

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012



City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012



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

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CITY OF KINGSPORT, TENNESSEE

December 28, 2012

To the Honorable Mayor, Members of the Board of Mayor and Aldermen, and Citizens of the City of Kingsport, Tennessee:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Kingsport for the fiscal year ended June 30, 2012.

This report consists of management's representations concerning the finances of the City of Kingsport. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Kingsport has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Kingsport's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kingsport's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Brown, Edwards & Company, L.L.P., a firm of licensed certified public accountants, have issued an unqualified ("clean") opinion on the City of Kingsport's financial statements for the fiscal year ended June 30, 2012. The independent auditors' report is located at the front of the financial section of this report.

The independent audit of the financial statements of the City of Kingsport was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance report section of this CAFR.

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

Profile of the Government

The City of Kingsport was incorporated in 1917 and operates under a council-manager form of government. It is located in the northeast part of the state. The City currently occupies a land area of

approximately 53 square miles and serves a population of 50,561. Its established urban growth boundary encompasses 107 square miles which provides potential areas for the City to expand its corporate limits in the future. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

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

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

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

The annual budget serves as the foundation for the City of Kingsport's financial planning and control. All departments of the City of Kingsport are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the BMA for review by May 15th. The BMA is required to hold two public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Kingsport's fiscal year. The appropriation budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department and between departments within any fund. Transfers of appropriations between funds, however, require the approval of the BMA. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 35 through 37 as part of the basic financial statements for the City's funds.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kingsport operates.

Local Economy Kingsport is the largest City in the Kingsport - Bristol, TN – Bristol, VA Metropolitan Statistical Area which has a population of 312,908 (per 2011 U.S. Census ACS 1-Year Estimates). On a regional basis, there are approximately 416,000 persons living within a radius of 25 miles, 896,000 persons living within a radius of 50 miles and 1,898,000 persons living within a radius of 75 miles.

Job creation, sales tax collections and Eastman Chemical all continued to rebound in Kingsport in 2012, as the City eclipsed pre-recession retail sales figures posted in 2007, third quarter unemployment dropped to 7.2

percent following 10 consecutive quarters of job growth, and Eastman completed its \$4.3 billion acquisition of Solutia, bringing new jobs and talent to Kingsport.

Economic diversification also continued to pick up, with continuing City focus on growing the Academic Village, a recovering new housing construction market, and renewed retail reinvestment as well.

Eastman Chemical Company, a FORTUNE 500 company which employs approximately 6,700 employees and between 2,500 to 3,000 contractors in Kingsport, is the second largest private employer in Tennessee, largest regional employer and largest taxpayer in the City. Eastman completed its \$4.3 billion acquisition of Solutia, a global company with 3,400 employees on five continents, and 24 manufacturing locations. It posted \$2.1 billion in annual sales in 2011. Approximately 300 professional jobs were added to the Kingsport area as a result of this acquisition.

Solutia is active in rubber materials, performance films and advanced interlayers, specialty fluids and photovoltaics.

Eastman had 2011 pro forma revenues, giving effect to the Solutia acquisition, of approximately \$9.3 billion. The company is based in Kingsport, and, with the completion of the Solutia acquisition, now employs approximately 13,500 people around the world.

Eastman, which has had a major presence in Kingsport since 1920, is a leading supplier of coatings raw materials, specialty chemicals and plastics, as well as fine chemicals for pharmaceutical, agricultural chemicals, and other markets.

In addition, Eastman manufactures cellulose esters used in LCD screens as well as Bisphenol - free (BPA) plastics for the food industry in Kingsport. Eastman has added three new product lines in Kingsport over the last few years.

The Kingsport, TN-based company reported adjusted third quarter net income of \$1.57 per share in 2012, up more than 24% from \$1.26 per share in the year-ago period. Revenue rose 25% from last year to \$2.26 billion.

Meanwhile, BAE Systems, contracted operator of Holston Army Ammunition Plant on the City's western border, continues to employ more than 540 persons at this facility engaged in the production of high explosives for the U.S. Military. In addition, the Army and BAE are undertaking a \$140 million modernization of the facility.

Job growth and confidence in the local economy are further reflected in the sales tax performance of Kingsport. For Fiscal Year 2012, sales tax collections were up 6.36 percent above the previous year, while November 2012 collections representing September sales were up 7.61 percent

Major retail announcements for 2012 include the development of a new 12 screen theatre complex at the Kingsport Town Center mall, with five 3D screens and an IMAX facility.

In addition, Belk reinvested \$1.2 million plus in the Kingsport Town Center facility, while two new furniture stores, Ashley's Furniture, and Zak's Attic, also opened their doors in Kingsport in 2012, helping recover a major categorical source of sales tax leakage.

Notably, while Eastman Chemical Company represented 40 percent of all property tax revenue for the City some 20 years ago, today that ratio is in the range of 25 percent, with the change largely due to the growth of commercial, medical, retail and residential properties in the community.

In particular, the medical sector has been an important source of job growth in the City. Kingsport is home to

the largest hospital in the Wellmont Health System, as well as the system's corporate headquarters, and the second largest hospital in the Mountain States Health Alliance system.

In all, the medical sector has created 9,000 new jobs in Kingsport over the last decade. Underpinning that growth is the largest private medical practice in the region, Holston Medical Group with more than 800 doctors and staff.

While diversification is important, Kingsport also continues to build its industrial development job sector.

Through December 2012, NETWORKS Sullivan County Partnership, which conducts industrial recruitment for Kingsport, Sullivan County, Bristol and Bluff City, has posted 841 new jobs from new and existing business as well as \$37.8 million in new capital investment county-wide.

In residential space, Kingsport-Bristol-Bristol TN-VA Metropolitan Statistical Area home prices were up 1.94 percent in the third quarter of 2012, with five year appreciation of .75 percent, according to the Federal Housing Finance Agency.

Foreclosures continued a five year trend well below regional and national averages, with 1 in every 3,456 units in foreclosure in Kingsport, or 12 total foreclosures in October, the most recent data available from RealtyTrac.com. In all, foreclosure-related sales accounted for 19 percent of all residential sales nationwide during the third quarter.

From a building perspective, Kingsport continued to post growth in new investment in the community, with 741 building permits issued for a total estimated construction cost of \$75.2 million; more than \$9.5 million above the previous year.

A total of 77 new single-family dwellings were permitted this fiscal year, at a total construction cost of \$13.5 million; up by 25 homes and \$2.6 million in total value from the previous year.

Finally, community-wide giving to charitable causes continued a decades-long trend, with the United Way of Greater Kingsport exceeding its goal by \$200,000; raising a total of \$3.85 million to support at least 43 programs and initiatives in the community.

Long-term Financial Planning As a part of the City's annual budget process, the BMA re-evaluates the adopted multi-year Capital Improvement Plan (CIP) for utility, general government and school related activities to address needed improvements to existing City facilities, roads and infrastructure. The CIP currently includes plans for several significant projects scheduled over the next few years. These include improvements to the City's Library and Justice Center facilities (\$12M), improvements to local road systems (\$7M), improvements to Park and Recreational facilities (\$7M), improvements to the Water Treatment Plant (\$13M), and improvements and expansion of the Wastewater System (\$24M). While the CIP generally looks out over a 5 year period, the plan for the water and sewer utility systems encompass a 10 year period. These projects will be funded mostly by the issuance of new debt. Even with this significant amount of new debt, the total outstanding debt is expected to be within the parameters of the adopted debt limits as specified in the BMA's debt management policy.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. One of the primary policies that has given the City the flexibility to address cash flow and emergency needs and to take advantage of significant grant opportunities that have matching requirements, is the adoption of a General Fund Reserve target of \$11,400,000 with a further restriction that the City will not fund any recurring operating expenditures with the use of one-time revenues. Funding for the water and sewer CIP consists of gradual annual rate increases and savings realized from declining annual debt service expenditures. This strategy is utilized to provide an annual funding source for non major capital expenditures and to reserve issuance of new debt obligations for large major capital projects.

During FY2012, the City adopted a new comprehensive Debt Management Policy to comply with new requirements from the State of Tennessee. This new policy replaced the City's existing debt management policy and provides specific guidelines for the City to manage its debt and related annual costs while promoting understanding and transparency for citizens, taxpayers, rate payers, businesses, vendors, investors and other interested parties.

Major Initiatives

In 2012, Kingsport continued an active focus on the promotion of access to higher education, people recruitment, and tourism development.

Kingsport's Academic Village, featuring five structures, including the Regional Center for Advanced Manufacturing (RCAM), provides both professional degree programs and industry-specific training to support existing businesses and recruit new industry.

The Academic Village currently hosts Northeast State Community College, with NSCC enrollment growing 127 percent, from 753 in 2007 to 1,706 in 2012. Including students attending King College, Lincoln Memorial University, and the University of Tennessee, 2012 attendance is more than 2,000 students.

And, late this year, East Tennessee State University, announced that it would locate a downtown facility that could push total enrollment to more than 3,000 by 2018.

Kingsport's efforts in Higher Education have been honored by Harvard University, the National League of Cities and the Tennessee Municipal League.

According to the U.S. Census Bureau, Kingsport has recognized a 36 percent increase in the population with an associate degree and a 34 percent increase in population with graduate and higher level degrees. A full 24 percent of the population holds a bachelor's degree, graduate degree or higher.

Kingsport also continued to annex urbanized areas on the City fringe including many neighbourhoods that already received at least some urban services. Incorporation provides for the orderly development of these already established areas, new opportunities for reinvestment in these areas, and generates new revenue to support on-going City operations. It also provides the City additional abilities to make improvements to water quality and other environmental issues related to sanitary and storm water sewer operations.

Statistics compiled by Kingsport's Development Services office indicate that each newcomer generated \$25,000 per year in consumer expenditures. And based on the number of newcomers to Kingsport since 2006, the impact is estimated at more than \$30 million annually.

Kingsport also hosted the American Association of Retirement Communities national conference this year at the MeadowView Marriott Conference, Resort, and Convention Center, and was presented with the AARC's prestigious "Seal of Approval."

Kingsport's Liveable Community Collaborative, an effort to improve the everyday walk ability and liveability of the Community for seniors and youngsters alike earned an Award of Excellence in Program Innovation from the Archstone Foundation and the American Public Health Association at the APHA's recent annual conference in San Francisco.

Meanwhile, Kingsport's investment in the Marriott MeadowView Conference, Resort & Convention Center paid off with the best sales volume ever in 2012 for the facility, following \$16 million in public reinvestment in the facility in 2011.

In addition, a new 50-meter indoor aquatic center in the MeadowView area is scheduled for completion in May 2013, along with an outdoor water park area as well. The facility is designed to meet the community's immediate needs as well as serve as a new tourist attraction for the region. The 50-meter pool is the only such facility within a 120 mile radius. The project is collocated with a YMCA fitness facility.

In April 2012, the Board of Mayor and Aldermen adopted a new defined contribution retirement plan for all full-time municipal and non-teacher employees that were hired after June 30, 2012. The new plan is a 401(a) defined contribution plan with a 457(b) supplemental plan to accommodate voluntary employee contributions. This new plan requires the employee and the City to each contribute 5 percent of salary into the program. Employee voluntary contributions into the 457(b) are matched by the City up to 3 percent.

The City of Kingsport has recently implemented several efficiencies within their Public Works Operations. This past year, the City has begun the implementation of automated single-stream curbside recycle collection. The initial step in this conversion was to transfer the sorting of recyclable material from the curbside to a single location. Not only does the new system expand the collection offering to include high valued cardboard, but also gives the City the ability to collect on a two week rotation rather than weekly. Additionally, the City has included an automated leaf collection truck into its fleet. This one man operation is able to perform the same amount of production as three separate three-man crews utilizing the older manual collection technologies. Additionally, due to the use of this automated equipment, tasks previously done manually will either be significantly reduced or eliminated. It is expected that work-related injuries will be reduced and improvements made to the overall safe working conditions of the employee.

Kingsport also embarked on the first steps in creating a Border Region Retail Tourist District under a new Tennessee law written and initiated by the City. It has secured an agreement with a principal property owner in the district, as well as two other major parcels, and is beginning marketing of the site.

Kingsport's Retail Tourism District is located at the intersection of I-26 and I-81, providing new opportunities to expand the tax base and continue diversification of the local economy.

Awards and Acknowledgements

Awards The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the 12th consecutive year that the City of Kingsport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

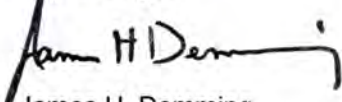
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2011. The annual budget document dated July 1, 2012 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Acknowledgment The preparation of this CAFR could not have been accomplished without the efforts and dedication of the staff of the Department of Finance. We would like to express our appreciation to all staff members and other personnel from various departments, agencies, and authorities that assisted in its preparation, especially Comptroller Lisa Winkle for all of the hard work and numerous hours she put in to ensure the timely completion of this report. We would also like to thank the Board of Mayor and Aldermen for their guidance and support.

Respectfully submitted,



John G. Campbell
City Manager



James H. Demming
City Recorder/CFO

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kingsport
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

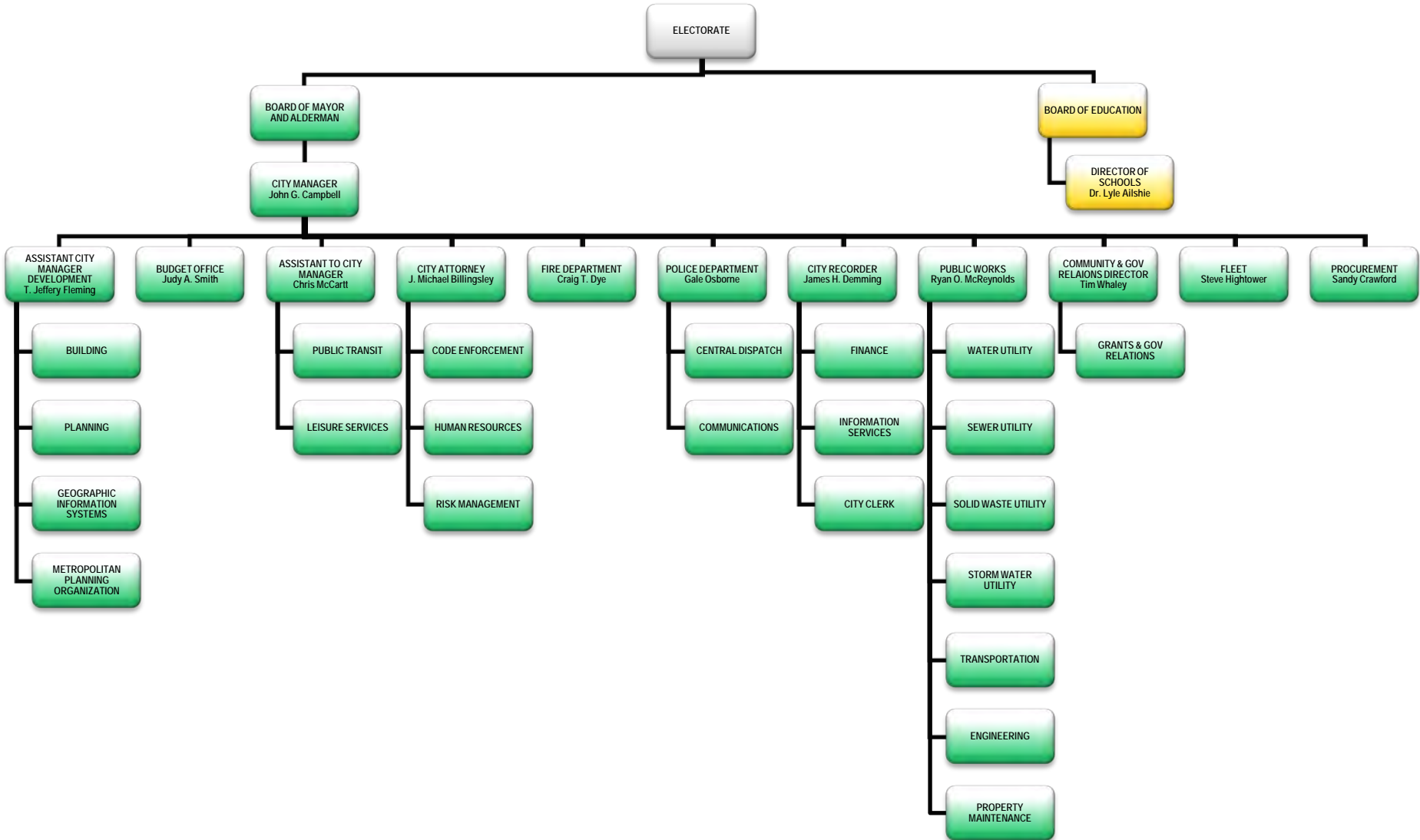


Christopher P. Mouill

President

Jeffrey R. Egan

Executive Director



CITY OF KINGSPORT, TENNESSEE

HISTORY AND ORGANIZATION

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

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

CITY OF KINGSPORT, TENNESSEE

PRINCIPAL OFFICIALS

AS OF

June 30, 2012

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	Mayor
Tom C. Parham	Vice Mayor
John Clark	Alderman
Valerie Joh	Alderman
Mike McIntire	Alderman
Tom Segelhorst	Alderman
Jantry Shupe	Alderman

CHARTER OFFICERS

John G. Campbell	City Manager
James H. Demming	City Recorder/Chief Financial Officer
J. Michael Billingsley	City Attorney
Gale Osborne	Police Chief
William K. Rogers	City Judge
Dr. Lyle C. Ailshie	Superintendent of Schools

DEPARTMENT HEADS

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

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CITY OF KINGSPORT, TENNESSEE

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2012



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Kingsport
Kingsport, Tennessee 37660

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee, ("the City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kingsport, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Emergency Communications District (the ECD), which represent 15 percent, 27 percent, and 25 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the General Purpose School Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the City of Kingsport, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information for the debt service fund on pages 14 through 26, pages 132 through 133, and page 134 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kingsport, Tennessee's financial statements. The accompanying combining and individual fund financial statements and schedules, and supplemental information, including the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the combining and individual fund financial statements and schedules, and supplemental information, including the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kingsport, Tennessee's financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
December 26, 2012

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A. MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

As management of the City of Kingsport (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 7 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$429,935 (net assets). Of this amount, \$18,057 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$8,359. Of this decrease \$4,012 relates to current operations and can be attributed to accruing OPEB liabilities and recording depreciation on governmental capital assets. The additional decrease of \$4,347 relates to prior period adjustments to write off certain capital assets, record claims payable, and correct landfill closure costs.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$54,542, an increase of \$225. Approximately 22% of this total fund balance, \$11,810, is unassigned and therefore available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,810 or approximately 18% of total general fund expenditures including transfers out.
- The City's total gross debt increased by \$18,464 (9%) during the current fiscal year. The increase is the result of three new bond issues. General Obligation Public Improvement Bonds, Series 2011 were issued in December 2011 for \$16,140. General Obligation Bonds, Series 2012A were issued in June 2012 for \$3,110. General Obligation Public Improvement Bonds, Series 2012C were issued in June 2012 for \$9,305. In addition the City issued General Obligation Refunding Bonds, Series 2012B in June 2012 for \$9,970. The 2012B Refunding Bonds of \$9,970 refunded certain 2003 and 2004 bonds totaling \$10,100.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes or earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, highway transportation planning, economic and physical development, culture and recreation, and education. The business-type activities of the City include water, sewer, solid waste, storm water management, conference center and golf course. The government-wide financial statements can be found on pages 27 and 28 of this report.

Fund financial statements

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

Governmental funds

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

The City maintains twenty-three (23) individual governmental funds. Nineteen (19) of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general purpose school fund, the capital project fund, the debt service fund and nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 29-39 of this report.

The City adopts an annual appropriation budget for its general and other major special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Proprietary funds

The City maintains ten (10) different types of proprietary funds, including enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, solid waste, storm water management, convention center and golf course activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for vehicle maintenance and replacement and self-insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water, sewer, solid waste, storm water management, convention center and golf course activities, which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 40-44 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 45-131 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 134-159 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$429,935 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (96%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

City of Kingsport's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 130,044	\$ 131,152	\$ 36,273	\$ 31,865	\$ 166,317	\$ 163,017
Capital Assets	340,754	329,180	250,852	248,395	591,606	577,575
Total Assets	470,798	460,332	287,125	280,260	757,923	740,592
Long-term Liabilities Outstanding	159,840	138,537	95,408	92,938	255,248	231,475
Other Liabilities	68,843	66,121	3,897	4,702	72,740	70,823
Total Liabilities	228,683	204,658	99,305	97,640	327,988	302,298
Net Assets:						
Invested in Capital Assets, net of Related Debt	241,652	246,177	169,428	163,891	411,080	410,068
Restricted	178	185	620	1,432	798	1,617
Unrestricted	285	9,312	17,772	17,297	18,057	26,609
Total Net Assets	\$ 242,115	\$ 255,674	\$ 187,820	\$ 182,620	\$ 429,935	\$ 438,294

A portion of the City's net assets, \$798 (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$18,057 may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year, the government's net assets decreased by \$8,359. Net assets for governmental activities decreased by \$13,559 while net assets for business-type activities increased by \$5,200.

The \$13,559 current year decrease in net assets for governmental activities was primarily a result of recording the annual OPEB liability of \$4,993 in accordance with GASB 45, as well as recording of \$13,926 in depreciation expense on general fixed assets in accordance with GASB 34. In addition the decrease in net assets for governmental activities includes prior period adjustments to write off capital assets of \$1,365 and increase claims payable of \$2,251.

