1/09 Aggregate) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
County DB Plan:						
1/1/2014	$ 50,001,876	$ 78,116,710	$ 28,114,834	65.69%	$ 2,407,110	1167.99%
1/1/2013	48,072,000	76,734,548	28,662,548	62.65%	2,806,090	1021.44%
1/1/2012	53,269,896	75,233,596	21,963,700	70.81%	3,181,621	690.33%
Teachers' DB Plan:						
1/1/2014	$ 62,406,385	$ 76,462,290	$ 14,055,905	81.62%	$0**	N/A
1/1/2013	60,384,664	79,037,520	18,652,856	76.40%	117,974	N/A
1/1/2012	65,150,937	77,615,350	12,464,413	83.94%	328,419	N/A

** All active participants have now reached expected retirement age and are expected to immediately retire. Therefore, the expected compensation to be paid is $0.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - EAN (prior to 1/1/09 Aggregate) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
Uniformed Officers Pension Plan:						
1/1/2014	$ 133,651,853	$ 157,978,371	$ 24,326,518	84.60%	$ 30,343,030	80.17%
1/1/2013	117,526,735	146,609,127	29,082,392	80.16%	29,784,860	97.64%
1/1/2012	112,378,618	146,067,491	33,688,873	76.94%	27,091,364	124.35%
Knox Co Executive and Officials TCRS (Amounts Expressed in Thousands):						
7/1/2013	$ 1,234	$ 1,766	$ 531	69.91%	$ 808	65.75%
7/1/2011	1,012	1,522	510	66.50%	746	68.33%
7/1/2009	722	935	107	64.15%	357	113.11%

Copies of the complete financial statements of the County for the current Fiscal Year are available at http://www.comptroller1.state.tn.us/la/CountySelect.asp