The primary reason for the increase in net assets in the business-type activities is due to the favorable results of the City's water and sewer utility funds. The rate structure in place for both the water and sewer utilities is consistently adequate in providing stable funding for operating costs and debt service requirements. Water rates remained the same for customers inside the City limits and customers outside the City limits. Sewer rates increased 5% for outside customers while customers inside the City remained at the same rates. These rate increases are part of a continuing rate stabilization plan to provide funding for capital improvements and expansion.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

The following is a summary of activities for the City during the fiscal year ended June 30, 2012:

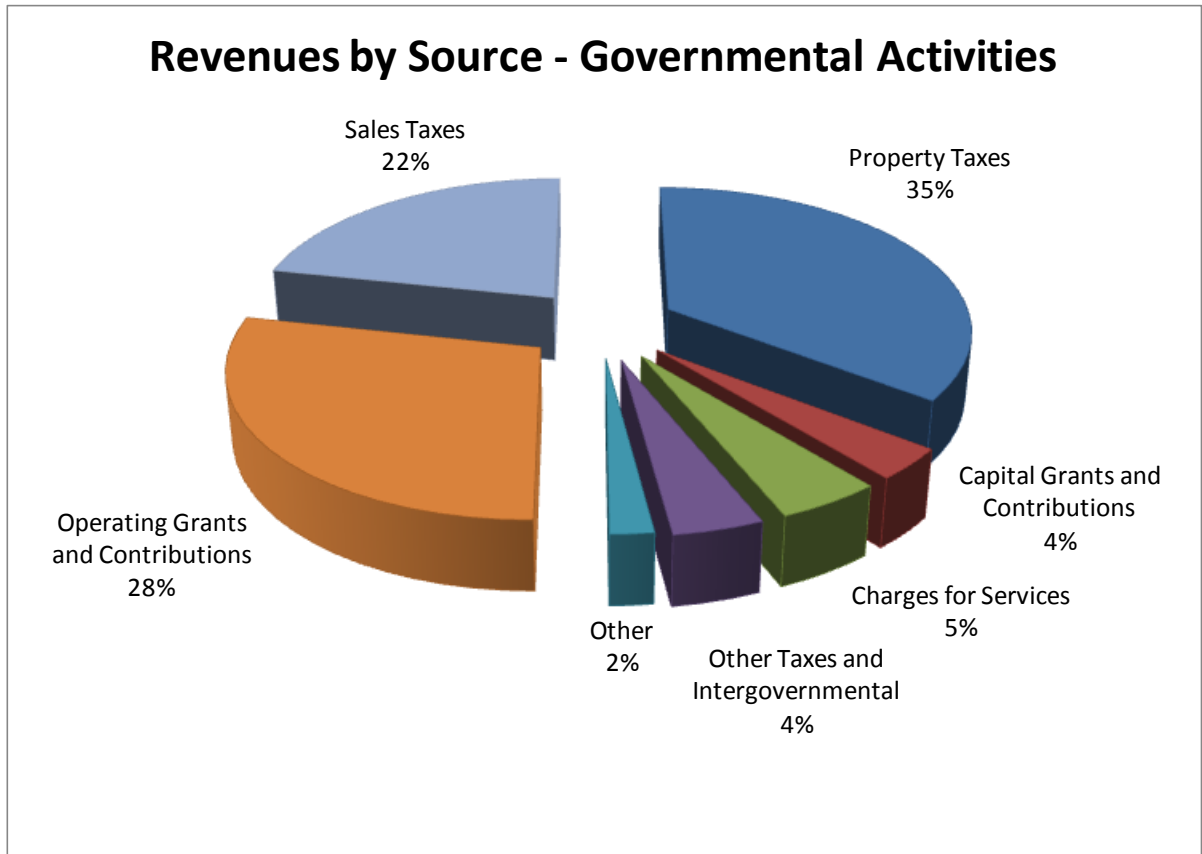
City of Kingsport's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,508	\$ 8,081	\$ 28,227	\$ 26,732	\$ 34,735	\$ 34,813
Operating Grants and Contributions	38,727	37,442	187	230	38,914	37,672
Capital Grants and Contributions	4,787	9,218	66	655	4,853	9,873
General Revenues						
Property Taxes	48,236	47,145	0	0	48,236	47,145
Sales Taxes	29,470	27,515	0	0	29,470	27,515
Other Taxes and Intergovernmental	5,634	5,235	0	0	5,634	5,235
Unrestricted Investment Earnings	401	421	153	147	554	568
Grants and Contributions Not						
Restricted to Specific Programs	1,361	987	0	0	1,361	987
Other	961	755	6	0	967	755
Total Revenues	136,085	136,799	28,639	27,764	164,724	164,563
Expenses:						
General Government	12,575	14,877	0	0	12,575	14,877
Public Safety	20,995	20,186	0	0	20,995	20,186
Public Works	13,398	15,325	0	0	13,398	15,325
Highway Transportation Planning	3,805	3,847	0	0	3,805	3,847
Economic and Physical Development	4,853	4,792	0	0	4,853	4,792
Culture and Recreation	6,691	6,591	0	0	6,691	6,591
Education	75,545	75,901	0	0	75,545	75,901
Interest on Long-term Debt	4,551	4,718	0	0	4,551	4,718
Water	0	0	10,329	9,630	10,329	9,630
Sewer	0	0	8,267	8,228	8,267	8,228
Solid Waste Management	0	0	4,367	4,010	4,367	4,010
Storm Water Management	0	0	672	0	672	0
MeadowView Conference Resort and Convention Center	0	0	1,363	1,598	1,363	1,598
Cattails at MeadowView Golf Course	0	0	1,325	1,384	1,325	1,384
Total Expenses	142,413	146,237	26,323	24,850	168,736	171,087
Increase (Decrease) in Net Assets before Transfers	(6,328)	(9,438)	2,316	2,914	(4,012)	(6,524)
Transfers	(3,615)	(4,425)	3,615	4,425	0	0
Change in Net Assets	(9,943)	(13,863)	5,931	7,339	(4,012)	(6,524)
Net Assets, beginning of period	255,674	269,370	182,620	175,281	438,294	444,651
Prior Period Adjustment - Seized Cash	0	167	0	0	0	167
Prior Period Adjustment - Capital Assets	(1,365)	0	0	0	(1,365)	0
Prior Period Adjustment - Claims Payable	(2,251)	0	0	0	(2,251)	0
Prior Period Adjustment - Landfill Costs	0	0	(731)	0	(731)	0
Net Assets, end of period	\$ 242,115	\$ 255,674	\$ 187,820	\$ 182,620	\$ 429,935	\$ 438,294

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Governmental Activities - Revenue

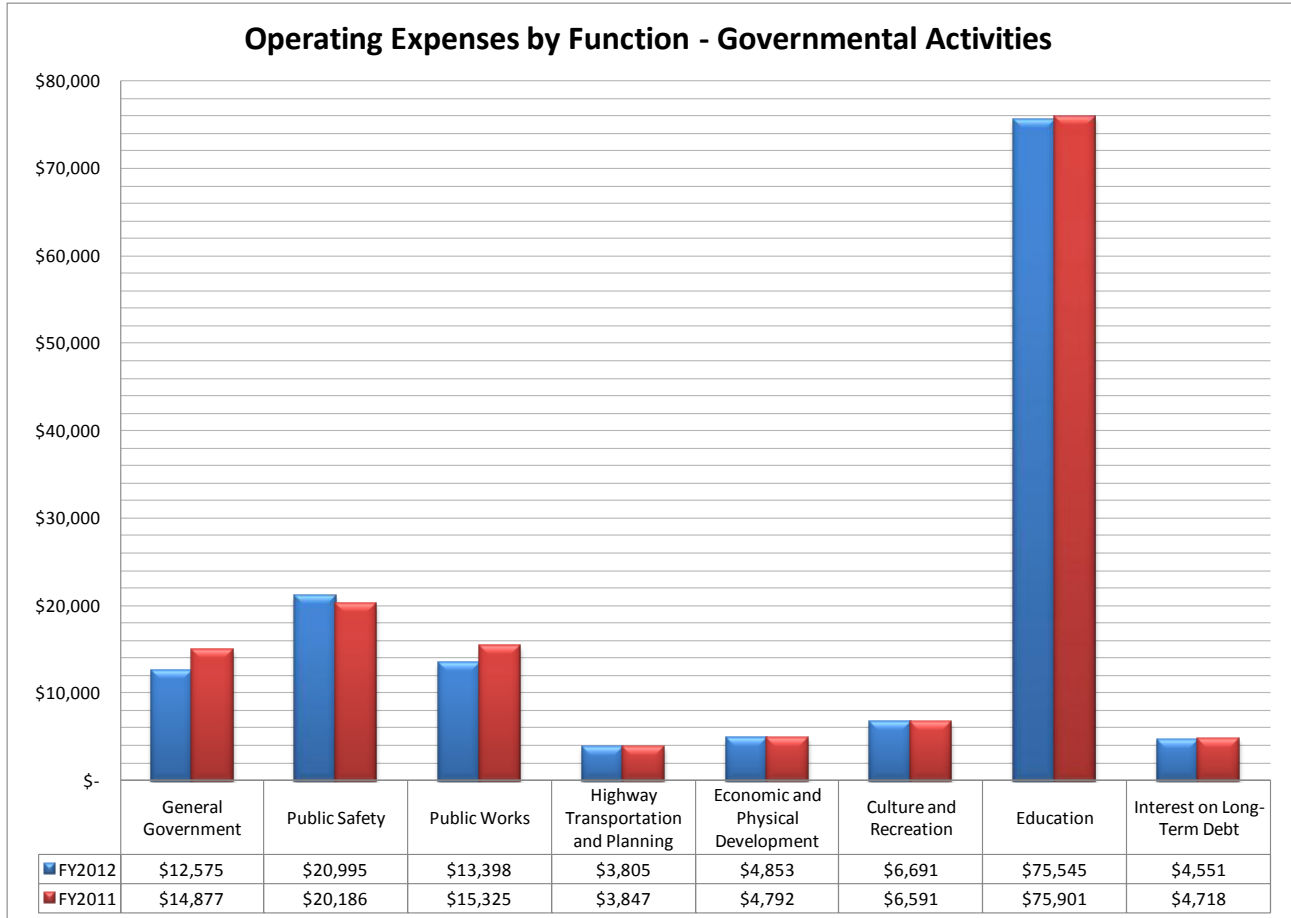
Governmental activities reduced the City's net assets by \$13,559. The City's governmental revenues totaling \$136,085 was less than the prior year by \$714. Charges for services and capital grants and contributions were less than the prior year by \$1,573 and \$4,431, respectively. However property taxes were more than the prior year by \$1,091 and sales taxes were more than the prior year by \$1,955.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Governmental Activities – Operating Expenses

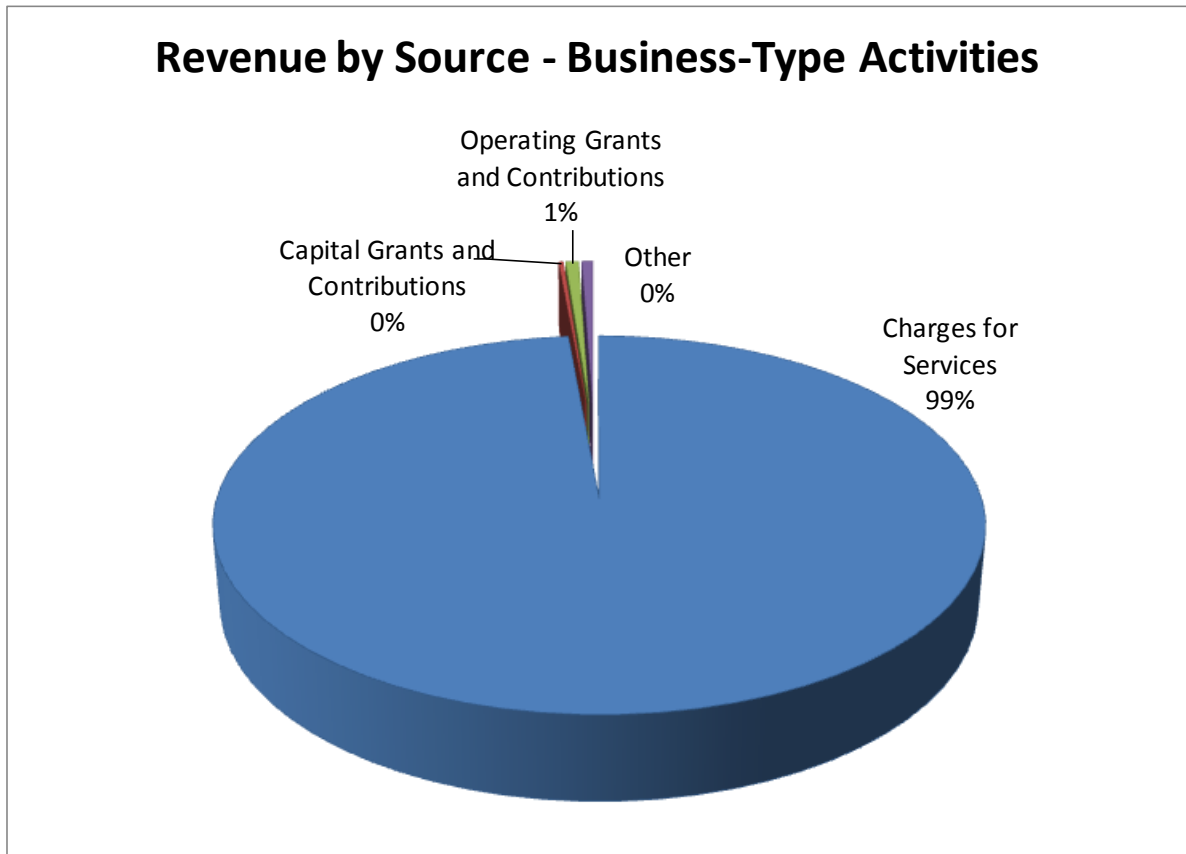
Operating expenses for governmental activities were less than the prior year by \$3,824. Operating expenses for the general government function was less than the prior year by \$2,302 while operating expenses for the public works function was less than the prior year by \$1,927.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Business-Type Activities - Revenue

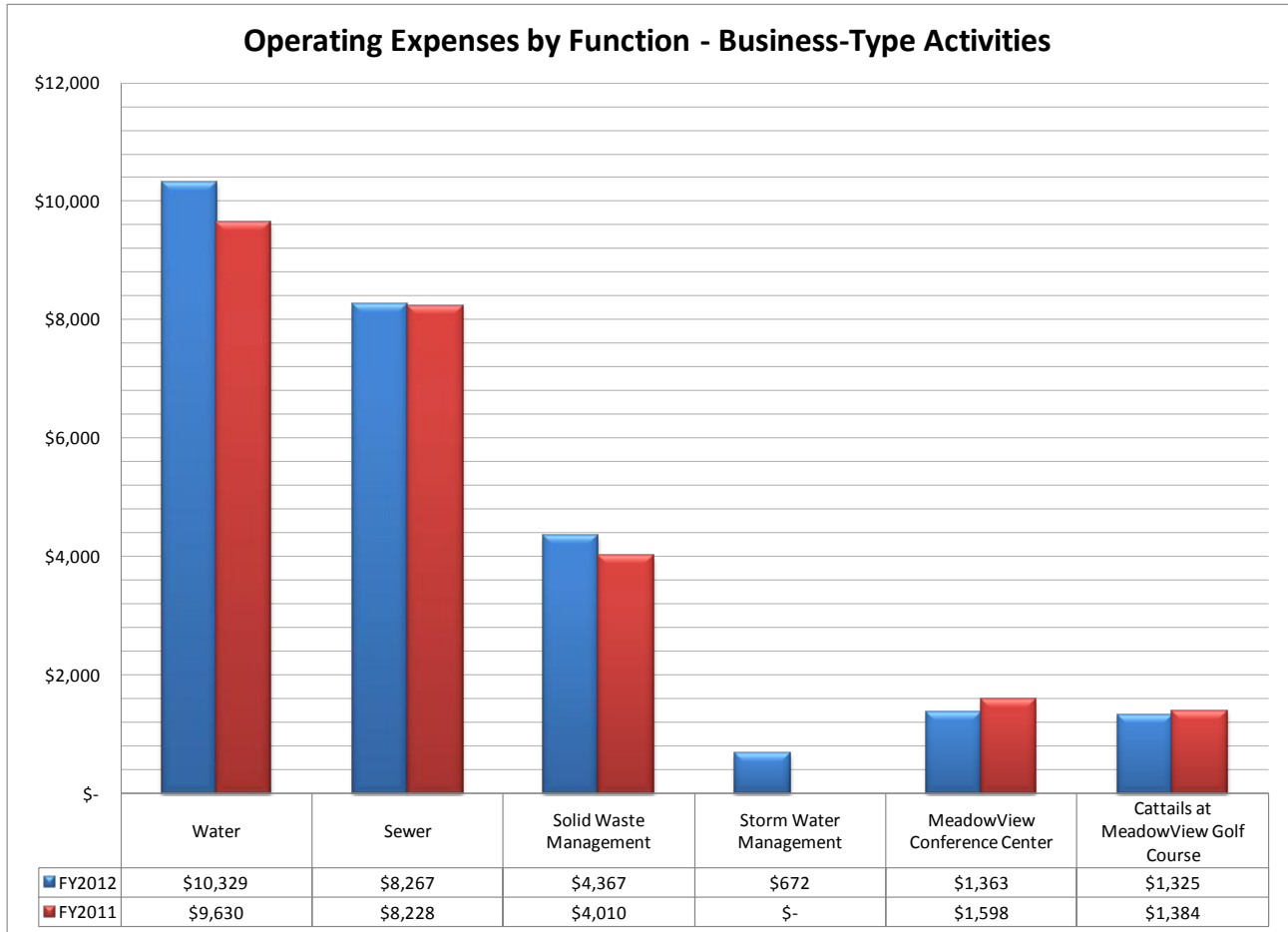
Business-type activities increased the City's net assets by \$5,200. The City's business-type revenues totaling \$28,639 was more than the prior year by \$875. A primary factor in the increased revenue is the City's Storm Water Management Fund which was established in December 2011.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Business-Type Activities – Operating Expenses

Operating expenses for business-type activities were more than the prior year by \$1,473. Of this, \$672 relates to the newly established Storm Water Management Fund. In addition Water Fund operating expenses were more than the prior year by \$699 primarily due to the cost of feasibility studies that could not be capitalized.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingsport's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Kingsport's governmental funds reported combined ending fund balances of \$54,542 an increase of \$225 in comparison with the prior year. Approximately 22% of this total amount, \$11,810 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance consists of \$415 nonspendable primarily attributed to inventories and a perpetual care trust, \$32,899 restricted primarily for capital projects, \$15 committed for specific school projects, and \$9,403 assigned primarily to the City's various governmental funds most significantly for education, capital projects, and debt service.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$11,810 while total fund balance was \$12,573. Of the total fund balance \$23 is considered nonspendable while \$740 is considered assigned. The majority of the assigned fund balance represents fund balance allocations for fiscal year 2013. As a matter of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out.

Unassigned fund balance represents approximately 18% of total general fund expenditures and transfers out, while total fund balance represents 19% of that same amount. During fiscal year 2012, the fund balance of the City's General Fund decreased by \$1,011. This decrease is less than the fund balance appropriations approved by the City's Board of Mayor and Aldermen totaling \$1,606.

The general purpose school fund has a total fund balance of \$3,870, of which most is unreserved. The net decrease in fund balance during the current year in the general purpose school fund was \$300.

The capital project fund has a total fund balance of \$33,508. Of this amount, \$32,888 represents unspent bond proceeds restricted for capital projects. The remainder of \$620 is assigned to the capital project fund. The net increase in this fund balance of \$1,561 was primarily due to bond proceeds received during the current fiscal year.

The debt service fund has a total fund balance of \$22. This represents a decrease of \$148 as compared to the previous fiscal year. This decrease is primarily a result of budgeted use of prior year's investment earnings to fund current year's interest expense. In addition, the fund experienced a decrease in investment earnings on bond proceeds. Debt service expenditures (principal and interest) totaled \$9,976 for fiscal year 2012. This was \$225 less than the debt service expenditures paid in fiscal year 2011.

Nonmajor (other) governmental funds have a fund balance of \$4,569. The net increase in fund balance during the current year in nonmajor governmental funds was \$123.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer funds at the end of the fiscal year amounted to \$8,819 and \$9,331 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$389 decrease and are detailed as follows:

\$	(718)	Reduce appropriations fund-wide in accordance with available revenues
	163	Appropriate fund balance for furniture and equipment for Fire Station #8
	28	Appropriate various donations received
	141	Provide funding for prior year encumbrances
	<u>(3)</u>	Other miscellaneous
<u>\$</u>	<u>(389)</u>	

By far the largest of the revenue reductions was \$297 attributed to red light camera court costs. Well after the FY2012 budget was adopted, the State of Tennessee passed legislature to disallow local court costs for camera documented traffic violations.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$591,606 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

Major capital asset events during the current fiscal year included the following:

- The most significant business-type construction projects during fiscal year 2012 were completion of renovations and improvements at the sewer treatment plant and substantial completion of the building expansion project at MeadowView Conference Center. Business-type construction in progress at the close of the fiscal year was \$71,328.
- Construction continued and/or began on a variety of general governmental projects including various road improvement projects. The most significant of the governmental projects during FY2012 was construction of an Aquatics Center. The budget for the Aquatic Center is currently \$19,626. Construction of the indoor center is expected to be complete in spring 2013 with an anticipated opening in May 2013. There will also be an outdoor area and lazy river feature.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

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

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 23,233	\$ 23,337	\$ 5,466	\$ 5,436	\$ 28,699	\$ 28,773
Buildings and Systems	84,507	80,445	170,013	166,039	254,520	246,484
Improvements other than Buildings	4,689	5,309	2,986	4,350	7,675	9,659
Machinery and Equipment	14,191	10,794	1,034	938	15,225	11,732
Software	265	212	25	39	290	251
Infrastructure	152,934	155,889	0	0	152,934	155,889
Construction in Progress	60,935	53,194	71,328	71,593	132,263	124,787
Total Capital Assets	\$ 340,754	\$ 329,180	\$ 250,852	\$ 248,395	\$ 591,606	\$ 577,575

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$225,094. All of this debt is backed by the full faith and credit of the government.

**City of Kingsport's Outstanding Debt
(Gross Amounts)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Notes Payable	\$ 1,095	\$ 1,228	\$ 0	\$ 0	\$ 1,095	\$ 1,228
General Obligation Bonds	121,845	107,173	68,975	66,373	190,820	173,546
Loans from Other Governments	9,520	7,568	23,659	24,288	33,179	31,856
Total Long-term Debt	\$ 132,460	\$ 115,969	\$ 92,634	\$ 90,661	\$ 225,094	\$ 206,630

During the current fiscal year, the City's total gross debt increased by \$18,464 (9%). The \$16,491 governmental activities increase was a result of new debt exceeding principal payments. The \$1,973 business-type activities increase was also a result of new debt exceeding principal payments.

The increase can be attributed to three new bond issues during the 2012 fiscal year. General Obligation Public Improvement Bonds, Series 2011 were issued in December 2011 for \$16,140. General Obligation Bonds, Series 2012A were issued in June 2012 for \$3,110. General Obligation Public Improvement Bonds, Series 2012C were issued in June 2012 for \$9,305. In addition the City issued General Obligation Refunding Bonds, Series 2012B in June 2012 for \$9,970. The 2012B Refunding Bonds totaling \$9,970 refunded certain 2003 and 2004 bonds totaling \$10,100.

The City currently has a rating of AA- from Standard & Poor's Rating Services and a rating of Aa2 from Moody's Investors Service. Both ratings were reaffirmed in June 2012 in conjunction with a June 2012 bond sale.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2012
(amounts expressed in thousands)**

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

Additional information on the City's long-term debt can be found in Note 4.E on pages 71-114 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 7.2%, which is a decrease of 0.4% from a year ago. This compares to the state's average unemployment rate of 8.2 %.
- Inflationary trends in the region are comparable to national indices.
- 741 building permits with an estimated value of \$75,196 were issued during this fiscal year, compared to 531 building permits with an estimated value of \$65,621 for the previous year.

Short term interest rates on investments for the City's operating funds decreased to approximately 0.12% in fiscal year 2012 as the federal funds target rate continued to be held to approximately .25% by the Federal Reserve Board. The City has been able to obtain 0.78% to 0.98% rates with one year commitments.

All of these factors were considered in preparing the City's budget for the 2013 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund decreased to \$11,810. The City has assigned fund balance of \$719 to cover fiscal year 2013 budgeted allocations as well as encumbrances remaining from FY2012.

For the FY2013 budget year, water rates were increased by 1% for customers inside the City limits and rates were increased 2% for customers outside the City limits. Sewer rates increased 3% for inside customers while customers outside the City remained at the same rates.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in such. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Kingsport, Finance Department Director, 225 West Center Street, Kingsport, TN 37660.



B. BASIC FINANCIAL STATEMENTS

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash	\$ 1,840,616	\$ 0	\$ 1,840,616	\$ 293,557	\$ 2,554,823
Cash with Fiscal Agent	0	36,762	36,762	0	0
Equity in Pooled Cash and Investments	23,174,029	15,655,293	38,829,322	0	0
Long Term Certificates of Deposit	250,691	0	250,691	0	0
Investments	235,237	0	235,237	0	0
Accounts Receivable, Net	35,460,199	4,967,742	40,427,941	10,592	39,422
Accrued Interest Receivable	53,239	14,815	68,054	0	3,421
Due from Other Governments	24,085,537	663,490	24,749,027	0	18,567
Due from Primary Government	0	0	0	1,128,024	0
Due from Component Units	10,592	25,511	36,103	0	0
Internal Balances	636,831	(636,831)	0	0	0
Inventories	616,563	597,493	1,214,056	0	0
Prepays	627,608	38,979	666,587	7,935	12,590
Land Held for Sale or Development	0	0	0	10,002,075	0
Restricted Assets:					
Cash	36,470,026	12,776,004	49,246,030	238,949	0
Long Term Certificates of Deposit	2,000,000	56,000	2,056,000	0	0
Investments	2,638,633	769,592	3,408,225	342,814	0
Receivables	0	0	0	499,216	0
Capital Assets:					
Land	23,232,525	5,465,565	28,698,090	863,000	0
Buildings and Systems	150,702,541	274,987,339	425,689,880	2,537,000	0
Improvements Other Than Buildings	15,738,092	7,619,135	23,357,227	92,923	0
Machinery and Equipment	41,324,898	3,948,611	45,273,509	0	749,336
Software	582,763	66,400	649,163	0	0
Infrastructure	272,714,899	0	272,714,899	0	0
Construction in Progress	60,935,121	71,328,470	132,263,591	0	0
Less: Accumulated Depreciation	(224,476,795)	(112,563,311)	(337,040,106)	(129,121)	(670,410)
Other Assets, Net	1,944,381	1,308,015	3,252,396	0	0
Total Assets	470,798,226	287,125,074	757,923,300	15,886,964	2,707,749
LIABILITIES:					
Accounts Payable and Other Current Liabilities	15,790,707	1,907,672	17,698,379	144,916	4,546
Due to Primary Government	0	0	0	36,103	0
Due to Other Governments	3,472	252,078	255,550	0	0
Due to Component Units	20,247	7,777	28,024	0	0
Compensated Absences Payable	3,071,053	547,811	3,618,864	0	0
Matured Bonds and Interest Payable	0	36,762	36,762	0	0
Accrued Interest Payable	1,582,806	677,937	2,260,743	21,164	0
Unearned Revenue	48,374,943	0	48,374,943	4,335,576	0
Liabilities Payable from Restricted Assets	0	466,884	466,884	20,000	0
Noncurrent Liabilities:					
Due Within One Year	7,940,206	7,898,756	15,838,962	659,607	0
Due in More Than One Year	126,448,438	85,591,892	212,040,330	3,299,198	0
OPEB Liability	25,451,246	1,917,532	27,368,778	0	0
Total Liabilities	228,683,118	99,305,101	327,988,219	8,516,564	4,546
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	241,652,040	169,428,141	411,080,181	18,192	78,926
Restricted for Debt Service	0	137,978	137,978	0	0
Restricted for Capital Improvements	25,449	481,700	507,149	0	0
Restricted for Perpetual Care (Nonexpendable)	152,691	0	152,691	0	0
Unrestricted	284,928	17,772,154	18,057,082	7,352,208	2,624,277
Total Net Assets	\$ 242,115,108	\$ 187,819,973	\$ 429,935,081	\$ 7,370,400	\$ 2,703,203

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
Primary Government:									
Governmental Activities:									
General Government	\$ 12,574,751	\$ 681,275	\$ 935,857	\$ 4,329,089	\$ (6,628,530)	\$ 0	\$ (6,628,530)		
Public Safety	20,995,344	1,179,259	556,975	0	(19,259,110)	0	(19,259,110)		
Public Works	13,397,601	0	0	0	(13,397,601)	0	(13,397,601)		
Highways and Transportation	3,804,969	122,236	2,510,682	457,529	(714,522)	0	(714,522)		
Economic and Physical Development	4,852,780	996,925	530,599	0	(3,325,256)	0	(3,325,256)		
Culture and Recreation	6,691,418	988,565	121,838	0	(5,581,015)	0	(5,581,015)		
Education	75,544,772	2,540,181	34,071,258	0	(38,933,333)	0	(38,933,333)		
Interest on Long Term Debt	4,551,533	0	0	0	(4,551,533)	0	(4,551,533)		
Total Governmental Activities	142,413,168	6,508,441	38,727,209	4,786,618	(92,390,900)	0	(92,390,900)		
Business - Type Activities:									
Water	10,329,009	12,667,214	66,110	35,100	0	2,439,415	2,439,415		
Sewer	8,267,253	12,371,334	99,187	30,771	0	4,234,039	4,234,039		
Solid Waste Management	4,367,121	944,641	4,966	0	0	(3,417,514)	(3,417,514)		
Storm Water Management	671,575	910,822	0	0	0	239,247	239,247		
MeadowView Conference Resort and Convention Center	1,362,677	321,915	16,625	0	0	(1,024,137)	(1,024,137)		
Cattails at MeadowView Golf Course	1,325,339	1,011,026	0	0	0	(314,313)	(314,313)		
Total Business - Type Activities	26,322,974	28,226,952	186,888	65,871	0	2,156,737	2,156,737		
Total Primary Government	\$ 168,736,142	\$ 34,735,393	\$ 38,914,097	\$ 4,852,489	(92,390,900)	2,156,737	(90,234,163)		
Component Units:									
Industrial Development Board	\$ 1,929,392	\$ 794,780	\$ 781,105	\$ 580,338				\$ 226,831	\$ 0
Emergency Communications District	505,074	658,511	0	0				0	153,437
Total Component Units	\$ 2,434,466	\$ 1,453,291	\$ 781,105	\$ 580,338				226,831	153,437
General Revenues:									
Property Taxes					48,236,082	0	48,236,082	0	0
Sales Taxes					29,469,816	0	29,469,816	0	0
Alcoholic Beverage Taxes					1,778,471	0	1,778,471	0	0
Occupational Licenses and Business Taxes					1,746,264	0	1,746,264	0	0
Hotel / Motel Taxes					1,499,600	0	1,499,600	0	0
Income Taxes					609,312	0	609,312	0	0
Grants and Contributions Not Restricted to Specific Programs					1,361,422	0	1,361,422	0	52,759
Unrestricted Investment Earnings					401,451	153,080	554,531	2,007	13,997
Gain on Disposal of Capital Assets					0	5,812	5,812	0	0
Miscellaneous					960,663	0	960,663	0	0
Transfers					(3,615,027)	3,615,027	0	0	0
Total General Revenues and Transfers					82,448,054	3,773,919	86,221,973	2,007	66,756
Change in Net Assets					(9,942,846)	5,930,656	(4,012,190)	228,838	220,193
Net Assets - Beginning					255,673,633	182,619,853	438,293,486	7,141,562	2,483,010
Prior Period Adjustment for Capital Asset Disposals					(1,365,258)	0	(1,365,258)	0	0
Prior Period Adjustment for Claims and Benefits Payable					(2,250,421)	0	(2,250,421)	0	0
Prior Period Adjustment for Landfill Closure Costs					0	(730,536)	(730,536)	0	0
Net Assets - Ending					\$ 242,115,108	\$ 187,819,973	\$ 429,935,081	\$ 7,370,400	\$ 2,703,203

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Cash	\$ 8,330	\$ 0	\$ 0	\$ 0	\$ 1,832,286	\$ 1,840,616
Equity in Pooled Cash and Investments	9,224,751	6,559,879	10,517	0	900,601	16,695,748
Long-Term Certificates of Deposit	0	0	0	0	250,691	250,691
Investments	0	0	0	30,000	205,237	235,237
Taxes Receivable, net	34,462,013	0	0	0	0	34,462,013
Accounts Receivable, net	850,702	79,089	0	0	32,874	962,665
Accrued Interest Receivable	0	0	4,997	16	32,349	37,362
Due from Other Governments	4,421,215	16,949,143	0	187,715	2,527,464	24,085,537
Due from Other Funds	1,643,205	779,307	0	0	221,293	2,643,805
Due from Component Units	10,592	0	0	0	0	10,592
Inventories	3,142	6,476	0	0	198,535	208,153
Prepays	20,401	1,370	0	0	0	21,771
Cash - Restricted	0	0	6,819	36,463,207	0	36,470,026
Investments - Restricted	0	0	0	1,503,387	10,449	1,513,836
Total Assets	\$ 50,644,351	\$ 24,375,264	\$ 22,333	\$ 38,184,325	\$ 6,211,779	\$ 119,438,052
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 696,521	\$ 329,723	\$ 1,000	\$ 2,702,607	\$ 229,756	\$ 3,959,607
Compensated Absences Payable	2,568	66,263	0	0	0	68,831
Due to Other Governments	2,671	0	0	0	13	2,684
Due to Other Funds	0	0	0	1,084,212	1,315,147	2,399,359
Due to Component Units	20,247	0	0	0	0	20,247
Contracts Payable	0	0	0	853,671	0	853,671
Other Liabilities	1,882,976	5,220,295	0	0	3,015	7,106,286
Advances from Other Funds	834,128	0	0	0	0	834,128
Deferred Revenue	34,632,301	14,888,745	0	36,001	94,618	49,651,665
Total Liabilities	38,071,412	20,505,026	1,000	4,676,491	1,642,549	64,896,478

(continued)

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Nonspendable:						
Inventory	3,142	6,476	0	0	198,535	208,153
Prepays	20,401	1,370	0	0	0	21,771
Allandale Trust Principal	0	0	0	0	152,691	152,691
Allandale Long Term Interest Receivable	0	0	0	0	32,349	32,349
Restricted for:						
Unspent Federal Forfeitures	0	0	0	0	10,449	10,449
Unspent Bond Proceeds	0	0	0	32,888,068	0	32,888,068
Committed to:						
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Assigned to:						
Fund Balance Allocations	718,949	0	0	0	0	718,949
Future Industrial Park	20,927	0	0	0	0	20,927
Education	0	3,847,392	0	0	2,105,195	5,952,587
Debt Service	0	0	21,333	0	0	21,333
Capital Projects	0	0	0	619,766	0	619,766
Community Development	0	0	0	0	10,196	10,196
Other Projects	0	0	0	0	199,321	199,321
Public Safety	0	0	0	0	601,301	601,301
Transportation	0	0	0	0	599,277	599,277
Culture and Recreation	0	0	0	0	638,310	638,310
Allandale	0	0	0	0	21,606	21,606
Unassigned	11,809,520	0	0	0	0	11,809,520
Total Fund Balances	<u>12,572,939</u>	<u>3,870,238</u>	<u>21,333</u>	<u>33,507,834</u>	<u>4,569,230</u>	<u>54,541,574</u>
Total Liabilities and Fund Balances	<u>\$ 50,644,351</u>	<u>\$ 24,375,264</u>	<u>\$ 22,333</u>	<u>\$ 38,184,325</u>	<u>\$ 6,211,779</u>	<u>\$ 119,438,052</u>

See accompanying notes to the basic financial statements.

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CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

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

Total Fund Balance of Governmental Funds	\$ 54,541,574
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	332,456,049
Property tax assessments are reported as revenue in the government - wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue until paid by property owners.	1,276,722
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,786,881
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree's health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	16,382,819
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(164,328,937)</u>
Net Assets of Governmental Activities	<u><u>\$ 242,115,108</u></u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:						
Taxes	\$ 37,664,973	\$ 22,656,553	\$ 0	\$ 0	\$ 3,731,522	\$ 64,053,048
Licenses and Permits	390,916	0	0	0	0	390,916
Intergovernmental	21,829,490	25,087,240	244,923	417,288	12,832,967	60,411,908
Charges for Services	2,082,809	1,273,080	0	0	1,432,637	4,788,526
Fines and Forfeitures	736,228	0	0	0	151,785	888,013
Investment Earnings	82,616	0	204,953	1,878	11,853	301,300
Contributions and Donations	4,043	0	0	229,927	244,264	478,234
Miscellaneous	490,360	222,607	0	0	0	712,967
Total Revenues	63,281,435	49,239,480	449,876	649,093	18,405,028	132,024,912
EXPENDITURES:						
Current:						
General Government	8,889,159	0	0	0	1,008,180	9,897,339
Public Safety	18,851,933	0	0	0	354,305	19,206,238
Public Works	6,104,746	0	0	0	0	6,104,746
Economic and Physical Development	3,670,958	0	0	0	538,498	4,209,456
Transportation	0	0	0	0	3,804,971	3,804,971
Culture and Recreation	4,809,798	0	0	0	327,622	5,137,420
Education	0	56,376,371	0	0	9,382,035	65,758,406
Miscellaneous	1,108,609	0	0	0	0	1,108,609
Debt Service:						
Principal	0	0	5,426,273	0	0	5,426,273
Interest	0	0	4,549,707	0	0	4,549,707
Bond Issuance Costs	0	0	0	435,261	0	435,261
Other Costs	0	0	7,387	0	0	7,387
Capital Outlay	162,194	547,847	0	23,030,009	1,262,562	25,002,612
Total Expenditures	43,597,397	56,924,218	9,983,367	23,465,270	16,678,173	150,648,425

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	19,684,038	(7,684,738)	(9,533,491)	(22,816,177)	1,726,855	(18,623,513)
OTHER FINANCING SOURCES (USES):						
Transfers In	2,882,006	12,880,800	9,385,544	1,992,624	1,817,623	28,958,597
Transfers Out	(23,577,499)	(5,496,036)	0	(78,395)	(3,421,694)	(32,573,624)
Issuance of Debt	0	0	0	16,406,201	0	16,406,201
Issuance of Debt - Refunding Bonds	0	0	0	9,970,000	0	9,970,000
Premiums on Debt Issued	0	0	0	740,813	0	740,813
Payments to Refunded Bond Escrow	0	0	0	(4,654,178)	0	(4,654,178)
Total Other Financing Sources (Uses)	(20,695,493)	7,384,764	9,385,544	24,377,065	(1,604,071)	18,847,809
Net Change in Fund Balances	(1,011,455)	(299,974)	(147,947)	1,560,888	122,784	224,296
Fund Balances, July 1, 2011	13,584,394	4,170,212	169,280	31,946,946	4,446,446	54,317,278
Fund Balances, June 30, 2012	<u>\$ 12,572,939</u>	<u>\$ 3,870,238</u>	<u>\$ 21,333</u>	<u>\$ 33,507,834</u>	<u>\$ 4,569,230</u>	<u>\$ 54,541,574</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

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

Net Change in Fund Balance of Governmental Funds	\$ 224,296
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of capital assets.	11,076,824
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is an increase to net assets.	192,139
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(101,848)
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(289,393)
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds:	
Increase in Compensated Absences	(6,529)
Increase in OPEB Liability	(4,993,503)
Increase in Accrued Interest	(15,895)
The issuance of long term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of the principal of long term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	<u>(16,028,937)</u>
Change in Net Assets of Governmental Activities	<u>\$ (9,942,846)</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes:				
General Property	\$ 33,221,800	\$ 33,005,181	\$ 33,045,655	\$ 40,474
Gross Receipts	4,541,000	4,595,927	4,619,318	23,391
Licenses and Permits	464,300	384,755	390,916	6,161
Intergovernmental:				
Federal	0	13,204	13,204	0
State	5,275,000	5,481,373	5,488,446	7,073
County	15,439,000	16,039,700	16,049,222	9,522
Local	394,700	277,500	278,618	1,118
Charges for Services	2,146,000	2,070,379	2,082,809	12,430
Fines and Forfeitures	1,238,400	735,099	736,228	1,129
Investment Earnings	300,000	82,359	82,616	257
Contributions and Donations	5,000	4,043	4,043	0
Miscellaneous	417,300	493,896	490,360	(3,536)
Total Revenues	<u>63,442,500</u>	<u>63,183,416</u>	<u>63,281,435</u>	<u>98,019</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	171,600	133,864	131,768	2,096
Judicial	31,000	26,300	26,057	243
City Attorney	416,600	428,524	425,739	2,785
City Manager	439,200	451,497	445,302	6,195
Deputy City Manager	87,400	400	0	400
Assistant to City Manager	99,700	100,439	98,732	1,707
Budget Office	174,200	164,077	161,010	3,067
Special Programs	2,582,500	3,258,634	3,255,558	3,076
Public Information Office	186,400	174,712	173,087	1,625
Personnel	1,103,600	952,686	941,758	10,928
Purchasing	235,650	231,154	227,667	3,487
Finance Administration	1,605,100	1,559,558	1,553,586	5,972
Records Administration	98,900	86,957	84,004	2,953
Information Services	904,250	951,933	948,886	3,047
Geographic Information	326,700	319,861	319,179	682
Grant Office	92,600	98,942	96,826	2,116
Total General Government	<u>8,555,400</u>	<u>8,939,538</u>	<u>8,889,159</u>	<u>50,379</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public Safety:				
Police Administration	1,660,900	1,596,266	1,592,817	3,449
Jail Operations	406,000	374,921	372,783	2,138
Training	282,500	290,507	290,026	481
Traffic School	7,750	7,231	6,663	568
Investigations	1,613,700	1,747,898	1,745,635	2,263
Patrol Division	5,476,000	5,541,421	5,539,155	2,266
Animal Control	12,000	9,300	9,228	72
Central Dispatch	1,052,400	1,081,329	1,079,737	1,592
Communications	269,000	260,569	257,559	3,010
Fire Control and Prevention	8,008,800	7,965,362	7,958,330	7,032
Total Public Safety	<u>18,789,050</u>	<u>18,874,804</u>	<u>18,851,933</u>	<u>22,871</u>
Public Works:				
Administration	157,400	162,555	162,115	440
Streets and Sanitation Administration	282,100	278,727	270,209	8,518
Street Cleaning	395,100	424,510	419,984	4,526
Street Maintenance	1,621,800	1,656,007	1,503,439	152,568
Building Maintenance	1,699,600	1,626,460	1,622,179	4,281
Grounds Maintenance	1,180,200	1,098,880	1,093,357	5,523
Park Maintenance	582,800	535,366	529,259	6,107
Inter Local Agreements	20,000	2,278	670	1,608
Landscaping	583,500	511,124	503,534	7,590
Total Public Works	<u>6,522,500</u>	<u>6,295,907</u>	<u>6,104,746</u>	<u>191,161</u>
Economic and Physical Development:				
Administration	383,800	411,316	410,489	827
Planning	436,700	465,028	462,902	2,126
Transportation	1,087,400	1,136,393	1,133,672	2,721
Charter Bus Service	12,000	12,785	11,279	1,506
Engineering	1,089,800	1,081,290	1,063,142	18,148
Code Enforcement	598,800	591,525	589,474	2,051
Total Economic and Physical Development	<u>3,608,500</u>	<u>3,698,337</u>	<u>3,670,958</u>	<u>27,379</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Culture and Recreation:				
Administration	352,700	351,009	337,444	13,565
Adult Education	5,000	7,000	5,866	1,134
Parks and Recreation Centers	414,600	336,819	329,576	7,243
Lynn View	143,800	118,300	109,794	8,506
Swimming Pools	152,300	174,418	169,346	5,072
Athletics	787,100	744,957	735,111	9,846
Cultural Arts	265,500	204,086	194,011	10,075
Allandale	203,100	209,036	204,777	4,259
Senior Citizens Center	530,100	530,428	522,624	7,804
Bays Mountain Park	1,160,900	1,071,759	1,054,735	17,024
Library	1,178,500	1,152,453	1,146,514	5,939
Total Culture and Recreation	<u>5,193,600</u>	<u>4,900,265</u>	<u>4,809,798</u>	<u>90,467</u>
Miscellaneous	<u>671,292</u>	<u>1,110,036</u>	<u>1,108,609</u>	<u>1,427</u>
Capital Outlay	<u>149,400</u>	<u>178,025</u>	<u>162,194</u>	<u>15,831</u>
Total Expenditures	<u>43,489,742</u>	<u>43,996,912</u>	<u>43,597,397</u>	<u>399,515</u>
Excess of Revenues Over Expenditures	<u>19,952,758</u>	<u>19,186,504</u>	<u>19,684,038</u>	<u>497,534</u>
Other Financing Sources (Uses):				
Transfers In	3,215,900	2,784,921	2,882,006	97,085
Transfers Out	<u>(24,473,358)</u>	<u>(23,577,520)</u>	<u>(23,577,499)</u>	<u>21</u>
Net Other Financing Sources (Uses)	<u>(21,257,458)</u>	<u>(20,792,599)</u>	<u>(20,695,493)</u>	<u>97,106</u>
Net Change in Fund Balances	(1,304,700)	(1,606,095)	(1,011,455)	594,640
Fund Balances, July 1, 2011	<u>1,304,700</u>	<u>1,606,095</u>	<u>13,584,394</u>	<u>11,978,299</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,572,939</u>	<u>\$ 12,572,939</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
County Taxes:				
Property Taxes	\$ 15,360,000	\$ 15,225,000	\$ 15,292,275	\$ 67,275
Gross Receipts Taxes	6,830,000	6,980,000	7,330,038	350,038
Other Taxes	62,000	62,000	34,240	(27,760)
Intergovernmental:				
Federal	358,636	358,636	289,379	(69,257)
State	24,135,300	24,225,819	23,961,370	(264,449)
County	0	836,491	836,491	0
Charges for Services	1,238,000	1,238,000	1,273,080	35,080
Miscellaneous	270,000	275,000	222,607	(52,393)
Total Revenues	<u>48,253,936</u>	<u>49,200,946</u>	<u>49,239,480</u>	<u>38,534</u>
EXPENDITURES:				
Instruction:				
Regular	29,730,498	30,277,642	30,110,480	167,162
Special Education	4,631,100	4,627,465	4,471,013	156,452
Vocational	1,443,700	1,455,305	1,443,347	11,958
Adult Education	180,250	205,374	156,592	48,782
Total Instruction	<u>35,985,548</u>	<u>36,565,786</u>	<u>36,181,432</u>	<u>384,354</u>
Student Support Services:				
Attendance	54,250	57,243	57,146	97
Health Services	548,393	553,019	549,940	3,079
Other	2,112,500	2,109,414	2,090,408	19,006
Total Student Support Services	<u>2,715,143</u>	<u>2,719,676</u>	<u>2,697,494</u>	<u>22,182</u>
Instructional Staff Support Services:				
Regular	2,857,332	2,868,596	2,840,992	27,604
Special Education	391,300	390,550	383,399	7,151
Vocational	148,300	148,200	139,655	8,545
Adult Education	141,186	141,186	104,954	36,232
Total Instructional Staff Support Services	<u>3,538,118</u>	<u>3,548,532</u>	<u>3,469,000</u>	<u>79,532</u>
General Administrative Support Services:				
Board of Education	1,209,000	1,239,000	1,229,820	9,180
Office of Superintendent	1,124,550	1,073,603	984,001	89,602
Total General Administrative Support Services	<u>2,333,550</u>	<u>2,312,603</u>	<u>2,213,821</u>	<u>98,782</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
School Administrative Support Services	2,763,842	2,858,110	2,836,670	21,440
Business Administrative Support Services	347,600	347,500	342,368	5,132
Operations and Maintenance Support Services:				
Operations	4,007,339	4,018,223	4,004,957	13,266
Plant Maintenance	1,806,800	2,365,805	2,359,129	6,676
Total Operations and Maintenance Support Services	5,814,139	6,384,028	6,364,086	19,942
Student Transportation Support Services	1,574,300	1,484,638	1,437,358	47,280
Noninstructional Services:				
After School Programs	330,500	339,331	308,896	30,435
Community Service	545,800	548,042	525,246	22,796
Total Noninstructional Services	876,300	887,373	834,142	53,231
Capital Outlay	1,472,096	696,310	547,847	148,463
Total Expenditures	57,420,636	57,804,556	56,924,218	880,338
Deficiency of Revenues Under Expenditures	(9,166,700)	(8,603,610)	(7,684,738)	918,872
OTHER FINANCING SOURCES (USES):				
Transfers In	12,982,500	12,982,500	12,880,800	(101,700)
Transfers Out	(3,995,800)	(5,831,120)	(5,496,036)	335,084
Total Other Financing Sources (Uses)	8,986,700	7,151,380	7,384,764	233,384
Net Change in Fund Balances	(180,000)	(1,452,230)	(299,974)	1,152,256
Fund Balances, July 1, 2011	180,000	1,452,230	4,170,212	2,717,982
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,870,238</u>	<u>\$ 3,870,238</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business - Type Activities - Enterprise Funds							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
ASSETS:								
Current Assets:								
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	7,496,587	8,047,032	43,024	0	68,650	0	15,655,293	6,478,281
Accounts Receivable, Net	2,232,343	2,124,944	76,938	269,956	188,489	75,072	4,967,742	35,521
Accrued Interest Receivable	12,825	1,916	63	0	0	11	14,815	15,877
Due from Other Governments	0	663,490	0	0	0	0	663,490	0
Due from Other Funds	0	0	0	0	0	0	0	198,480
Due from Component Units	10,715	14,796	0	0	0	0	25,511	0
Inventories	481,880	0	0	0	0	115,613	597,493	408,410
Prepays	38,979	0	0	0	0	0	38,979	605,837
Total Current Assets	10,310,091	10,852,178	120,025	269,956	257,139	190,696	22,000,085	7,742,406
Noncurrent Assets:								
Restricted Assets:								
Cash	61,988	429,436	0	0	135,000	83,000	709,424	0
Cash from Unspent Bonds	4,323,026	6,383,554	1,160,000	0	0	200,000	12,066,580	0
Long Term Certificates of Deposit	56,000	0	0	0	0	0	56,000	2,000,000
Investments	463,774	45,598	53	0	258,585	1,582	769,592	1,124,797
Total Restricted Assets	4,904,788	6,858,588	1,160,053	0	393,585	284,582	13,601,596	3,124,797
Capital Assets:								
Land	742,870	917,477	1,308,121	0	1,515,497	981,600	5,465,565	14,695
Buildings and Systems	100,074,242	150,916,014	188,893	0	22,997,589	810,601	274,987,339	0
Improvements Other Than Buildings	0	0	1,177,264	0	401,759	6,040,112	7,619,135	0
Software	66,400	0	0	0	0	0	66,400	0
Machinery and Equipment	1,098,451	729,319	540,873	0	1,114,917	465,051	3,948,611	25,662,088
Construction in Progress	9,584,078	43,113,606	408,188	0	18,222,598	0	71,328,470	0
Less: Accumulated Depreciation	(39,353,937)	(58,820,126)	(1,480,622)	0	(9,072,926)	(3,835,700)	(112,563,311)	(17,378,788)
Total Capital Assets	72,212,104	136,856,290	2,142,717	0	35,179,434	4,461,664	250,852,209	8,297,995
Other Assets:								
Advances to Other Funds	0	0	0	0	0	0	0	1,028,033
Deposits	0	0	0	0	0	0	0	157,500
Prepaid Landfill Closure Costs	0	0	354,778	0	0	0	354,778	0
Unamortized Bond Costs	259,400	355,527	28,043	0	303,391	6,876	953,237	0
Total Other Assets	259,400	355,527	382,821	0	303,391	6,876	1,308,015	1,185,533
Total Noncurrent Assets	77,376,292	144,070,405	3,685,591	0	35,876,410	4,753,122	265,761,820	12,608,325
Total Assets	87,686,383	154,922,583	3,805,616	269,956	36,133,549	4,943,818	287,761,905	20,350,731

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business - Type Activities - Enterprise Funds							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
LIABILITIES:								
Current Liabilities:								
Accounts Payable	316,524	728,703	183,463	169	328,304	10,688	1,567,851	141,143
Due to Other Governments	140,242	111,836	0	0	0	0	252,078	788
Due to Other Funds	0	0	159,023	62,610	169,187	52,106	442,926	0
Due to Component Units	0	0	0	0	7,777	0	7,777	0
Compensated Absences Payable	264,474	161,020	91,267	31,050	0	0	547,811	95,981
Retainages Payable	49,407	417,477	0	0	0	0	466,884	0
Matured Bonds Payable	35,262	0	0	0	0	0	35,262	0
Matured Interest Payable	1,500	0	0	0	0	0	1,500	0
Accrued Interest Payable	164,934	297,418	9,106	0	206,479	0	677,937	0
General Obligation Bonds - Current	2,122,646	3,666,942	38,956	0	661,736	110,000	6,600,280	0
State Revolving Loan Current	141,300	1,157,176	0	0	0	0	1,298,476	0
Other Payables	310,917	28,904	0	0	0	0	339,821	3,730,000
Total Current Liabilities	3,547,206	6,569,476	481,815	93,829	1,373,483	172,794	12,238,603	3,967,912
Noncurrent Liabilities:								
General Obligation Bonds Payable (Net of Deferred Refunding Costs, Discounts and Premiums)	21,406,138	24,907,635	1,716,956	0	14,490,316	710,749	63,231,794	0
State Revolving Loan Payable	675,940	21,684,158	0	0	0	0	22,360,098	0
Advances from Other Funds	0	0	193,905	0	0	0	193,905	0
OPEB Liability	956,877	560,441	380,775	19,439	0	0	1,917,532	0
Total Noncurrent Liabilities	23,038,955	47,152,234	2,291,636	19,439	14,490,316	710,749	87,703,329	0
Total Liabilities	26,586,161	53,721,710	2,773,451	113,268	15,863,799	883,543	99,941,932	3,967,912
NET ASSETS:								
Invested in Capital Assets, Net of Related Debt	52,189,106	91,823,933	1,546,805	0	20,027,382	3,840,915	169,428,141	8,297,995
Restricted for Debt Service	92,327	45,598	53	0	0	0	137,978	0
Restricted for Capital Improvements	0	0	0	0	390,007	91,693	481,700	0
Unrestricted	8,818,789	9,331,342	(514,693)	156,688	(147,639)	127,667	17,772,154	8,084,824
Total Net Assets	\$ 61,100,222	\$ 101,200,873	\$ 1,032,165	\$ 156,688	\$ 20,269,750	\$ 4,060,275	\$ 187,819,973	\$ 16,382,819

See accompanying notes to the basic financial statements.

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CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Business - Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
OPERATING REVENUES:								
Charges and Fees	\$ 12,244,010	\$ 12,219,215	\$ 942,267	\$ 901,822	\$ 321,915	\$ 1,011,026	\$ 27,640,255	\$ 15,448,753
Penalties and Fines	407,758	142,999	0	9,000	0	0	559,757	0
Miscellaneous	15,446	9,120	2,374	0	0	0	26,940	614,666
Total Operating Revenue	<u>12,667,214</u>	<u>12,371,334</u>	<u>944,641</u>	<u>910,822</u>	<u>321,915</u>	<u>1,011,026</u>	<u>28,226,952</u>	<u>16,063,419</u>
OPERATING EXPENSES:								
Operating Costs	7,377,399	4,441,594	4,256,916	671,575	712,868	1,081,184	18,541,536	15,014,694
Depreciation	2,546,929	3,434,519	92,233	0	631,295	238,499	6,943,475	1,454,255
Total Operating Expenses	<u>9,924,328</u>	<u>7,876,113</u>	<u>4,349,149</u>	<u>671,575</u>	<u>1,344,163</u>	<u>1,319,683</u>	<u>25,485,011</u>	<u>16,468,949</u>
Operating Income (Loss)	<u>2,742,886</u>	<u>4,495,221</u>	<u>(3,404,508)</u>	<u>239,247</u>	<u>(1,022,248)</u>	<u>(308,657)</u>	<u>2,741,941</u>	<u>(405,530)</u>
NONOPERATING REVENUES:								
Investment Earnings	61,604	90,654	364	0	349	109	153,080	100,151
Federal Interest Subsidy	66,110	99,187	4,966	0	16,625	0	186,888	0
Interest Expense	(380,665)	(350,311)	(17,438)	0	(349)	(5,020)	(753,783)	0
Gain (Loss) on Disposal of Capital Assets	(800)	5,812	0	0	0	0	5,012	15,986
Amortization Expense	(23,216)	(40,829)	(534)	0	(18,165)	(636)	(83,380)	0
Total Nonoperating Revenues	<u>(276,967)</u>	<u>(195,487)</u>	<u>(12,642)</u>	<u>0</u>	<u>(1,540)</u>	<u>(5,547)</u>	<u>(492,183)</u>	<u>116,137</u>
Income (Loss) Before Capital Contributions and Transfers	2,465,919	4,299,734	(3,417,150)	239,247	(1,023,788)	(314,204)	2,249,758	(289,393)
Capital Contributions	35,100	30,771	0	0	0	0	65,871	0
Transfers In	115,834	0	3,414,288	0	1,814,746	908,601	6,253,469	148,800
Transfers Out	<u>(1,309,965)</u>	<u>(1,245,918)</u>	<u>0</u>	<u>(82,559)</u>	<u>0</u>	<u>0</u>	<u>(2,638,442)</u>	<u>(148,800)</u>
Change in Net Assets	1,306,888	3,084,587	(2,862)	156,688	790,958	594,397	5,930,656	(289,393)
Net Assets, July 1, 2011	59,793,334	98,116,286	1,765,563	0	19,478,792	3,465,878	182,619,853	18,922,633
Prior Period Adjustments:								
Landfill Closure Costs	0	0	(730,536)	0	0	0	(730,536)	0
Claims and Benefits Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,250,421)</u>
Net Assets, June 30, 2012	<u>\$ 61,100,222</u>	<u>\$ 101,200,873</u>	<u>\$ 1,032,165</u>	<u>\$ 156,688</u>	<u>\$ 20,269,750</u>	<u>\$ 4,060,275</u>	<u>\$ 187,819,973</u>	<u>\$ 16,382,819</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Business - Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from Customers and Users	\$ 12,098,092	\$ 11,746,605	\$ 872,290	\$ 620,216	\$ 187,357	\$ 971,912	\$ 26,496,472	\$ 0
Receipts from Interfund Services Provided	114,079	255,272	73,800	20,650	0	0	463,801	16,736,943
Payments to Suppliers	(3,675,085)	(2,470,130)	(2,633,403)	(196,809)	(608,650)	(1,105,157)	(10,689,234)	(14,364,415)
Payments to Employees	(3,953,642)	(2,351,563)	(1,643,291)	(424,108)	0	0	(8,372,604)	(1,553,260)
Net Cash Provided (Used) by Operating Activities	4,583,444	7,180,184	(3,330,604)	19,949	(421,293)	(133,245)	7,898,435	819,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Transfers from Other Funds	115,834	0	3,414,288	0	1,814,746	908,601	6,253,469	148,800
Transfers to Other Funds	(1,309,965)	(1,245,918)	0	(82,559)	0	0	(2,638,442)	(148,800)
Due To or From Other Funds	0	0	159,023	62,610	169,187	(629,852)	(239,032)	0
Advances To or From Other Funds	0	0	(184,147)	0	0	0	(184,147)	399,000
Net Cash Provided (Used) by Noncapital Financing Activities	(1,194,131)	(1,245,918)	3,389,164	(19,949)	1,983,933	278,749	3,191,848	399,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Proceeds from Capital Debt	3,610,162	5,851,933	1,160,000	0	0	200,000	10,822,095	0
County Revenue for Capital Projects	0	145,591	0	0	0	0	145,591	0
Acquisition and Construction of Capital Assets	(3,065,607)	(6,347,622)	(46,315)	0	(947,281)	(37,808)	(10,444,633)	(3,140,326)
Principal Paid on Capital Debt	(2,158,456)	(4,593,121)	(25,000)	0	(600,000)	(105,000)	(7,481,577)	0
Interest Paid on Capital Debt	(310,376)	(325,006)	(11,349)	0	8,364	(5,020)	(643,387)	0
Proceeds from Sales of Capital Assets	0	8,330	0	0	0	83,000	91,330	31,798
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,924,277)	(5,259,895)	1,077,336	0	(1,538,917)	135,172	(7,510,581)	(3,108,528)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Proceeds from Sales and Maturities of Investments	56,586	955,751	6,801	0	0	2,226	1,021,364	513,876
Purchase of Investments	0	0	0	0	(102,911)	0	(102,911)	0
Interest Received	57,497	88,738	301	0	349	98	146,983	99,570
Net Cash Provided (Used) by Investing Activities	114,083	1,044,489	7,102	0	(102,562)	2,324	1,065,436	613,446
Net Increase (Decrease) In Cash and Cash Equivalents	1,579,119	1,718,860	1,142,998	0	(78,839)	283,000	4,645,138	(1,276,814)
Cash and Cash Equivalents, July 1, 2011	10,339,244	13,141,162	60,026	0	282,489	0	23,822,921	7,755,095
Cash and Cash Equivalents, June 30, 2012	\$ 11,918,363	\$ 14,860,022	\$ 1,203,024	\$ 0	\$ 203,650	\$ 283,000	\$ 28,468,059	\$ 6,478,281

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Business - Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating Income (Loss)	\$ 2,742,886	\$ 4,495,221	\$ (3,404,508)	\$ 239,247	\$ (1,022,248)	\$ (308,657)	\$ 2,741,941	\$ (405,530)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:								
Depreciation	2,546,929	3,434,519	92,233	0	631,295	238,499	6,943,475	1,454,255
(Increase) Decrease in Assets:								
Accounts Receivable	(462,177)	(369,457)	1,449	(269,956)	(134,558)	(39,114)	(1,273,813)	673,524
Inventory	74,636	0	0	0	0	(8,405)	66,231	4,544
Prepays	1,582	0	(112,599)	0	0	0	(111,017)	(433,129)
Increase (Decrease) in Liabilities:								
Accounts Payable	(449,980)	(515,399)	28,912	169	146,441	(15,568)	(805,425)	(372,309)
Due to Component Units	0	0	0	0	7,777	0	7,777	0
Benefits Payable	0	0	0	0	0	0	0	0
Compensated Absences Payable	4,071	(5,720)	(707)	31,050	0	0	28,694	(2,087)
OPEB Liability	155,004	93,323	64,616	19,439	0	0	332,382	0
Other Payables	18,194	13,439	0	0	0	0	31,633	(100,000)
Retainages Payable	(47,701)	34,258	0	0	(50,000)	0	(63,443)	0
Net Cash Provided (Used) by Operating Activities	\$ 4,583,444	\$ 7,180,184	\$ (3,330,604)	\$ 19,949	\$ (421,293)	\$ (133,245)	\$ 7,898,435	\$ 819,268
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:								
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	7,496,587	8,047,032	43,024	0	68,650	0	15,655,293	6,478,281
Restricted Cash from Unspent Bonds	4,323,026	6,383,554	1,160,000	0	0	200,000	12,066,580	0
Restricted Cash	61,988	429,436	0	0	135,000	83,000	709,424	0
Cash and Cash Equivalents, June 30, 2012	\$ 11,918,363	\$ 14,860,022	\$ 1,203,024	\$ 0	\$ 203,650	\$ 283,000	\$ 28,468,059	\$ 6,478,281
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:								
Capital Assets Contributed by Developers	\$ 35,100	\$ 30,771	\$ 0	\$ 0	\$ 0	\$ 0	\$ 65,871	\$ 0
Federal Interest Subsidy Paid Directly to Bank	\$ 66,110	\$ 99,187	\$ 4,966	\$ 0	\$ 16,625	\$ 0	\$ 186,888	\$ 0

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Kingsport, Tennessee (the City) was incorporated in 1917 and operates under a Council-Manager form of government. The City is an industrial community in the foothills of the Appalachian Mountains. Along with two other comparably-sized cities within a 20-mile radius, the City is part of a 12 county area in northeast Tennessee and southwest Virginia known as the Tri-Cities Tennessee/Virginia region.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting entity

Primary Government

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

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

Discretely Presented Component Units

Proprietary Fund Type

The Industrial Development Board of the City of Kingsport, Tennessee (IDBK) – The IDBK was incorporated on February 11, 1986, under the provisions of the State of Tennessee constitution and general statutes. The purpose of the IDBK is to finance, acquire, own, lease, and/or dispose of properties to maintain and increase employment opportunities in the City. The IDBK consists of nine members, all of whom are appointed by the City's BMA. A significant amount of the IDBK's revenue is derived from the City. Additionally, City employees provide significant oversight of IDBK projects. Due to the close relationship between the City and the IDBK, it seems likely the City could impose their will on the IDBK, and therefore IDBK is considered a component unit of the City of Kingsport. Separately issued financial statements of the IDBK are not available.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Reporting entity (continued)

Discretely Presented Component Units (continued)

Proprietary Fund Type (continued)

Emergency Communications District of the City of Kingsport, Tennessee (ECD) – The ECD was created by referendum on January 11, 1994, the results of which were certified on January 20, 1994. The purpose of the ECD is to oversee the operations of the 911 emergency telephone services. Their Board consists of nine members, all of whom are appointed by the City's BMA. The operations of the ECD are managed directly by employees of the City. Due to the close relationship between the City and the ECD, it seems likely the City could impose their will on the ECD, and therefore ECD is considered a component unit of the City of Kingsport. Separately issued financial statements may be requested from the ECD administrative offices.

Emergency Communications District of the City of Kingsport
200 Shelby Street
Kingsport, Tennessee 37660

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are various charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for local revenues, 120 days for state-shared revenues, and 365 days for grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for and reported in another fund. The primary financial resources reported in the general fund are, local property taxes, local option sales taxes, and state shared revenues.

The *general purpose school fund* is used to account for and report transactions of the City School System. The major sources of funding are state-shared revenues, local property taxes, and local option sales taxes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets related to the general operation of the City (excluding types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments).

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term general obligation debt other than that payable from enterprise funds.

The City reports the following non-major governmental funds:

The *school nutrition services fund* is a special revenue fund used to account for and report federal and state financial resources, as well as user fees for the specific activities associated with the operation of the City School System cafeterias.

The *special school projects fund* is a special revenue fund used to account for and report financial resources derived from federal and state grants related to school projects.

The *public law 93-380 fund* is a special revenue fund used to account for and report restricted federal financial resources, specific to academic programs associated with federal grant entitlements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The *Palmer Center fund* is a special revenue fund used to account for and report a contribution from the heirs of the late Mary L. Robinson estate, for the support of educational and other services provided to physically challenged children, by the Palmer Center.

The *special revenue general projects fund* is a special revenue fund used to account for and report federal and state grants matched with local revenues to fund general government programs or non-capital improvement projects.

The *community development fund* is a special revenue fund used to account for and report activities funded by community block grant entitlements from the United States Department of Housing and Urban Development.

The *federal transit administration fund* is a special revenue fund used to account for and report activities funded by federal and state grants for support of local government transportation programs.

The *state street aid fund* is a special revenue fund used to account for and report activities funded by state gasoline taxes.

The *drug fund* is a special revenue fund used to account for and report financial resources primarily derived from fines and forfeitures and used to support the City's police department drug investigations and enforcement programs.

The *criminal forfeiture fund* is a special revenue fund used to account for and report activities related to seized property and money with the exception of those related to drug activities. In addition, this fund accounts for funds received from the United States Department of Justice under the Equitable Sharing of Federally Forfeited Property program.

The *regional sales tax revenue fund* is a special revenue fund used to account for and report the proceeds from a \$.0025 (1/4 ¢) local option sales tax previously approved by local referendum. These funds are used for the retirement of debt issued to fund construction of the MeadowView Conference Resort and Convention Center and to support the operations of the complex including the Cattails Golf Course and future Aquatics Center.

The *public library commission fund* is a special revenue fund used to account for and report contributions from patrons, civic organizations, private corporations, and other supporters of the Kingsport Public Library.

The *Bays Mountain Park fund* is a special revenue fund used to account for and report contributions from individuals, civic organizations and private corporations for the support and continued development of the Bays Mountain Park.

The *Steadman cemetery fund* is a special revenue fund used to account for and report a contribution from the heirs of Bonnie M. Steadman to provide for the maintenance of the Steadman family cemetery.

The *senior citizens advisory board fund* is a special revenue fund used to account for and report financial resources derived from various programs and events conducted by participating senior citizens and contributions from individuals, civic organizations and private corporations.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The *metropolitan planning office fund* is a special revenue fund used to account for and report grant funds received from the federal highway administration, federal transit administration, and State of Tennessee for support of local MPO programs.

The *justice assistance grant fund* is a special revenue fund used to account for and report direct federal grant funds received from the Edward Byrne Memorial Justice Assistance Grant Program. These funds are restricted for certain law enforcement programs.

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

The City reports the following major proprietary funds:

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

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

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

The *storm water management fund* accounts for the activities of the City's management of storm water run-off, efforts to improve the water quality of rivers and streams and to reduce incidences of flooding.

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

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

Additionally, the City reports the following fund types:

Internal service funds account for risk management, self-insured health insurance, retiree's health insurance and fleet maintenance services provided to other departments or agencies of the government on a cost reimbursement basis.

The *Allandale Trust fund* is a permanent fund used to account for and report restricted, non-expendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

2. *Receivables and payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

3. *Inventories and prepaid items*

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

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

4. *Restricted assets*

Certain cash and investment balances of the City are classified as restricted assets at the government-wide and fund level because they are maintained in separate accounts and their use is limited by certain agreements and contracts with third parties. Restricted cash includes sinking fund accounts established to meet the requirements of certain bonds issues, escrow for construction contractors established to fund retainage of outstanding construction projects upon their completion, and working capital for outsourced operations of City facilities. Restricted investments include borrowed funds obligated for construction projects that have not been completed at the end of the fiscal year.

5. *Capital assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years for property, plant and equipment and assets with an initial, individual cost of more than \$100,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

5. *Capital assets (continued)*

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Debt service interest for business-type activities totaled \$3,133,636, with \$753,783 being expensed and \$2,379,853 being capitalized related to capital assets under construction as detailed in the respective funds as follows:

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Business - Type Activities
Interest Expensed	\$ 380,665	\$ 350,311	\$ 17,438	\$ 349	\$ 5,020	\$ 753,783
Capitalized Interest	<u>266,207</u>	<u>1,478,154</u>	<u>9,316</u>	<u>626,176</u>	<u>0</u>	<u>2,379,853</u>
Debt Service Interest	<u>\$ 646,872</u>	<u>\$ 1,828,465</u>	<u>\$ 26,754</u>	<u>\$ 626,525</u>	<u>\$ 5,020</u>	<u>\$ 3,133,636</u>

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

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

6. *Compensated absences*

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

It is also the City's policy to permit employees from certain departments of the City to accumulate earned but unused compensation time (comp time) for excess hours worked in lieu of overtime payments. The unpaid balance of reimbursable unused comp time is accrued when incurred in the government-wide, internal service and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

6. Compensated absences (continued)

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

Changes in compensated absences for the fiscal year ending June 30, 2012 are as follows:

Compensated Absences, Beginning of Year	\$ 3,542,508
Compensated Absences Earned in FY2012	3,585,939
Compensated Absences Used in FY2012	<u>(3,509,583)</u>
Compensated Absences, End of Year	<u>\$ 3,618,864</u>

7. Long-term obligations

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

8. *Fund equity*

Effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Governmental fund equity is classified as fund balance. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable).

Restricted Fund Balance – includes amounts that are (a) externally restricted by creditors, grantors, contributors, or laws or regulations of other governments, or (b) restricted by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision making authority, the Board of Mayor and Aldermen. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the (a) City’s Board of Mayor and Aldermen, or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance – is a residual classification for the general fund and includes all spendable amounts not contained in the other classifications. It is also used for any negative fund balances in other funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

9. *Use of estimates*

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$332,456,049 difference are as follows:

Governmental funds capital assets	\$ 539,554,056
Less: accumulated depreciation	<u>(207,098,007)</u>
 Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	 <u>\$ 332,456,049</u>

Another element of that reconciliation explains that “other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.” The details of this \$1,786,881 difference are as follows:

Deferred bond issuance costs	\$ 2,399,857
Less: accumulated amortization	<u>(612,976)</u>
 Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	 <u>\$ 1,786,881</u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$(164,328,937) difference are as follows:

Bonds payable, net of deferred refunding, premiums, and discounts	\$(122,673,340)
Notes payable	(9,520,304)
Inter-local cooperative agreements	(1,100,000)
Capital outlay notes payable	(1,095,000)
Compensated absences	(2,906,241)
OPEB liability	(25,451,246)
Accrued interest payable	<u>(1,582,806)</u>
 Net adjustment to reduce <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	 <u>\$(164,328,937)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of general capital assets.” The details of this \$11,076,824 difference are as follows:

Capital outlays	\$ 25,002,612
Depreciation expense	<u>(13,925,788)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 11,076,824</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is a decrease to net assets.” The details of this \$192,139 difference are as follows:

Capital asset donations reported in statement of activities	\$ 633,777
Capital asset roads annexed reported in statement of activities	3,018,098
Forfeited vehicles reported in statement of activities	25,600
Capital project expenditures not meeting capitalization requirements	(2,241,334)
Asset disposals	<u>(1,244,002)</u>
Net adjustment to reduce <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 192,139</u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$(101,848) difference are as follows:

Deferred property taxes as of June 30, 2012	\$ 1,276,722
Prior years’ property taxes collected during current year	<u>(1,378,570)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (101,848)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

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

Another element of that reconciliation states that “the net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this \$(289,393) difference are as follows:

Investment earnings	\$ 100,151
Gain on disposal of capital assets	15,986
Operating loss	(405,530)
Transfers In	148,800
Transfers Out	<u>(148,800)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (289,393)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$(16,028,937) difference are as follows:

Principal payments	\$ 5,426,273
Inter-local cooperative agreement payments	620,000
Principal payments on HUD Loan	43,000
Payments to refunded bonds escrow agent	4,654,178
Issuance of general obligation bonds and notes payable	(26,376,201)
Premium on issuance of general obligation bonds	(740,813)
Amortization of premiums, discounts and refunding costs	14,069
Bond issue costs	435,261
Amortization of deferred bond issue costs	<u>(104,704)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (16,028,937)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

C. Fund Balance Classification

As provided for in GASB Statement No. 54, governmental fund balances by classification, as of June 30, 2012 are as follows:

	Major Governmental Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	General Purpose Schools Fund	Debt Service Fund	Capital Projects Fund		
Fund Balances:						
<i>Nonspendable:</i>						
Inventory	\$ 3,142	\$ 6,476	\$ 0	\$ 0	\$ 198,535	\$ 208,153
Prepays	20,401	1,370	0	0	0	21,771
Allandale Trust Principal	0	0	0	0	152,691	152,691
Allandale Long Term Interest Receivable	0	0	0	0	32,349	32,349
Total Nonspendable	23,543	7,846	0	0	383,575	414,964
<i>Restricted for:</i>						
Unspent Federal Forfeitures	0	0	0	0	10,449	10,449
Unspent Bond Proceeds	0	0	0	32,888,068	0	32,888,068
Unspent State Career Ladder	0	0	0	0	0	0
Total Restricted	0	0	0	32,888,068	10,449	32,898,517
<i>Committed to:</i>						
School Textbooks	0	0	0	0	0	0
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Total Committed	0	15,000	0	0	0	15,000
<i>Assigned to:</i>						
Fund Balance Allocations	718,949	0	0	0	0	718,949
Future Industrial Park	20,927	0	0	0	0	20,927
Debt Service	0	0	21,333	0	0	21,333
Capital Projects	0	0	0	619,766	0	619,766
Other Projects	0	0	0	0	199,321	199,321
Community Development	0	0	0	0	10,196	10,196
Allandale Fund	0	0	0	0	21,606	21,606
<i>Education:</i>						
General Purpose School Fund	0	3,847,392	0	0	0	3,847,392
School Nutrition Fund	0	0	0	0	2,016,493	2,016,493
School Projects Fund - Safe Schools	0	0	0	0	23,004	23,004
Palmer Center Fund	0	0	0	0	65,698	65,698
<i>Public Safety:</i>						
Criminal Forfeiture Fund	0	0	0	0	83,450	83,450
Drug Fund	0	0	0	0	517,851	517,851
<i>Transportation:</i>						
Federal Transit Fund	0	0	0	0	291,370	291,370
MPO Fund	0	0	0	0	285,944	285,944
State Street Aid Fund	0	0	0	0	21,963	21,963
<i>Culture and Recreation:</i>						
Regional Sales Tax Fund	0	0	0	0	364,463	364,463
Visitors Enhancement Fund	0	0	0	0	127,293	127,293
Steadman Cemetary Fund	0	0	0	0	18,877	18,877
Library Commission Fund	0	0	0	0	1,232	1,232
Bays Mountain Park Fund	0	0	0	0	61,894	61,894
Senior Citizens Fund	0	0	0	0	64,551	64,551
Total Assigned	739,876	3,847,392	21,333	619,766	4,175,206	9,403,573
<i>Unassigned:</i>	11,809,520	0	0	0	0	11,809,520
Total Fund Balances	\$ 12,572,939	\$ 3,870,238	\$ 21,333	\$ 33,507,834	\$ 4,569,230	\$ 54,541,574

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary Information

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

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

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

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

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as Assigned Fund Balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2012, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

For the fiscal year ended June 30 2012, there were no instances of deficit fund equity in any funds.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS:

A. Deposits and investments

Cash deposits on the statement of net assets include demand deposits, certificates of deposit, savings accounts, cash on deposit with the State of Tennessee and cash deposited in escrow accounts.

Custodial Credit Rate Risk

Deposits

The policy for custodial credit rate risk on deposits is to follow state guidelines.

At year end, the City's carrying amount of deposits was \$89,848,558 and the bank balance was \$93,224,581. Total demand deposits and certificates of deposit for the City were insured and / or collateralized in one of the following ways; deposits were insured by the federal depository insurance corporation (FDIC); or deposits in excess of FDIC limits were held in financial institutions, which are members of the Tennessee Bank Collateral Pool (the pool). The pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the pool if the value of collateral is inadequate to cover a loss. Of the bank balance, \$1,000,000 was covered by FDIC with the remaining balance of \$92,224,581 being collateralized with the State of Tennessee Bank Collateral Pool.

The carrying amount of deposits at June 30, 2012 for the IDBK, a discretely presented component unit, was \$360,365 and the bank balance was \$377,563. The IDBK's deposits in financial institutions were entirely insured through FDIC or collateralized through the Tennessee Bank Collateral Pool at June 30, 2012.

The carrying amount of deposits at June 30, 2012 for the ECD, also a discretely presented component unit, was \$2,225,823 and the bank balance was \$2,227,481. The ECD's deposits in financial institutions were entirely insured through FDIC or collateralized through the Tennessee Bank Collateral Pool at June 30, 2012.

Investments

The City's investment policy is to ensure the preservation of capital in the overall investment portfolio. The City will emphasize the safety of capital first, maintain sufficient liquidity to meet obligations second, and gain the highest possible yield third.

The City's investments generally include long term certificates of deposit placed at local banks or money market deposits with the State of Tennessee Local Government Investment Pool (LGIP).

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments (continued)

At June 30, 2012, the City's carrying amount for investments are as follows:

<u>Investment Type</u>	Fair Value	Weighted Average <u>Maturity (in Years)</u>
Certificate of Deposit Tennessee Local Government	\$ 2, 306,691	0.72
Investment Pool	<u>3, 643,462</u>	0.34
Total	<u>\$ 5,950,153</u>	

The City does not have a policy for determining which investments will be recorded at amortized cost. No investments are recorded at amortized cost at June 30, 2012.

Concentration of Credit Risk

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2012 for the City's individual major funds, non-major funds, and internal service funds in the aggregate, and for the component units in total, including the applicable allowances for uncollectible accounts, are as follows:

	General	General Purpose School	Capital Projects	Water	Sewer	Solid Waste Management	Storm Water Management	Meadow View Conference Resort and Convention Center	Cattails at Meadow View Golf Course	Internal Service	NonMajor and Other Funds	Total Primary Government	Component Units
Receivables:													
Taxes	\$ 34,958,690	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,958,690	\$ 0
Accounts	954,336	125,062	0	2,318,559	2,414,288	105,466	272,637	188,489	75,072	35,521	32,874	6,522,303	50,014
Intergovernmental	4,421,215	16,949,143	187,715	0	663,490	0	0	0	0	0	2,527,464	24,749,027	18,567
Gross receivables	40,334,241	17,074,205	187,715	2,318,559	3,077,778	105,466	272,637	188,489	75,072	35,521	2,560,338	66,230,021	68,581
Less: Allowances for uncollectibles	(600,311)	(45,973)	0	(86,216)	(289,344)	(28,528)	(2,681)	0	0	0	0	(1,053,053)	0
Net total receivables	<u>\$ 39,733,930</u>	<u>\$ 17,028,232</u>	<u>\$ 187,715</u>	<u>\$ 2,232,343</u>	<u>\$ 2,788,434</u>	<u>\$ 76,938</u>	<u>\$ 269,956</u>	<u>\$ 188,489</u>	<u>\$ 75,072</u>	<u>\$ 35,521</u>	<u>\$ 2,560,338</u>	<u>\$ 65,176,968</u>	<u>\$ 68,581</u>

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

Uncollectibles related to property taxes	\$ (480,327)
Uncollectibles related to general activities	(78,379)
Uncollectibles related to school activities	1,750
Uncollectibles related to water sales	17,118
Uncollectibles related to sewer charges	23,304
Uncollectibles related to solid waste charges	4,333
Uncollectibles related to storm water management fees	<u>2,680</u>
Total uncollectibles of the current fiscal year	<u>\$ (509,521)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables (continued)

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Property taxes receivable (general fund)	\$ 0	\$ 33,050,579
Delinquent property taxes receivable (general fund)	1,276,722	0
Other taxes receivable (general fund)	0	305,000
Property taxes receivable (general purpose school fund)	0	14,884,000
Service fees not yet earned (general purpose school fund)	0	4,745
Receipts for meals not yet served (school nutrition services)	0	34,032
Grant drawdowns (school nutrition services)	0	7,000
Grant drawdowns (special school project fund)	0	29,152
Grant drawdowns (public law 93-380 fund)	0	21,568
Grant drawdowns (special revenue general project fund)	0	2,866
Grant drawdowns (capital project fund)	0	36,001
 Total deferred / unearned revenue for governmental funds	 \$ 1, 276,722	 \$ 48,374,943

Property taxes which are delinquent at year end are earned but not available. The tax year 2012 property taxes are unearned and unavailable, but are recorded as receivable on the lien date, as described in Note 1. Unearned revenue is considered a liability in the government wide statement of net assets. However deferred revenue at the fund financial statement level includes both unearned and unavailable revenues.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2012, was as follows:

Primary government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 22,893,156	\$ 1,476,549	\$ (1,137,180)	\$ 0	\$ 23,232,525
Construction in Progress	53,193,591	20,976,801	(13,235,271)	0	60,935,121
Total capital assets, not being depreciated	76,086,747	22,453,350	(14,372,451)	0	84,167,646
Capital assets, being depreciated:					
Buildings	140,759,348	9,943,193	0	0	150,702,541
Improvements other than buildings	15,314,742	480,970	(57,620)	0	15,738,092
Equipment	36,305,176	5,210,959	(191,237)	0	41,324,898
Software	466,846	124,917	(9,000)	0	582,763
Infrastructure	269,154,760	3,587,065	(26,926)	0	272,714,899
Total capital assets, being depreciated	462,000,872	19,347,104	(284,783)	0	481,063,193
Less accumulated depreciation for:					
Buildings	(60,314,657)	(5,880,507)	0	0	(66,195,164)
Improvements other than buildings	(10,005,588)	(1,094,123)	50,600	0	(11,049,111)
Equipment	(25,511,647)	(2,711,320)	1,089,519	0	(27,133,448)
Software	(254,383)	(72,693)	9,000	0	(318,076)
Infrastructure	(114,186,522)	(5,621,400)	26,926	0	(119,780,996)
Total accumulated depreciation	(210,272,797)	(15,380,043)	1,176,045	0	(224,476,795)
Total capital assets, being depreciated, net	251,728,075	3,967,061	891,262	0	256,586,398
Governmental activities capital assets, net	\$ 327,814,822	\$ 26,420,411	\$ (13,481,189)	\$ 0	\$ 340,754,044

A prior period adjustment was recorded in fiscal year 2012 that decreased governmental capital assets by \$2,137,263. This decrease is the result of the following: the disposal of a school building valued at \$447,546 that had previously been sold; the disposal of land valued at \$444,059 for school purposes which was erroneously recorded twice; and the disposal of annexed roads valued at \$1,245,658 which were owned by the State of Tennessee that were erroneously capitalized. Accumulated depreciation was also decreased totaling \$772,005, consisting of \$447,546 related to the disposal of the school building and \$324,459 related to the disposal of the annexed roads. The net change in governmental capital assets after considering depreciation is \$1,365,258. The beginning balance has been adjusted to reflect the changes from the prior period adjustment.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
<u>Water</u>					
Land	\$ 728,245	\$ 14,625	\$ 0	\$ 0	\$ 742,870
Construction in Progress	11,374,670	2,337,701	(4,128,293)	0	9,584,078
<u>Sewer</u>					
Land	902,852	14,625	0	0	917,477
Construction in Progress	41,825,499	4,556,545	(3,268,438)	0	43,113,606
<u>Solid waste management</u>					
Land	1,308,121	0	0	0	1,308,121
Construction in Progress	408,188	0	0	0	408,188
<u>Meadowview Conference Resort and Convention Center</u>					
Land	1,515,497	0	0	0	1,515,497
Construction in Progress	17,984,733	237,865	0	0	18,222,598
<u>Cattails at Meadowview Golf Course</u>					
Land	981,600	0	0	0	981,600
Total capital assets, not being depreciated	77,029,405	7,161,361	(7,396,731)	0	76,794,035
Capital assets, being depreciated:					
<u>Water</u>					
Buildings and system	95,310,650	4,763,592	0	0	100,074,242
Equipment and machinery	1,042,159	113,587	(57,295)	0	1,098,451
Software	66,400	0	0	0	66,400
<u>Sewer</u>					
Buildings and system	145,872,202	5,043,812	0	0	150,916,014
Equipment and machinery	732,633	32,099	(35,413)	0	729,319
<u>Solid waste management</u>					
Buildings and system	179,577	9,316	0	0	188,893
Improvements other than Buildings	1,177,264	187,357	(187,357)	0	1,177,264
Equipment and machinery	503,873	37,000	0	0	540,873
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	22,371,413	626,176	0	0	22,997,589
Improvements other than Buildings	395,506	6,253	0	0	401,759
Equipment	1,037,929	76,988	0	0	1,114,917
<u>Cattails at MeadowView Golf Course</u>					
Buildings	810,601	0	0	0	810,601
Improvements other than Buildings	6,116,093	7,019	(83,000)	0	6,040,112
Equipment	434,260	30,791	0	0	465,051
Total capital assets, being depreciated	276,050,560	10,933,990	(363,065)	0	286,621,485

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(36,053,687)	(2,491,564)	0	0	(38,545,251)
Equipment and machinery	(781,644)	(42,085)	55,990	0	(767,739)
Software	(27,667)	(13,280)	0	0	(40,947)
<u>Sewer</u>					
Buildings and system	(54,858,972)	(3,402,600)	0	0	(58,261,572)
Equipment and machinery	(559,280)	(31,919)	32,645	0	(558,554)
<u>Solid waste management</u>					
Buildings and system	(86,066)	(5,140)	0	0	(91,206)
Improvements other than Buildings	(1,105,727)	(23,846)	0	0	(1,129,573)
Equipment and machinery	(196,596)	(63,247)	0	0	(259,843)
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	(7,240,076)	(549,332)	0	0	(7,789,408)
Improvements other than Buildings	(297,340)	(45,375)	0	0	(342,715)
Equipment	(904,216)	(36,588)	0	1	(940,803)
<u>Cattails at MeadowView Golf Course</u>					
Buildings	(266,548)	(20,150)	0	0	(286,698)
Improvements other than Buildings	(2,959,720)	(201,551)	0	0	(3,161,271)
Equipment	(370,932)	(16,798)	0	(1)	(387,731)
Total accumulated depreciation	<u>(105,708,471)</u>	<u>(6,943,475)</u>	<u>88,635</u>	<u>0</u>	<u>(112,563,311)</u>
Total capital assets, being depreciated, net	<u>170,342,089</u>	<u>3,990,515</u>	<u>(274,430)</u>	<u>0</u>	<u>174,058,174</u>
Business-type activities capital assets, net	<u>\$ 247,371,494</u>	<u>\$ 11,151,876</u>	<u>\$ (7,671,161)</u>	<u>\$ 0</u>	<u>\$ 250,852,209</u>

A prior period adjustment was recorded in fiscal year 2012 that decreased business-type activities capital assets by \$1,023,438. This decrease occurs in the "improvements other than buildings" category within the solid waste management fund. It was determined that the costs related to these assets should offset accruals associated with post closure landfill costs. The beginning balance has been adjusted to reflect the changes from the prior period adjustment.

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

Governmental activities:	
General government	\$ 716,780
Economic and physical development	446,173
Public safety	1,021,665
Public works	6,406,378
Culture and recreation	1,320,729
Education	<u>5,468,318</u>
Total depreciation expense - governmental activities	<u>\$ 15,380,043</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

Business-type activities:	
Water	\$ 2,546,929
Sewer	3,434,519
Solid waste management	92,233
MeadowView Conference Resort and Convention Center	631,295
Cattails at MeadowView Golf Course	<u>238,499</u>
Total depreciation expense - business-type activities	<u><u>\$ 6,943,475</u></u>

Construction commitments

The City has active construction projects as of June 30, 2012. The governmental projects of the City are reflected in the capital projects fund and the City has provided funding for the future commitments in the amount of \$32,888,068 through bonded debt. In the proprietary funds, funding for construction projects has been provided and is in segregated deposit and investment accounts totaling \$12,066,580. Except for projects which are shared with counties or the State of Tennessee, the City could terminate any project at their discretion.

Discretely presented component units

Activity for the IDBK for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 0	\$ 863,000	\$ 0	\$ 0	\$ 863,000
Total capital assets, not being depreciated	<u>0</u>	<u>863,000</u>	<u>0</u>	<u>0</u>	<u>863,000</u>
Capital assets, being depreciated:					
Buildings	0	2,537,000	0	0	2,537,000
Improvements other than buildings	20,303	17,198	0	0	37,501
Signs	55,422	0	0	0	55,422
Total capital assets, being depreciated	<u>75,725</u>	<u>2,554,198</u>	<u>0</u>	<u>0</u>	<u>2,629,923</u>
Less accumulated depreciation for:					
Buildings	0	(54,390)	0	0	(54,390)
Improvements other than buildings	(20,303)	0	0	0	(20,303)
Signs	(51,506)	(2,922)	0	0	(54,428)
Total accumulated depreciation	<u>(71,809)</u>	<u>(57,312)</u>	<u>0</u>	<u>0</u>	<u>(129,121)</u>
Total capital assets, being depreciated, net	<u>3,916</u>	<u>2,496,886</u>	<u>0</u>	<u>0</u>	<u>2,500,802</u>
IDBK capital assets, net	<u><u>\$ 3,916</u></u>	<u><u>\$ 3,359,886</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,363,802</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Discretely presented component units (continued)

Activity for the ECD for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, being depreciated:					
Equipment, furniture & fixtures and other	\$ 718,202	\$ 31,134	\$ 0	\$ 0	\$ 749,336
Total capital assets, being depreciated	718,202	31,134	0	0	749,336
Less accumulated depreciation for:					
Equipment, furniture & fixtures and other	(619,243)	(51,167)	0	0	(670,410)
Total accumulated depreciation	(619,243)	(51,167)	0	0	(670,410)
Total capital assets, being depreciated, net	98,959	(20,033)	0	0	78,926
ECD capital assets, net	<u>\$ 98,959</u>	<u>\$ (20,033)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 78,926</u>

D. Inter-fund receivables, payables, and transfers

Inter-fund receivables and payables

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General (major)	State Street Aid (nonmajor)	\$ 60,696
	Urban Mass Transit (nonmajor)	14,337
	Community Development (nonmajor)	10,842
	Regional Sales Tax Fund (nonmajor)	432,005
	Justice Assistance Grant Fund (nonmajor)	17,960
	Capital Projects Fund (major)	885,732
	Solid Waste Management (major)	159,023
	Storm Water Management (major)	62,610
General Purpose School (major)	Public Law 93-380 (nonmajor)	619,154
	Special School Projects (nonmajor)	148,301
	School Food Nutrition Services (nonmajor)	11,852
Regional Sales Tax (nonmajor)	MeadowView Conference Center (major)	169,187
	Cattails at MeadowView Golf Course (major)	52,106
Fleet Maintenance (major)	Capital Projects Fund (major)	<u>198,480</u>
Total		<u>\$ 2,842,285</u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

D. Inter-fund receivables, payables, and transfers (continued)

Inter-fund receivables and payables (continued)

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Fleet Maintenance (major)	General (major)	\$ 834,128
	Solid Waste Management (major)	<u>193,905</u>
Total		<u>\$ 1,028,033</u>

Advances to/from other funds represent interfund loans with established repayment schedules that span over one year and are subject to interest rates ranging from 2.5% to 5.3%.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government-General Fund	Component unit - IDBK	\$ 10,592
Primary government-Water Fund	Component unit - IDBK	10,715
Primary government-Sewer Fund	Component unit - IDBK	14,796
Component unit - IDBK	Primary government-General Fund	(20,247)
Component unit - IDBK	Primary government-MeadowView Fund	<u>(7,777)</u>
Total		<u>\$ 8,079</u>

The City of Kingsport's primary government is also liable to their component unit Industrial Development Board for certain agreements that are reported as long term notes payable. The total amounts due under these agreements at June 30, 2012 are \$1,100,000. The amounts due in one year related to these agreements are \$620,000.

Interfund transfers

Transfers are used to move revenue from the fund with collection authorization or resolution to the debt service fund as debt service principal and interest payments become due and move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

D. Inter-fund receivables, payables, and transfers (continued)

Inter-fund transfers (continued)

Transfers in:

Transfers out:	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Water	Solid Waste Management	Meadow View Conference Resort and Convention Center	Cattails at Meadow View	Total Proprietary	Retirees Health Insurance	Total Internal Service	Total
General	\$ 0	\$ 12,869,296	\$ 5,393,032	\$ 245,256	\$ 1,655,627	\$ 20,163,211	\$ 0	\$ 3,414,288	\$ 0	\$ 0	\$ 3,414,288	\$ 0	\$ 0	\$ 23,577,499
General Purpose School	237,819	0	3,367,896	1,733,620	156,701	5,496,036	0	0	0	0	0	0	0	5,496,036
Capital Projects	0	0	73,100	0	5,295	78,395	0	0	0	0	0	0	0	78,395
Nonmajor Governmental	121,579	11,504	551,516	13,748	0	698,347	0	0	1,814,746	908,601	2,723,347	0	0	3,421,694
Total Governmental	359,398	12,880,800	9,385,544	1,992,624	1,817,623	26,435,989	0	3,414,288	1,814,746	908,601	6,137,635	0	0	32,573,624
Water	1,309,965	0	0	0	0	1,309,965	0	0	0	0	0	0	0	1,309,965
Sewer	1,144,563	0	0	0	0	1,144,563	101,355	0	0	0	101,355	0	0	1,245,918
Storm Water	68,080	0	0	0	0	68,080	14,479	0	0	0	14,479	0	0	82,559
Total Proprietary	2,522,608	0	0	0	0	2,522,608	115,834	0	0	0	115,834	0	0	2,638,442
Health Insurance	0	0	0	0	0	0	0	0	0	0	0	148,800	148,800	148,800
Total Internal Service	0	0	0	0	0	0	0	0	0	0	0	148,800	148,800	148,800
Total	<u>\$ 2,882,006</u>	<u>\$ 12,880,800</u>	<u>\$ 9,385,544</u>	<u>\$ 1,992,624</u>	<u>\$ 1,817,623</u>	<u>\$ 28,958,597</u>	<u>\$ 115,834</u>	<u>\$ 3,414,288</u>	<u>\$ 1,814,746</u>	<u>\$ 908,601</u>	<u>\$ 6,253,469</u>	<u>\$ 148,800</u>	<u>\$ 148,800</u>	<u>\$ 35,360,866</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities

The City of Kingsport routinely issues and retires a variety of long-term debt instruments each year for both general governmental activities and business-type activities. Long-term debt issued for general governmental activities is reported in the Government Wide Statement of Net Assets and paid from the Debt Service Fund. Long-term debt issued for business-type activities is recorded in and paid from the applicable enterprise fund.

Advanced Refunding

The City issued \$9,970,000 in General Obligation Refunding Bonds, Series 2012B with an average interest rate of 3.00%. The proceeds were used to advance refund outstanding maturities which had interest rates ranging from 3.50% to 4.20% detailed as follows: certain General Obligation Bonds, Series 2003 in the amount of \$3,245,000; certain Water and Sewer System Revenue and Tax Bonds, Series 2003 in the amount of \$2,440,000; certain General Obligation School Bonds, Series 2004 in the amount of \$1,170,000; and certain Water and Sewer System Revenue and Tax Bonds, Series 2004 in the amount of \$3,245,000. This advance refunding, reduced the City's combined general governmental and business-type activities debt service payments over 7 years by \$696,809 and resulted in a total net present value benefit of \$635,654.

The net proceeds of \$10,647,857 (consisting of the par amount of the Refunding Bonds, plus a net premium of \$804,340, less an underwriter's discount and other issuance costs of \$126,483) were deposited in an irrevocable escrow with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, certain General Obligation, Series 2003; certain Water and Sewer System Revenue and Tax Bonds, Series 2003 and 2004; and certain General Obligation School Bonds, Series 2004 bonds are considered defeased and a portion of the liability for those bonds has been removed from the statement of net position. Given the call date provisions for the bonds being refunded, the City will continue to directly pay principal and interest on the Series 2003 bonds in FY 2013, and on the Series 2004 Bonds in FY13 and FY14, with the liability for these portions of the bonds remaining on the financial statements until such time payments are made.

Governmental Activities:

Inter-local Cooperative Agreements

The City entered into an interpositional cooperative agreement in October 2006 to contribute \$2,500,000 to IDBK for the purchase of property for commercial development in the City. This contribution is to be made in five installments of \$500,000 per year beginning July 2008. As of June 30, 2012, \$500,000 is outstanding.

The City entered into an interpositional agreement effective June 30, 2011 to contribute \$720,000 to IDBK for financing incentives related to the former Quebecor property. This contribution will be paid in six installments of \$120,000 per year beginning August 2011. As of June 30, 2012, \$600,000 is outstanding.

Notes Payable

The City issued a loan with the State of Tennessee for Qualified Zone Academy Projects in November 2004 for \$3,524,680 with a maturity date of November 2020. Annual principal payments are \$220,293 and the interest rate is variable. As of June 30, 2012, \$1,982,632 is outstanding.

The City issued a loan with the State of Tennessee for the Qualified Zone Academy Bonds in December 2005 for \$1,549,000 with a maturity date of December 2020. Annual principal payments are \$103,267 and the interest rate is variable. As of June 30, 2012, \$929,400 is outstanding.

The City issued a General Obligation Capital Outlay Note, Series 2007 on May 2, 2007 for \$1,600,000 for energy management improvement projects. The note has an annual interest rate of 4.12% with a maturity date of May 2019. As of June 30, 2012, \$1,095,000 is outstanding.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Notes Payable (continued)

The City issued a Local Government Energy Efficiency Note on May 25, 2007 for \$475,000 for energy efficiency improvement projects. The note is interest free with a maturity date of July 15, 2014. As of June 30, 2012, \$203,571 is outstanding.

In December 2009, the City issued a loan with the State of Tennessee for Qualified School Construction Bonds in the amount of \$1,240,000, with a variable interest rate and a maturity date of September 2026. A total of \$525,603 of the loan has been utilized for eligible expenditures during the fiscal year, leaving \$714,397 invested in the State of Tennessee Local Government Investment Pool (LGIP). Principal payments of \$77,374 were made during the fiscal year, reducing the principal amount outstanding as of June 30, 2012, to \$1,091,700.

In July 2010, the City issued a loan with the U.S. Department of Housing and Urban Development in the amount of \$856,000 with a maturity date of August 2030. Annual principal payments are \$43,000 and the interest rate ranges from 4.00% to 5.00%. As of June 30, 2012, \$813,000 is outstanding.

In December 2010, the City issued a loan with the State of Tennessee Energy Efficient Schools Initiative in the amount of \$5,000,000 with an annual interest rate of .75%. As of June 30, 2012, \$4,500,000 in principal had been drawn and recognized as outstanding. Annual repayments of principal will begin 60 days after the total project is completed.

Payments to maturity on notes payable are as follows:

Fiscal Year Ending June 30	2004 QZAB	2005 QZAB	2009 QSCB	Capital Outlay Note	Energy Efficiency Loan	HUD 108 Loan	School Energy Efficiency Loan
2013	\$ 220,291	\$ 103,266	\$ 77,376	\$ 139,000	\$ 67,857	\$ 43,000	\$ 399,696
2014	220,293	103,267	77,376	144,000	67,857	43,000	402,708
2015	220,292	103,266	77,376	150,000	67,857	43,000	405,744
2016	220,293	103,267	77,376	156,000	0	43,000	408,792
2017	220,292	103,266	77,376	162,000	0	43,000	411,864
2018	220,293	103,267	77,376	169,000	0	43,000	414,972
2019	220,292	103,267	77,376	175,000	0	43,000	418,092
2020	220,293	103,267	77,376	0	0	43,000	421,236
2021	220,293	103,267	77,376	0	0	43,000	424,404
2022	0	0	77,376	0	0	43,000	427,608
2023	0	0	77,376	0	0	43,000	430,824
2024	0	0	77,376	0	0	43,000	397,892
2025	0	0	77,376	0	0	43,000	36,168
2026	0	0	84,990	0	0	43,000	0
2027	0	0	822	0	0	43,000	0
2028	0	0	0	0	0	43,000	0
2029	0	0	0	0	0	43,000	0
2030	0	0	0	0	0	43,000	0
2031	0	0	0	0	0	39,000	0
	<u>\$ 1,982,632</u>	<u>\$ 929,400</u>	<u>\$ 1,091,700</u>	<u>\$ 1,095,000</u>	<u>\$ 203,571</u>	<u>\$ 813,000</u>	<u>\$ 5,000,000</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable

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

During the fiscal year ended June 30, 2012, the City issued General Obligation bonds totaling \$23,877,245 related to general governmental activities and detailed as follows:

On December 16, 2011, General Obligation Improvement Bonds, Series 2011 were issued in the aggregate amount of \$16,140,000. The general governmental activities portion of these bonds total, \$11,298,193 and carry an average coupon rate of 3.31%. These bonds were issued to finance a portion of the costs of certain public works projects including the acquisition of public art; various land acquisitions; road construction, improvement and expansion; sidewalk construction, improvement and expansion; improvement of fire stations; construction and expansion of fire training facilities; land acquisition and improvement of public recreational facilities; land acquisition and improvements related to the City's storm water utility; acquisition, construction, renovation, improvement and equipping of public buildings for municipal operations within the City; and to fund capitalized interest and costs of issuance associated with the Series 2011 Bonds.

On June 22, 2012, General Obligation Bonds, Series 2012A were issued in the amount of \$3,110,000 with an average coupon rate of 3.04%. These bonds were issued to fund a portion of the construction costs associated with the City's Aquatics Center Project and to fund capitalized interest and costs of issuance associated with the Series 2012A Bonds.

On June 22, 2012, General Obligation Refunding Bonds, Series 2012B were issued in the aggregate amount of \$9,970,000. The general governmental activities portions of these bonds total \$4,357,887 and carry an average coupon rate of 3.00%. As previously mentioned, these bonds were issued as part of an advanced refunding to refinance existing debt prior to maturity, in order to generate annual and net present value savings. This advanced refunding reduced total general governmental activities debt service payments over 7 years by \$317,089 and resulted in a net present value benefit of \$290,881.

On June 22, 2012, General Obligation Public Improvement Bonds, Series 2012C were issued in the aggregate amount of \$9,305,000. The general governmental activities portion of these bonds total, \$5,111,165 and carry an average coupon rate of 3.03%. These bonds were issued to finance a variety of capital improvement projects from the City's adopted Capital Improvement Program including; various school improvement projects; various road and street improvements and enhancements; property acquisition; emergency siren system; the Wilcox mobility path project; purchase of public works heavy equipment; and roof repairs at the City's Justice Center and Public Library buildings. Capitalized interest and costs of issuance associated with the Series 2012C Bonds were also included in the issue.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

<u>Debt Service Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2012</u>
2003 General Obligation	04/01, 10/01	12/01/03	\$ 7,900,000	2.000%-4.200%	\$ 580,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	5,825,000	2.200%-5.000%	2,915,000
2004 General Obligation School	05/01, 11/01	12/06/04	2,850,000	3.000%-4.000%	400,000
2005 General Obligation	02/01, 08/01	12/06/05	2,826,250	3.750%-5.000%	1,885,625
2006 General Obligation	02/01, 08/01	12/20/06	13,320,000	3.625%-4.100%	11,685,000
2007 General Obligation	08/01, 02/01	06/08/07	19,360,000	4.000%-5.000%	17,030,000
2008A General Obligation	03/01, 09/01	06/12/08	7,480,000	3.500%-4.375%	6,625,000
2008B General Obligation	03/01, 09/01	06/12/08	11,165,000	3.500%-4.375%	9,890,000
2009A General Obligation	03/01, 09/01	01/22/09	12,160,000	2.000%-5.000%	11,205,000
2009B General Obligation	03/01, 09/01	01/22/09	7,100,000	2.000%-5.000%	6,545,000
2009D BABS General Obligation	03/01, 09/01	12/08/09	14,982,043	2.000%-5.000%	14,982,043
2009E General Obligation	03/01, 09/01	12/08/09	14,225,000	2.000%-5.000%	14,225,000
2011 General Obligation Improvement	03/01, 09/01	12/16/11	11,298,193	2.000%-4.000%	11,298,193
2012A General Obligation	04/01, 10/01	06/22/12	3,110,000	2.000%-5.000%	3,110,000
2012B General Obligation Refunding	04/01, 10/01	06/22/12	4,357,887	3.00%	4,357,887
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	5,111,165	2.000%-5.000%	<u>5,111,165</u>
Total General Obligation Bonds (before deferred debt refunding costs of \$786,126 and net premiums and discounts of (\$1,614,554))					<u>\$ 121,844,913</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2003, issued December 1, 2003, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 580,000	\$ 20,300	\$ 600,300
	<u>\$ 580,000</u>	<u>\$ 20,300</u>	<u>\$ 600,300</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 1,040,000	\$ 142,375	\$ 1,182,375
2014	1,085,000	90,375	1,175,375
2015	565,000	36,125	601,125
2016	225,000	7,875	232,875
	<u>\$ 2,915,000</u>	<u>\$ 276,750</u>	<u>\$ 3,191,750</u>

General Obligation School Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 200,000	\$ 14,200	\$ 214,200
2014	200,000	7,200	207,200
	<u>\$ 400,000</u>	<u>\$ 21,400</u>	<u>\$ 421,400</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 175,000	\$ 73,527	\$ 248,527
2014	183,750	66,965	250,715
2015	192,500	57,777	250,277
2016	201,250	48,153	249,403
2017	218,750	38,090	256,840
2018	218,750	31,527	250,277
2019	227,500	24,965	252,465
2020	231,875	18,140	250,015
2021	236,250	9,155	245,405
	<u>\$ 1,885,625</u>	<u>\$ 368,299</u>	<u>\$ 2,253,924</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 585,000	\$ 459,821	\$ 1,044,821
2014	610,000	437,884	1,047,884
2015	630,000	415,009	1,045,009
2016	655,000	391,384	1,046,384
2017	680,000	367,640	1,047,640
2018	710,000	342,990	1,052,990
2019	735,000	314,590	1,049,590
2020	765,000	285,190	1,050,190
2021	795,000	254,590	1,049,590
2022	830,000	222,790	1,052,790
2023	865,000	189,590	1,054,590
2024	900,000	154,990	1,054,990
2025	935,000	118,990	1,053,990
2026	975,000	81,590	1,056,590
2027	1,015,000	41,615	1,056,615
	<u>\$ 11,685,000</u>	<u>\$ 4,078,663</u>	<u>\$ 15,763,663</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 840,000	\$ 719,188	\$ 1,559,188
2014	875,000	685,587	1,560,587
2015	910,000	650,587	1,560,587
2016	945,000	614,188	1,559,188
2017	1,000,000	566,937	1,566,937
2018	1,040,000	516,938	1,556,938
2019	1,075,000	475,337	1,550,337
2020	1,115,000	432,338	1,547,338
2021	1,160,000	387,738	1,547,738
2022	1,210,000	339,887	1,549,887
2023	1,260,000	289,975	1,549,975
2024	1,315,000	238,000	1,553,000
2025	1,370,000	182,113	1,552,113
2026	1,425,000	123,887	1,548,887
2027	1,490,000	63,325	1,553,325
	<u>\$ 17,030,000</u>	<u>\$ 6,286,025</u>	<u>\$ 23,316,025</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 305,000	\$ 270,812	\$ 575,812
2014	315,000	258,613	573,613
2015	330,000	246,012	576,012
2016	340,000	232,813	572,813
2017	355,000	219,212	574,212
2018	370,000	206,788	576,788
2019	380,000	191,987	571,987
2020	400,000	176,788	576,788
2021	415,000	160,787	575,787
2022	430,000	144,188	574,188
2023	450,000	126,987	576,987
2024	465,000	108,425	573,425
2025	485,000	88,663	573,663
2026	505,000	68,050	573,050
2027	530,000	46,587	576,587
2028	550,000	24,063	574,063
	<u>\$ 6,625,000</u>	<u>\$ 2,570,775</u>	<u>\$ 9,195,775</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 455,000	\$ 404,275	\$ 859,275
2014	470,000	386,075	856,075
2015	490,000	367,275	857,275
2016	510,000	347,675	857,675
2017	530,000	327,275	857,275
2018	550,000	308,725	858,725
2019	570,000	286,725	856,725
2020	595,000	263,925	858,925
2021	620,000	240,125	860,125
2022	645,000	215,325	860,325
2023	670,000	189,525	859,525
2024	695,000	161,887	856,887
2025	725,000	132,350	857,350
2026	755,000	101,538	856,538
2027	790,000	69,450	859,450
2028	820,000	35,875	855,875
	<u>\$ 9,890,000</u>	<u>\$ 3,838,025</u>	<u>\$ 13,728,025</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 495,000	\$ 455,406	\$ 950,406
2014	505,000	443,032	948,032
2015	520,000	427,881	947,881
2016	540,000	412,281	952,281
2017	555,000	396,081	951,081
2018	570,000	379,432	949,432
2019	590,000	362,331	952,331
2020	610,000	338,731	948,731
2021	635,000	314,331	949,331
2022	660,000	288,932	948,932
2023	685,000	262,531	947,531
2024	720,000	231,706	951,706
2025	750,000	199,306	949,306
2026	785,000	165,557	950,557
2027	820,000	129,250	949,250
2028	860,000	88,250	948,250
2029	905,000	45,250	950,250
	<u>\$ 11,205,000</u>	<u>\$ 4,940,288</u>	<u>\$ 16,145,288</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 290,000	\$ 265,781	\$ 555,781
2014	295,000	258,531	553,531
2015	305,000	249,681	554,681
2016	315,000	240,531	555,531
2017	325,000	231,081	556,081
2018	335,000	221,331	556,331
2019	345,000	210,444	555,444
2020	355,000	196,644	551,644
2021	370,000	182,444	552,444
2022	385,000	167,644	552,644
2023	400,000	152,244	552,244
2024	420,000	135,244	555,244
2025	440,000	116,344	556,344
2026	455,000	96,544	551,544
2027	480,000	75,500	555,500
2028	500,000	51,500	551,500
2029	530,000	26,500	556,500
	<u>\$ 6,545,000</u>	<u>\$ 2,877,988</u>	<u>\$ 9,422,988</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 689,123	\$ 699,779	\$ 1,388,902
2014	694,795	684,274	1,379,069
2015	706,138	663,429	1,369,567
2016	720,318	639,596	1,359,914
2017	740,169	612,583	1,352,752
2018	760,020	583,901	1,343,921
2019	757,184	549,698	1,306,882
2020	779,872	515,624	1,295,496
2021	805,395	479,553	1,284,948
2022	825,246	441,296	1,266,542
2023	850,769	401,064	1,251,833
2024	884,800	358,524	1,243,324
2025	884,800	314,282	1,199,082
2026	910,323	268,934	1,179,257
2027	941,518	221,141	1,162,659
2028	972,712	170,532	1,143,244
2029	1,009,579	115,815	1,125,394
2030	1,049,282	59,024	1,108,306
	<u>\$ 14,982,043</u>	<u>\$ 7,779,049</u>	<u>\$ 22,761,092</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2012, the City's Debt Service Fund paid \$454,856 in BABS interest, while the Federal government paid an additional \$244,923 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 585,000	\$ 534,675	\$ 1,119,675
2014	600,000	520,050	1,120,050
2015	620,000	503,550	1,123,550
2016	635,000	484,950	1,119,950
2017	655,000	465,900	1,120,900
2018	675,000	446,250	1,121,250
2019	695,000	424,312	1,119,312
2020	720,000	399,988	1,119,988
2021	760,000	363,987	1,123,987
2022	790,000	333,588	1,123,588
2023	815,000	305,937	1,120,937
2024	845,000	277,413	1,122,413
2025	875,000	243,612	1,118,612
2026	915,000	208,613	1,123,613
2027	950,000	172,012	1,122,012
2028	985,000	134,013	1,119,013
2029	1,030,000	92,150	1,122,150
2030	1,075,000	48,375	1,123,375
	<u>\$ 14,225,000</u>	<u>\$ 5,959,375</u>	<u>\$ 20,184,375</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 348,041	\$ 348,041
2014	0	348,041	348,041
2015	497,009	348,041	845,050
2016	504,009	338,100	842,109
2017	514,509	328,020	842,529
2018	532,009	317,730	849,739
2019	539,009	307,090	846,099
2020	549,509	296,310	845,819
2021	563,510	279,824	843,334
2022	588,010	257,284	845,294
2023	605,510	239,644	845,154
2024	626,511	221,479	847,990
2025	644,011	202,683	846,694
2026	658,011	182,719	840,730
2027	686,012	161,333	847,345
2028	707,012	138,181	845,193
2029	728,012	113,435	841,447
2030	756,013	87,955	843,968
2031	784,013	59,982	843,995
2032	815,514	30,582	846,096
	<u>\$ 11,298,193</u>	<u>\$ 4,606,474</u>	<u>\$ 15,904,667</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2012A, issued June 22, 2012 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 76,652	\$ 76,652
2014	0	98,906	98,906
2015	125,000	98,906	223,906
2016	135,000	92,656	227,656
2017	140,000	85,907	225,907
2018	145,000	78,906	223,906
2019	155,000	71,656	226,656
2020	160,000	68,556	228,556
2021	160,000	65,357	225,357
2022	165,000	61,756	226,756
2023	170,000	58,044	228,044
2024	175,000	53,794	228,794
2025	175,000	48,981	223,981
2026	185,000	43,731	228,731
2027	190,000	38,181	228,181
2028	195,000	32,482	227,482
2029	200,000	26,631	226,631
2030	205,000	20,382	225,382
2031	210,000	13,975	223,975
2032	220,000	7,150	227,150
	<u>\$ 3,110,000</u>	<u>\$ 1,142,609</u>	<u>\$ 4,252,609</u>

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 30,597	\$ 101,321	\$ 131,918
2014	461,140	129,819	590,959
2015	832,676	115,984	948,660
2016	867,643	91,004	958,647
2017	876,386	64,975	941,361
2018	911,353	38,683	950,036
2019	378,092	11,343	389,435
	<u>\$ 4,357,887</u>	<u>\$ 553,129</u>	<u>\$ 4,911,016</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 116,051	\$ 116,051
2014	0	149,743	149,743
2015	308,237	149,744	457,981
2016	313,634	143,579	457,213
2017	321,828	137,306	459,134
2018	329,827	127,651	457,478
2019	343,222	114,458	457,680
2020	354,213	104,162	458,375
2021	365,007	96,192	461,199
2022	375,802	85,241	461,043
2023	209,737	73,967	283,704
2024	215,330	67,675	283,005
2025	223,720	61,215	284,935
2026	229,313	54,504	283,817
2027	234,906	47,624	282,530
2028	243,295	40,577	283,872
2029	248,888	33,278	282,166
2030	257,278	25,812	283,090
2031	262,871	17,450	280,321
2032	274,057	8,907	282,964
	<u>\$ 5,111,165</u>	<u>\$ 1,655,136</u>	<u>\$ 6,766,301</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 6,269,720	\$ 4,702,204	\$ 10,971,924
2014	6,294,685	4,565,095	10,859,780
2015	7,031,560	4,330,001	11,361,561
2016	6,906,854	4,084,785	10,991,639
2017	6,911,642	3,841,007	10,752,649
Next Five Years	34,361,655	15,434,198	49,795,853
Next Five Years	37,675,271	8,468,869	46,144,140
Next Five Years	16,393,526	1,548,126	17,941,652
	<u>\$ 121,844,913</u>	<u>\$ 46,974,285</u>	<u>\$ 168,819,198</u>

The total on the statement of net assets has been adjusted by deferred debt refunding costs of \$786,126 and net premiums and discounts of (\$1,614,554).

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities:

Bonds and notes issued by the City for capital improvement projects related to business-type activities are recorded and are to be paid from the applicable enterprise fund. Maturities on July 1 are considered as maturing on the preceding June 30th.

Notes Payable

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

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2012</u>
<u>Water Fund:</u>				
State Revolving Loan - DWF#98-009	03/25/98	\$ 1,937,015	3.675%	<u>\$ 817,240</u>
<u>Sewer Fund:</u>				
State Revolving Loan - SRF#98-119	02/28/99	\$ 2,364,929	3.550%	\$ 1,047,768
State Revolving Loan - SRF#99-123	06/28/99	2,731,550	3.550%	1,288,972
State Revolving Loan - SRF#07-200	07/15/07	1,384,279	3.200%	1,295,293
State Revolving Loan - SRF#07-197	11/29/07	18,716,783	3.140%	18,163,613
State Revolving Loan - SRF#09-240	07/20/09	1,793,098	2.880%	<u>1,045,688</u>
 Total				 <u>\$ 22,841,334</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Notes Payable (continued)

The City has entered into a loan with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to provide financing for the following projects:

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 141,300	\$ 27,672	\$ 168,972
2014	146,592	22,392	168,984
2015	152,064	16,908	168,972
2016	157,752	11,220	168,972
2017	163,644	5,328	168,972
2018	55,888	428	56,316
	<u>\$ 817,240</u>	<u>\$ 83,948</u>	<u>\$ 901,188</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 169,944	\$ 34,452	\$ 204,396
2014	176,076	28,320	204,396
2015	182,436	21,960	204,396
2016	189,012	15,384	204,396
2017	195,840	8,556	204,396
2018	134,460	1,800	136,260
	<u>\$ 1,047,768</u>	<u>\$ 110,472</u>	<u>\$ 1,158,240</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Notes Payable (continued)

A \$2,731,550 loan to provide for sewer line improvements in the Reedy Creek drainage basin areas.

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 193,272	\$ 42,636	\$ 235,908
2014	200,244	35,664	235,908
2015	207,468	28,440	235,908
2016	214,956	20,952	235,908
2017	222,708	13,188	235,896
2018	230,748	5,160	235,908
2019	19,576	58	19,634
	<u>\$ 1,288,972</u>	<u>\$ 146,098</u>	<u>\$ 1,435,070</u>

A \$1,384,279 loan to provide for sewer line improvements in the West Kingsport area.

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 53,136	\$ 40,668	\$ 93,804
2014	54,852	38,952	93,804
2015	56,640	37,164	93,804
2016	58,476	35,328	93,804
2017	60,372	33,432	93,804
2018	62,328	31,476	93,804
2019	64,356	29,448	93,804
2020	66,444	27,360	93,804
2021	68,604	25,200	93,804
2022	70,836	22,968	93,804
2023	73,140	20,664	93,804
2024	75,504	18,300	93,804
2025	77,964	15,840	93,804
2026	80,496	13,308	93,804
2027	83,112	10,692	93,804
2028	85,812	7,992	93,804
2029	88,596	5,208	93,804
2030	91,464	2,340	93,804
2031	23,161	122	23,283
	<u>\$ 1,295,293</u>	<u>\$ 416,462</u>	<u>\$ 1,711,755</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Notes Payable (continued)

A \$18,716,783 loan to provide for upgrades to the City's waste water treatment facility.

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 699,570	\$ 554,502	\$ 1,254,072
2014	724,656	538,008	1,262,664
2015	747,744	514,920	1,262,664
2016	771,564	491,100	1,262,664
2017	796,140	466,524	1,262,664
2018	821,508	441,156	1,262,664
2019	847,680	414,984	1,262,664
2020	874,680	387,984	1,262,664
2021	902,544	360,120	1,262,664
2022	931,296	331,368	1,262,664
2023	960,960	301,704	1,262,664
2024	991,572	271,092	1,262,664
2025	1,023,168	239,496	1,262,664
2026	1,055,760	206,904	1,262,664
2027	1,089,384	173,280	1,262,664
2028	1,124,088	138,576	1,262,664
2029	1,159,896	102,768	1,262,664
2030	1,196,844	65,820	1,262,664
2031	1,234,980	27,684	1,262,664
2032	209,579	824	210,403
	<u>\$ 18,163,613</u>	<u>\$ 6,028,814</u>	<u>\$ 24,192,427</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Notes Payable (continued)

In addition to the preceding loans, the City has a state revolving loan still being drawn against for a project that was not yet complete at June 30, 2012.

A \$2,200,000 loan was made available for upgrades to the waste water treatment facility. This loan is funded 50% by the State of Tennessee and 50% through federal ARRA funds. The loan will be paid over 20 years. As of June 30, 2012, \$1,793,098 had been drawn on the loan. The loan provides for 40% of the principal draw to be "forgiven". The principal forgiven for fiscal years 2010, 2011, and 2012 was \$132,304, \$584,935 and \$0, respectively and has been included in income. In September 2012, the City made a final draw of \$380,101 of which \$152,040 was forgiven in principal and recognized as income in fiscal year 2013. The repayment schedule will be recalculated to reflect this final draw. The City began making principal payments in September 2011. The principal amount paid in FY 2012 totaled \$30,171. The principal amount of the loan outstanding at June 30, 2012 is \$1,045,688.

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 41,254	\$ 29,574	\$ 70,828
2014	42,457	28,370	70,827
2015	43,697	27,131	70,828
2016	44,971	25,856	70,827
2017	46,284	24,544	70,828
2018	47,635	23,192	70,827
2019	49,025	21,803	70,828
2020	50,455	20,372	70,827
2021	51,928	18,900	70,828
2022	53,443	17,384	70,827
2023	55,003	15,824	70,827
2024	56,609	14,219	70,828
2025	58,260	12,568	70,828
2026	59,961	10,867	70,828
2027	61,710	9,118	70,828
2028	63,511	7,316	70,827
2029	65,365	5,463	70,828
2030	67,272	3,556	70,828
2031	69,235	1,593	70,828
2032	17,613	82	17,695
	<u>\$ 1,045,688</u>	<u>\$ 317,732</u>	<u>\$ 1,363,420</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Notes Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 1,298,476	\$ 729,504	\$ 2,027,980
2014	1,344,877	691,706	2,036,583
2015	1,390,049	646,523	2,036,572
2016	1,436,731	599,840	2,036,571
2017	1,484,988	551,572	2,036,560
Next Five Years	5,403,434	2,181,161	7,584,595
Thereafter	11,300,019	1,703,220	13,003,239
	<u>\$ 23,658,574</u>	<u>\$ 7,103,526</u>	<u>\$ 30,762,100</u>

Bonds Payable

During the fiscal year ended June 30, 2012, the City issued General Obligation bonds totaling \$14,647,756 related to the business-type activities of the City and detailed as follows.

On December 16, 2011, General Obligation Improvement Bonds, Series 2011 were issued in the aggregate amount of \$16,140,000. The business-type activities portion of these bonds total, \$4,841,807 and carry an average coupon rate of 3.31%. These bonds were issued to finance various capital improvement projects within the City's water system totaling \$2,430,991 and sewer system totaling \$2,410,816. The projects included the following: water plant design and rehabilitation; galvanized water pipe replacement; sewer improvements for the Rock Springs area; and sewer lift station improvements.

On June 22, 2012, General Obligation Refunding Bonds, Series 2012B were issued in the aggregate amount of \$9,970,000. The business-type activities portion of these bonds, total \$5,612,113 (Water Fund \$1,194,406 and Sewer Fund \$4,417,707) and carry an average coupon rate of 3.00%. As previously mentioned, these bonds were issued as part of an advanced refunding to refinance existing debt prior to maturity, in order to generate annual and net present value savings. This advanced refunding reduced the City's business-type activities total debt service payments to the water and sewer funds over 7 years by \$379,720 and resulted in a net present value benefit of \$344,773.

On June 22, 2012, General Obligation Public Improvement Bonds, Series 2012C were issued in the aggregate amount of \$9,305,000. The business-type activities portion of these bonds total, \$4,193,835 and carry an average coupon rate of 3.03%. These bonds were issued to finance various capital improvement projects including the following: \$196,894 for a maintenance building at the City's Cattails Golf Course; \$1,141,983 for solid waste operations equipment and mobile recycling totes; \$1,181,362 for galvanized pipe replacement and the purchase of generators for the City's water system; and \$1,673,596 for expansion of the City's sewer system in the Rock Springs area.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2012</u>
<u>Solid Waste Management Fund</u>					
2005 General Obligation	02/01, 08/01	12/06/05	\$ 403,750	3.000%-5.000%	\$ 269,375
2009D BABS General Obligation	03/01, 09/01	12/08/09	303,404	2.250%-5.625%	303,404
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,141,983	2.000%-3.750%	<u>1,141,983</u>
Total Solid Waste Management Fund (before bond premiums of (\$41,150))					<u><u>\$ 1,714,762</u></u>
 <u>MeadowView Conference Resort and Convention Center Fund</u>					
2009C Local Option Sales Tax Revenue and Tax Bonds	03/01, 09/01	01/22/09	\$ 15,180,000	2.000%-5.000%	\$ 13,995,000
2009D BABS General Obligation	03/01, 09/01	12/08/09	1,016,085	2.250%-5.625%	<u>1,016,085</u>
Total MeadowView Conference Resort and Convention Center Fund (before bond premiums of (\$140,967))					<u><u>\$ 15,011,085</u></u>
 <u>Cattails at MeadowView Golf Course Fund</u>					
1998 Golf Course-TMBF	Monthly	1998	\$ 1,450,000	Variable	\$ 617,000
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	196,894	2.000%-3.750%	<u>196,894</u>
Total Cattails at MeadowView Golf Course Fund (before bond premiums of (\$6,855))					<u><u>\$ 813,894</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Water Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2012</u>
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	\$ 1,315,000	2.000%-4.200%	\$ 95,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	4,126,955	2.050%-5.000%	1,590,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	2,200,000	3.500%-5.000%	1,205,000
2004 Water and Sewer Revenue and Tax	05/01, 11/01	12/06/04	1,625,000	2.750%-4.125%	235,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	870,000	3.000%-5.000%	585,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	316,463	3.750%-5.000%	259,010
2008 Water and Sewer Revenue and Tax	03/01, 09/01	06/12/08	1,200,000	3.500%-4.250%	995,000
2008 Tennessee Municipal Bond Fund	Monthly	10/15/08	9,800,000	Variable	8,438,196
2009D BABS General Obligation	03/01, 09/01	12/08/09	4,045,387	2.250%-5.625%	4,045,387
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	1,515,000	2.000%-3.000%	1,095,000
2011 General Obligation Improvement	03/01, 09/01	12/16/11	2,430,991	2.000%-3.750%	2,430,991
2012B General Obligation Refunding	04/01, 10/01	06/22/12	1,194,406	3.000%	1,194,406
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,181,362	2.000%-3.750%	<u>1,181,362</u>
Total Water Fund (before deferred debt refunding costs of \$222,697 and net premiums and discounts of (\$402,129))					<u>\$ 23,349,352</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Sewer Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2012</u>
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	\$ 4,585,000	2.000%-4.200%	\$ 335,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	12,473,045	2.000%-5.000%	4,630,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	3,010,000	2.200%-5.000%	1,665,000
2004 Water and Sewer Revenue and Tax	11/01, 05/01	12/06/04	6,275,000	2.750%-4.125%	905,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	4,100,000	2.750%-4.125%	2,735,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	1,363,537	3.750%-5.000%	1,115,990
2009D BABS General Obligation	03/01, 09/01	12/08/09	6,068,081	2.250%-5.625%	6,068,081
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	2,940,000	2.000%-3.000%	2,130,000
2011 General Obligation Improvement	03/01, 09/01	12/16/11	2,410,816	2.000%-3.750%	2,410,816
2012B General Obligation Refunding	04/01, 10/01	06/22/12	4,417,707	3.000%	4,417,707
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,673,596	2.000%-3.750%	<u>1,673,596</u>
Total Sewer Fund (before deferred debt refunding costs of \$530,269 and net premiums and discounts of (\$1,018,656))					<u><u>\$ 28,086,190</u></u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 25,000	\$ 10,504	\$ 35,504
2014	26,250	9,566	35,816
2015	27,500	8,254	35,754
2016	28,750	6,879	35,629
2017	31,250	5,441	36,691
2018	31,250	4,504	35,754
2019	32,500	3,566	36,066
2020	33,125	2,592	35,717
2021	33,750	1,308	35,058
	<u>\$ 269,375</u>	<u>\$ 52,614</u>	<u>\$ 321,989</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 13,956	\$ 14,188	\$ 28,144
2014	14,071	13,874	27,945
2015	14,300	13,451	27,751
2016	14,587	12,968	27,555
2017	14,989	12,420	27,409
2018	15,391	11,839	27,230
2019	15,334	11,145	26,479
2020	15,794	10,454	26,248
2021	16,310	9,723	26,033
2022	16,712	8,947	25,659
2023	17,229	8,132	25,361
2024	17,918	7,269	25,187
2025	17,918	6,372	24,290
2026	18,435	5,453	23,888
2027	19,067	4,484	23,551
2028	19,699	3,458	23,157
2029	20,445	2,348	22,793
2030	21,249	1,196	22,445
	<u>\$ 303,404</u>	<u>\$ 157,721</u>	<u>\$ 461,125</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2012, the Solid Waste Management Fund paid \$9,222 in BABS interest, while the Federal government paid an additional \$4,966 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Solid Waste Management Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 24,738	\$ 24,738
2014	0	31,920	31,920
2015	129,553	31,921	161,474
2016	131,952	29,329	161,281
2017	134,351	26,690	161,041
2018	139,149	22,660	161,809
2019	146,346	17,094	163,440
2020	148,746	12,703	161,449
2021	153,544	9,357	162,901
2022	158,342	4,750	163,092
	<u>\$ 1,141,983</u>	<u>\$ 211,162</u>	<u>\$ 1,353,145</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 615,000	\$ 571,937	\$ 1,186,937
2014	630,000	556,563	1,186,563
2015	645,000	537,663	1,182,663
2016	665,000	518,313	1,183,313
2017	685,000	498,363	1,183,363
2018	710,000	476,100	1,186,100
2019	735,000	447,700	1,182,700
2020	765,000	418,300	1,183,300
2021	800,000	387,700	1,187,700
2022	830,000	355,700	1,185,700
2023	865,000	322,500	1,187,500
2024	900,000	284,656	1,184,656
2025	940,000	245,281	1,185,281
2026	980,000	202,981	1,182,981
2027	1,025,000	157,656	1,182,656
2028	1,075,000	110,250	1,185,250
2029	1,130,000	56,500	1,186,500
	<u>\$ 13,995,000</u>	<u>\$ 6,148,163</u>	<u>\$ 20,143,163</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity for the MeadowView Conference Resort and Convention Center Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 46,736	\$ 47,499	\$ 94,235
2014	47,122	46,447	93,569
2015	47,891	45,032	92,923
2016	48,852	43,414	92,266
2017	50,198	41,580	91,778
2018	51,545	39,634	91,179
2019	51,352	37,312	88,664
2020	52,891	34,999	87,890
2021	54,622	32,551	87,173
2022	55,968	29,954	85,922
2023	57,699	27,223	84,922
2024	60,007	24,336	84,343
2025	60,007	21,333	81,340
2026	61,738	18,255	79,993
2027	63,854	15,010	78,864
2028	65,970	11,575	77,545
2029	68,470	7,861	76,331
2030	71,163	4,006	75,169
	<u>\$ 1,016,085</u>	<u>\$ 528,021</u>	<u>\$ 1,544,106</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2012, the MeadowView Conference Resort and Convention Center Fund paid \$30,874 in BABS interest, while the Federal government paid an additional \$16,625 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Golf Course Bonds, series 1998 issued through the Tennessee Municipal Bond Fund (TMBF) totaling \$1,450,000, debt service requirements to maturity for the Cattails at MeadowView Golf Course Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest *	Total
2013	\$ 110,000	\$ 5,695	\$ 115,695
2014	117,000	4,680	121,680
2015	123,000	3,600	126,600
2016	130,000	2,465	132,465
2017	137,000	1,265	138,265
	\$ 617,000	\$ 17,705	\$ 634,705

Principal payments are made on an annual basis, while interest is paid monthly.

* The interest rate on the TMBF Golf Course Bonds is a variable monthly rate, based on the average daily rate for the period, plus a 0.15% administrator's fee. The annual interest expense requirements to maturity are estimated using the monthly interest amount and other monthly loan expenses, as of June 30, 2012, to calculate an estimated annual effective interest rate of 0.92%.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Cattails at MeadowView Golf Course Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 4,536	\$ 4,536
2014	0	5,853	5,853
2015	8,530	5,853	14,383
2016	8,672	5,683	14,355
2017	8,956	5,509	14,465
2018	9,098	5,240	14,338
2019	9,383	4,877	14,260
2020	9,809	4,595	14,404
2021	10,094	4,374	14,468
2022	10,378	4,072	14,450
2023	10,662	3,760	14,422
2024	10,946	3,440	14,386
2025	11,373	3,112	14,485
2026	11,657	2,771	14,428
2027	11,942	2,421	14,363
2028	12,368	2,063	14,431
2029	12,652	1,692	14,344
2030	13,079	1,312	14,391
2031	13,363	887	14,250
2032	13,932	453	14,385
	<u>\$ 196,894</u>	<u>\$ 72,503</u>	<u>\$ 269,397</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 95,000	\$ 3,325	\$ 98,325
	<u>\$ 95,000</u>	<u>\$ 3,325</u>	<u>\$ 98,325</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 505,000	\$ 79,500	\$ 584,500
2014	530,000	54,250	584,250
2015	555,000	27,750	582,750
	<u>\$ 1,590,000</u>	<u>\$ 161,500</u>	<u>\$ 1,751,500</u>

General Obligations Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity for the Water Fund portion are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 405,000	\$ 57,400	\$ 462,400
2014	430,000	37,150	467,150
2015	180,000	15,650	195,650
2016	190,000	6,650	196,650
	<u>\$ 1,205,000</u>	<u>\$ 116,850</u>	<u>\$ 1,321,850</u>

Water and Sewer Revenue and Tax Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity for the Water Fund portion are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 115,000	\$ 8,345	\$ 123,345
2014	120,000	4,320	124,320
	<u>\$ 235,000</u>	<u>\$ 12,665</u>	<u>\$ 247,665</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 55,000	\$ 22,631	\$ 77,631
2014	55,000	20,569	75,569
2015	55,000	17,819	72,819
2016	60,000	15,069	75,069
2017	70,000	12,069	82,069
2018	75,000	9,969	84,969
2019	70,000	7,719	77,719
2020	70,000	5,618	75,618
2021	75,000	2,906	77,906
	<u>\$ 585,000</u>	<u>\$ 114,369</u>	<u>\$ 699,369</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 13,186	\$ 10,525	\$ 23,711
2014	13,186	9,932	23,118
2015	14,128	9,338	23,466
2016	15,070	8,702	23,772
2017	15,070	8,024	23,094
2018	18,837	7,459	26,296
2019	18,837	6,753	25,590
2020	18,837	6,046	24,883
2021	18,837	5,317	24,154
2022	18,837	4,563	23,400
2023	18,837	3,810	22,647
2024	18,837	3,056	21,893
2025	18,837	2,303	21,140
2026	18,837	1,549	20,386
2027	18,837	777	19,614
	<u>\$ 259,010</u>	<u>\$ 88,154</u>	<u>\$ 347,164</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 75,000	\$ 39,144	\$ 114,144
2014	75,000	36,519	111,519
2015	80,000	33,894	113,894
2016	85,000	30,894	115,894
2017	85,000	27,706	112,706
2018	90,000	24,306	114,306
2019	95,000	20,706	115,706
2020	95,000	16,906	111,906
2021	100,000	13,106	113,106
2022	105,000	9,007	114,007
2023	110,000	4,675	114,675
	<u>\$ 995,000</u>	<u>\$ 256,863</u>	<u>\$ 1,251,863</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water Bonds, Series 2008 were issued through the Tennessee Municipal Bond Fund (TMBF) totaling \$9,698,196. These bonds funded the acquisition and installation of an automated meter reading and leak detection system. The debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest *	Total
2013	\$ 455,000	\$ 59,353	\$ 514,353
2014	455,000	56,152	511,152
2015	505,000	52,952	557,952
2016	530,000	49,400	579,400
2017	555,000	45,672	600,672
2018	555,000	41,768	596,768
2019	605,000	37,864	642,864
2020	630,000	33,609	663,609
2021	655,000	29,178	684,178
2022	655,000	24,570	679,570
2023	710,000	19,963	729,963
2024	735,000	14,969	749,969
2025	735,000	9,799	744,799
2026	658,196	4,630	662,826
	<u>\$ 8,438,196</u>	<u>\$ 479,879</u>	<u>\$ 8,918,075</u>

Principal payments are made on an annual basis, while interest is paid monthly.

* The interest rate on the TMBF Water Bonds is a variable monthly rate, based on the average daily rate for the period, plus a 0.15% administrator's fee. The annual interest expense requirements to maturity are estimated using the monthly interest amount and other monthly loan expenses, as of June 30, 2012, to calculate an estimated annual effective interest rate of 0.70%.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 186,074	\$ 188,886	\$ 374,960
2014	187,606	184,701	372,307
2015	190,668	179,074	369,742
2016	194,497	172,641	367,138
2017	199,857	165,350	365,207
2018	205,217	157,608	362,825
2019	204,452	148,376	352,828
2020	210,578	139,178	349,756
2021	217,469	129,442	346,911
2022	222,829	119,116	341,945
2023	229,721	108,256	337,977
2024	238,910	96,774	335,684
2025	238,910	84,832	323,742
2026	245,801	72,591	318,392
2027	254,225	59,691	313,916
2028	262,648	46,031	308,679
2029	272,602	31,261	303,863
2030	283,323	15,932	299,255
	<u>\$ 4,045,387</u>	<u>\$ 2,099,740</u>	<u>\$ 6,145,127</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2012, the Water Fund paid \$122,776 in BABS interest, while the Federal government paid an additional \$66,110 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 210,000	\$ 27,500	\$ 237,500
2014	215,000	23,300	238,300
2015	215,000	19,000	234,000
2016	225,000	13,088	238,088
2017	230,000	6,900	236,900
	<u>\$ 1,095,000</u>	<u>\$ 89,788</u>	<u>\$ 1,184,788</u>

General Obligation Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 74,887	\$ 74,887
2014	0	74,887	74,887
2015	106,940	74,887	181,827
2016	108,446	72,748	181,194
2017	110,705	70,579	181,284
2018	114,470	68,365	182,835
2019	115,977	66,075	182,052
2020	118,236	63,756	181,992
2021	121,248	60,209	181,457
2022	126,520	55,359	181,879
2023	130,285	51,563	181,848
2024	134,804	47,655	182,459
2025	138,569	43,611	182,180
2026	141,582	39,315	180,897
2027	147,607	34,713	182,320
2028	152,125	29,732	181,857
2029	156,644	24,407	181,051
2030	162,669	18,925	181,594
2031	168,693	12,906	181,599
2032	175,471	6,580	182,051
	<u>\$ 2,430,991</u>	<u>\$ 991,159</u>	<u>\$ 3,422,150</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 8,386	\$ 27,770	\$ 36,156
2014	126,389	35,581	161,970
2015	228,219	31,789	260,008
2016	237,803	24,942	262,745
2017	240,199	17,808	258,007
2018	249,783	10,602	260,385
2019	103,627	3,109	106,736
	<u>\$ 1,194,406</u>	<u>\$ 151,601</u>	<u>\$ 1,346,007</u>

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 27,217	\$ 27,217
2014	0	35,119	35,119
2015	51,178	35,119	86,297
2016	52,031	34,095	86,126
2017	53,737	33,055	86,792
2018	54,590	31,443	86,033
2019	56,296	29,259	85,555
2020	58,855	27,570	86,425
2021	60,561	26,246	86,807
2022	62,267	24,429	86,696
2023	63,973	22,561	86,534
2024	65,679	20,642	86,321
2025	68,238	18,671	86,909
2026	69,943	16,624	86,567
2027	71,649	14,526	86,175
2028	74,208	12,377	86,585
2029	75,914	10,150	86,064
2030	78,473	7,873	86,346
2031	80,179	5,322	85,501
2032	83,591	2,717	86,308
	<u>\$ 1,181,362</u>	<u>\$ 435,015</u>	<u>\$ 1,616,377</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 335,000	\$ 11,725	\$ 346,725
	<u>\$ 335,000</u>	<u>\$ 11,725</u>	<u>\$ 346,725</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 1,315,000	\$ 226,500	\$ 1,541,500
2014	1,370,000	160,750	1,530,750
2015	1,445,000	92,250	1,537,250
2016	500,000	20,000	520,000
	<u>\$ 4,630,000</u>	<u>\$ 499,500</u>	<u>\$ 5,129,500</u>

General Obligation Refunding Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 540,000	\$ 79,425	\$ 619,425
2014	575,000	52,425	627,425
2015	295,000	23,675	318,675
2016	255,000	8,925	263,925
	<u>\$ 1,665,000</u>	<u>\$ 164,450</u>	<u>\$ 1,829,450</u>

Water and Sewer Revenue and Tax Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 445,000	\$ 32,135	\$ 477,135
2014	460,000	16,560	476,560
	<u>\$ 905,000</u>	<u>\$ 48,695</u>	<u>\$ 953,695</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 255,000	\$ 107,000	\$ 362,000
2014	270,000	97,437	367,437
2015	285,000	83,938	368,938
2016	295,000	69,687	364,687
2017	305,000	54,938	359,938
2018	310,000	45,787	355,787
2019	325,000	36,488	361,488
2020	340,000	26,737	366,737
2021	350,000	13,563	363,563
	<u>\$ 2,735,000</u>	<u>\$ 535,575</u>	<u>\$ 3,270,575</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 56,814	\$ 45,350	\$ 102,164
2014	56,814	42,793	99,607
2015	60,872	40,237	101,109
2016	64,930	37,497	102,427
2017	64,930	34,575	99,505
2018	81,163	32,141	113,304
2019	81,163	29,097	110,260
2020	81,163	26,053	107,216
2021	81,163	22,908	104,071
2022	81,163	19,662	100,825
2023	81,163	16,415	97,578
2024	81,163	13,169	94,332
2025	81,163	9,922	91,085
2026	81,163	6,676	87,839
2027	81,163	3,348	84,511
	<u>\$ 1,115,990</u>	<u>\$ 379,843</u>	<u>\$ 1,495,833</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 279,111	\$ 283,391	\$ 562,502
2014	281,408	277,112	558,520
2015	286,003	268,670	554,673
2016	291,746	259,018	550,764
2017	299,786	248,079	547,865
2018	307,826	236,463	544,289
2019	306,678	222,612	529,290
2020	315,866	208,813	524,679
2021	326,204	194,206	520,410
2022	334,244	178,712	512,956
2023	344,581	162,419	507,000
2024	358,365	145,192	503,557
2025	358,365	127,275	485,640
2026	368,702	108,911	477,613
2027	381,337	89,556	470,893
2028	393,972	69,061	463,033
2029	408,903	46,902	455,805
2030	424,984	23,903	448,887
	<u>\$ 6,068,081</u>	<u>\$ 3,150,295</u>	<u>\$ 9,218,376</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2012, the Sewer Fund paid \$184,204 in BABS interest, while the Federal government paid an additional \$99,187 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 410,000	\$ 53,500	\$ 463,500
2014	415,000	45,300	460,300
2015	420,000	37,000	457,000
2016	440,000	25,450	465,450
2017	445,000	13,350	458,350
	<u>\$ 2,130,000</u>	<u>\$ 174,600</u>	<u>\$ 2,304,600</u>

General Obligation Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 74,265	\$ 74,265
2014	0	74,265	74,265
2015	106,052	74,265	180,317
2016	107,546	72,144	179,690
2017	109,786	69,993	179,779
2018	113,520	67,798	181,318
2019	115,014	65,527	180,541
2020	117,255	63,227	180,482
2021	120,242	59,709	179,951
2022	125,470	54,900	180,370
2023	129,204	51,135	180,339
2024	133,685	47,259	180,944
2025	137,420	43,249	180,669
2026	140,407	38,989	179,396
2027	146,382	34,425	180,807
2028	150,863	29,485	180,348
2029	155,344	24,205	179,549
2030	161,319	18,768	180,087
2031	167,293	12,799	180,092
2032	174,014	6,526	180,540
	<u>\$ 2,410,816</u>	<u>\$ 982,933</u>	<u>\$ 3,393,749</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 31,017	\$ 102,712	\$ 133,729
2014	467,471	131,601	599,072
2015	844,105	117,577	961,682
2016	879,554	92,253	971,807
2017	888,415	65,867	954,282
2018	923,864	39,214	963,078
2019	383,281	11,498	394,779
	<u>\$ 4,417,707</u>	<u>\$ 560,722</u>	<u>\$ 4,978,429</u>

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 0	\$ 38,558	\$ 38,558
2014	0	49,752	49,752
2015	72,502	49,752	122,254
2016	73,711	48,302	122,013
2017	76,127	46,827	122,954
2018	77,336	44,544	121,880
2019	79,753	41,450	121,203
2020	83,378	39,058	122,436
2021	85,794	37,182	122,976
2022	88,211	34,608	122,819
2023	90,628	31,961	122,589
2024	93,045	29,243	122,288
2025	96,670	26,451	123,121
2026	99,087	23,551	122,638
2027	101,503	20,579	122,082
2028	105,128	17,533	122,661
2029	107,545	14,380	121,925
2030	111,170	11,153	122,323
2031	113,587	7,540	121,127
2032	118,421	3,848	122,269
	<u>\$ 1,673,596</u>	<u>\$ 616,272</u>	<u>\$ 2,289,868</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Total annual debt service requirements for enterprise fund bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 6,600,280	\$ 2,360,141	\$ 8,960,421
2014	6,937,317	2,189,378	9,126,695
2015	6,991,441	1,930,410	8,921,851
2016	5,633,147	1,680,556	7,313,703
2017	4,810,356	1,512,060	6,322,416
Next Five Years	17,018,344	5,733,219	22,751,563
Next Five Years	13,827,925	3,193,726	17,021,651
Next Five Years	7,156,473	713,917	7,870,390
	<u>\$ 68,975,283</u>	<u>\$ 19,313,407</u>	<u>\$ 88,288,690</u>

The total on the statement of net assets has been adjusted by deferred debt refunding costs of \$752,966 and the net premiums and discounts of (\$1,609,757).

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term liabilities (continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
General Obligation Debt	\$ 107,172,668	\$ 23,877,245	\$ 9,205,000	\$ 121,844,913	\$ 6,269,720
Less: Deferred amounts for refunding	(554,000)	(297,126)	(65,000)	(786,126)	0
Plus: Premiums and discounts	944,629	740,813	70,888	1,614,554	0
Total Bonds Payable	107,563,297	24,320,932	9,210,888	122,673,341	6,269,720
Interlocal Cooperative Agreement	1,720,000	0	620,000	1,100,000	620,000
Capital Outlay Note	1,228,000	0	133,000	1,095,000	139,000
Energy Efficiency Note	271,429	0	67,858	203,571	67,857
Notes Payable-State	4,439,147	0	435,415	4,003,732	400,933
School Energy Efficiency Note	2,001,044	2,498,956	0	4,500,000	399,696
Hud 108 Note	856,000	0	43,000	813,000	43,000
Total Governmental Activities	\$ 118,078,917	\$ 26,819,888	\$ 10,510,161	\$ 134,388,644	\$ 7,940,206
Business-type activities:					
General Obligation Debt	\$ 25,102,528	\$ 14,647,755	\$ 1,475,000	\$ 38,275,283	\$ 2,100,280
Local Option Sales Tax Revenue and Tax Bonds	14,595,000	0	600,000	13,995,000	615,000
Water and Sewer Revenue and Tax Bonds	26,675,000	0	9,970,000	16,705,000	3,885,000
Less: Deferred amounts for refunding	(535,670)	(374,220)	(156,924)	(752,966)	0
Plus: Premiums and discounts	1,177,300	663,077	230,620	1,609,757	0
Total Bonds Payable	67,014,158	14,936,612	12,118,696	69,832,074	6,600,280
State Revolving Notes	24,288,460	491,691	1,121,577	23,658,574	1,298,476
Total Business-type Activities	\$ 91,302,618	\$ 15,428,303	\$ 13,240,273	\$ 93,490,648	\$ 7,898,756

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Closure and postclosure costs

The City currently operates a demolition landfill located on Brookside Drive which was permitted by the State of Tennessee in 1986 with an estimated useful life of 60 years. At June 30, 2012 the estimated remaining useful life is 34 years. Upon closure, the City is required to continue a period of monitoring and conduct any necessary post-closure activities in compliance with applicable state and federal laws.

In June, 1996, the City entered into a *Contract in Lieu of Performance Bond* with the State of Tennessee Department of Environment and Conservation to provide financial assurance in the amount of \$1,390,095, for proper operation, closure and/or post-closure activities related to the City's demolition landfill. This financial assurance pledges any revenue due to the City from the State of Tennessee as collateral to fund estimated costs associated with the proper operation and closure, and/or post closure of the Kingsport Demolition Landfill.

This agreement is subsequently amended on an annual basis by the State of Tennessee Department of Environment and Conservation for inflation. The 2011 financial assurance amount of \$1,846,651 was adjusted for inflation by 2.4%, resulting in an amended amount of \$1,890,970 at June 30, 2012.

A prior period adjustment recorded in fiscal year 2012 recognized an additional twenty-four years of accrued landfill closure costs totaling \$730,536 resulting in a liability balance of \$781,259. This liability was offset by a prior period adjustment which wrote-off previously capitalized landfill closure costs incurred through June 30, 2011 totaling \$1,023,438. The net effect of these prior period adjustments was an increase in pre-paid landfill closure costs of \$242,179 at June 30, 2011. The City's actual closure costs for the 26 year period through June 30, 2012 exceeded the liability amount by \$354,778. The City has recorded this \$354,778 in pre-paid landfill closing costs as of June 30, 2012, which will be offset as future closure costs are accrued.

	<u>Ending June 30, 2012</u>	<u>Ending June 30, 2011</u>
Landfill closure costs paid	\$ 1,210,795	\$ 1,023,438
Landfill closure costs accrued	<u>856,017</u>	<u>781,259</u>
Pre-paid landfill closure costs	<u>\$ 354,778</u>	<u>\$ 242,179</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION:

A. Risk management

The City carries insurance coverage through the Tennessee Municipal League (TML) Risk Management Pool for general liability, automobile, and errors and omissions coverage. Although TML is a risk management pool and the policy contains an assessment clause, no assessment has been levied during the time the City has participated in this program.

The City's workers' compensation coverage is self-funded and administered by Tri-State Claims Service. The City carries a specific excess workers' compensation reinsurance agreement through Safety National Casualty Corporation.

An actuarial study for workers compensation and public liability was conducted for the period ended June 30, 2012. The estimated reserve requirements were as follows:

ESTIMATED REQUIRED RESERVES

	<u>Low</u>	<u>Expected</u>	<u>High</u>
Workers Compensation *	\$ 1,900,000	\$ 2,380,000	\$ 2,980,000
Public Liability *	860,000	1,000,000	1,120,000

* Based on an annual discount rate of 3%

Liabilities have been accrued to reflect the discounted expected claims of \$2,380,000 for workers compensation and \$1,000,000 for public liability, at June 30, 2012. The Insurance Reserve Fund has total assets of \$3,852,619 at June 30, 2012. Estimated claims are budgeted and charged to the various departments on an annual basis.

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

	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Year Ended</u> <u>June 30, 2011</u>
Claims Accrued, Beginning	\$ 2,320,000	\$ 2,460,000
Claims Incurred	1,245,507	937,280
Claims Paid	<u>(1,185,507)</u>	<u>(1,077,280)</u>
Claims Accrued, Ending	<u>\$ 2,380,000</u>	<u>\$ 2,320,000</u>

A prior period adjustment was recorded in FY 2012 which increased the accrued claims liability by \$1,940,421. The June 30, 2011 information presented above includes the prior period adjustment. The City's estimate of claims accrued at year end is based on actuarial reports as of June 30, 2011 and June 30, 2012, using the discounted expected claims liability.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

A. Risk management (continued)

A reconciliation of public liability claims for the past two years are as follows:

	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Year Ended</u> <u>June 30, 2011</u>
Claims Accrued, Beginning	\$ 980,000	\$ 990,000
Claims Incurred	340,878	352,131
Claims Paid	<u>(320,878)</u>	<u>(362,131)</u>
Claims Accrued, Ending	<u>\$ 1,000,000</u>	<u>\$ 980,000</u>

A prior period adjustment was recorded in FY 2012 which increased the accrued claims liability by \$980,000. The June 30, 2011 information presented above includes the prior period adjustment. The City's estimate of claims accrued at year end is based on actuarial reports as of June 30, 2011 and June 30, 2012, using the discounted expected claims liability.

The City carries additional coverage for public officials and other employees through St. Paul / U.S. Fidelity and Guarantee, Travelers and Western Surety insurance companies and property insurance through FCCI, Travelers, Continental Casualty, and Montgomery, insurance companies. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last five years, which were not covered by insurance.

Effective January 1, 2003, health insurance for government employees has been provided through a self-funded insurance program. The program is currently administered by Humana, Inc. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. Premium equivalents for participation in the self-funded program are established annually based on quotations from the third-party administrator for projected expenses. The City carries its own stop-loss insurance.

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

B. Contingencies

Primary government

The City hires an independent arbitrage compliance firm to calculate arbitrage rebates due the IRS, for each applicable debt issue's reporting computation period. The City has recorded an estimated arbitrage rebate liability in the water and sewer funds. At June 30, 2012, the water fund and sewer fund had arbitrage rebate liabilities recorded of \$47,436 and \$111,836, respectively. These arbitrage rebate liabilities are not directly related to any bond issue, however are recorded in anticipation of future liabilities. Subsequent to June 30, 2012, the City paid arbitrage rebates to the federal government totaling \$7,399 for the Water Fund and \$14,362 for the Sewer Fund.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

B. Contingencies (continued)

Primary government (continued)

The City attorney advises that the City is currently defending one lawsuit in federal district court which is not covered by insurance. The plaintiff has alleged malicious prosecution and is seeking \$5,000,000 in compensatory damages and \$10,000,000 in punitive damages from the City. Trial is set for May 2013. The City intends to vigorously defend its position in the lawsuit and has filed a motion for summary judgment, which is pending. A significant award of damages by the court could have an adverse effect upon the City's financial condition.

The City has entered into several construction contracts in the various funds, which were not completed at year-end. To account for these commitments, the City reserves a portion of fund balance in the appropriate governmental fund. In the proprietary funds, the City internally designates a portion of retained earnings.

In April 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$1,995,000 in capital outlay notes, of which, the City is contingently liable for 31%. In February 2006, SCEDP issued an additional \$505,000 in capital outlay notes, of which the City is contingently liable for 31%. During July 2007, SCEDP issued \$6,500,000 in revenue bonds, of which the City is contingently liable for 31%. Proceeds from the capital outlay notes and the bonds were used for the acquisition of considerable acreage near Tri-Cities Regional Airport for the purpose of establishing a new industrial park. The bonds are secured by the assignment of the revenue from property sales in the industrial park. The related liabilities are on the books of Sullivan County. The SCEDP is responsible for making the bond payments, however in the event of their default the City is responsible for a 31% portion of the debt. During fiscal year 2012, revenue from property sales in the industrial park was not sufficient for the SCEDP to make the related debt service payments. The City recorded a \$264,736 liability for the repayment of debt principal and interest associated with the SCEDP. As of June 30, 2012, a total of \$7,770,000 of principal debt was outstanding, with \$2,408,700 representing the City's 31% contingent share.

The City is dependent upon financial resources flowing from, or associated with, both the Federal Government and the State of Tennessee. Due to this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and appropriations.

Component Unit – Industrial Development Board

In July 2011 the Industrial Development Board of the City of Kingsport (IDBK) entered into a loan agreement with a local bank in the amount of \$3,500,000. The loan was used to purchase an industrial use facility near the Tri-Cities Regional Airport. The property was leased to C & F Manufacturing. In the event the manufacturing company fails to make lease payments, IDBK would be required to fund the loan payments from other resources. The City of Kingsport, as well as Sullivan County, has entered into agreements to support this economic development project and share in a contingent liability, should the IDBK default on the loan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

C. Pension plan

City of Kingsport Plan

Plan description

Employees of the City are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. The City has authorized Mandatory Retirement for Public Safety Officers. Public safety Officers can retire at age 55 with five years of service or at any age with 25 years of service and receive a supplemental bridge payment between the mandatory retirement age and age 62. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding policy

The City previously adopted a non-contributory provision for the defined benefit plan, assuming employee contributions up to 5.0 percent of annual covered payroll. The City elected to discontinue the non-contributory provision for new hires between October 1, 2010 and June 30, 2012. Employees hired during this time frame are required to contribute 5.0 percent of compensation into the defined benefit plan. Employees hired prior to October 1, 2010 continue as non-contributory plan members. Employees hired after June 30, 2012 will participate in a defined contribution, matching 401(a) / 457(b) retirement plan.

The City is required to contribute to the defined benefit plan at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 16.09% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual pension cost

For the fiscal year ending June 30, 2012, the City's annual pension cost of \$6,099,950 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected 3.00% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.50% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

City of Kingsport Plan (continued)

Funding policy (continued)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 6,099,950	100.00%	\$ 0
June 30, 2011	\$ 5,839,797	100.00%	\$ 0
June 30, 2010	\$ 5,881,042	100.00%	\$ 0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 84.33% funded. The actuarial accrued liability for benefits was \$168.06 million, and the actuarial value of assets was \$141.72 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$26.34 million. The covered payroll (annual payroll of active employees covered by the plan) was \$35.36 million, and the ratio of UAAL to covered payroll was 74.49%.

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 141,716,000	\$ 168,059,000	\$ 26,343,000	84.33%	\$ 35,364,000	74.49%
July 1, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 140,590,000	\$ 23,124,000	83.55%	\$ 31,672,000	73.01%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

Kingsport City Schools Plan

Plan description

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

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

Funding policy

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for Kingsport City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2012 was 9.05% of annual covered payroll. The employer contribution requirement for Kingsport City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010 were \$2,795,181, \$2,681,961, and \$1,895,871 respectively, equal to the required contributions for each year.

D. Other Postemployment Benefits (OPEB)

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport

Plan description

The City of Kingsport provides continuation of medical insurance coverage to eligible employees that retire under the Tennessee Consolidated Retirement System at the same time they end their services to the City. Employees hired prior to June 1, 2007 are eligible to continue coverage if they had been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement. Employees hired after June 1, 2007, must have a minimum of 25 years of service with the City, be at least 55 years old, and must have been enrolled in the health insurance provided by the City for three full consecutive years immediately prior to retirement or have 30 years of service with the City and have been enrolled in the health insurance provided by the City for one full year immediately prior to retirement. Employees who retired before June 30, 2010 and continued on the City's health insurance as listed above are eligible for the City funded Medicare supplement plan when they reach 65 years of age. Employees retiring after June 30, 2010 are no longer eligible for the City funded Medicare supplement plan.

The number of participants as of July 1, 2011, the effective date of the OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

Active employees - medical & death benefits	548
Active employees - death benefit only	1,061
Retired employees - medical & death benefits	167
Retired employees spouse - medical benefit only	45
Retired employees - death benefit only	<u>613</u>
 Total	 <u><u>2,434</u></u>

Funding policy

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

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>City of Kingsport Retiree Plan</u>
Annual Required Contribution (ARC)	\$ 2,480,870
Interest on the Net Pension Obligation (NPO)	410,174
Adjustment to the Annual Required Contribution (ARC)	<u>(328,730)</u>
 Annual OPEB Cost	 2,562,314
Amount of Contribution	<u>(828,855)</u>
 Increase/Decrease in Net Pension Obligation (NPO)	 1,733,459
Net OPEB Obligation - Beginning of Year	<u>8,203,478</u>
 Net OPEB Obligation - Ending of Year	 <u><u>\$ 9,936,937</u></u>

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Funding policy (continued)

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/12	City Retiree	\$ 2,562,314	32%	\$ 9,936,937
06/30/11	City Retiree	\$ 2,422,409	20%	\$ 8,203,478
06/30/10	City Retiree	\$ 2,581,342	47%	\$ 6,272,246
06/30/09	City Retiree	\$ 3,292,208	27%	\$ 4,906,010
06/30/08	City Retiree	\$ 3,166,263	20%	\$ 2,518,897

*Data not available for the 2007 year.

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the date of the latest actuarial interim year valuation, was as follows:

	<u>City of Kingsport Retiree Plan</u>
Actuarial valuation date	07/01/12
Actuarial accrued liability (AAL)	\$ 31,010,598
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 31,010,598
Actuarial Value of Assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 27,872,345
UAAL as a percentage of covered payroll	111%

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

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial interim year valuation, the Projected Unit Credit actuarial cost method was used with linear proration to decrement. The actuarial assumptions included a 5 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Total payroll growth is estimated at 4 percent per year. The unfunded actuarial accrued liability is being amortized as a level percentage of payrolls over a 30 year period beginning with July 1, 2010.

Postemployment Healthcare Plan – Kingsport City Schools

Plan description

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

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants, however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. The required contribution rate for retired teachers is based on their years of service. For the year ended June 30, 2012, retired teachers contributed \$462,752. During the year ended June 30, 2012, Kingsport City Schools contributed \$392,535 for the teacher group plan and \$243,697 for the Medicare supplement plan. For the year ended June 30, 2012, the State of Tennessee contributed \$350,211 on behalf of retirees for the teacher group plan and \$1,805 for the Medicare supplement plan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

Funding policy (continued)

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>	<u>Medicare Supplement Plan</u>
Annual Required Contribution (ARC)	\$ 1,913,000	\$ 2,085,000
Interest on the Net Pension Obligation (NPO)	326,377	365,594
Adjustment to the Annual Required Contribution (ARC)	<u>(217,584)</u>	<u>(243,729)</u>
Annual OPEB Cost	2,021,793	2,206,865
Amount of Contribution	<u>(392,535)</u>	<u>(243,697)</u>
Increase/Decrease in Net Pension Obligation (NPO)	1,629,258	1,963,168
Net OPEB Obligation - Beginning of Year	<u>6,527,534</u>	<u>7,311,881</u>
Net OPEB Obligation - Ending of Year	<u>\$ 8,156,792</u>	<u>\$ 9,275,049</u>

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
06/30/12	Teacher Group	\$ 2,021,793	19%	\$ 8,156,792
06/30/11	Teacher Group	\$ 1,992,215	20%	\$ 6,527,534
06/30/10	Teacher Group	\$ 2,055,663	17%	\$ 4,932,899
06/30/09	Teacher Group	\$ 1,992,895	17%	\$ 3,233,246
06/30/08	Teacher Group	\$ 1,900,000	17%	\$ 1,575,446
06/30/12	Medicare Supp	\$ 2,206,865	11%	\$ 9,275,049
06/30/11	Medicare Supp	\$ 2,013,969	11%	\$ 7,311,881
06/30/10	Medicare Supp	\$ 2,079,538	10%	\$ 5,518,188
06/30/09	Medicare Supp	\$ 2,033,125	10%	\$ 3,650,763
06/30/08	Medicare Supp	\$ 1,928,000	6%	\$ 1,815,000

*Data not available for the 2007 year.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

Funded Status and Funding Process

The funded status of the plan as of July 1, 2011, the date of the latest valuation, was as follows:

	Teacher Group Plan	Medicare Supplement Plan
Actuarial valuation date	07/01/11	07/01/11
Actuarial accrued liability (AAL)	\$ 16,816,000	\$ 19,371,000
Actuarial value of plan assets	\$ 0	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 16,816,000	\$ 19,371,000
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 23,226,238	\$ 23,226,238
UAAL as a percentage of covered payroll	72%	83%

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

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent for fiscal year 2012. The trend will decrease to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5.0 percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement plan was 6.50 percent for fiscal year 2012. The trend will decrease to 6.25 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5.0 percent by fiscal year 2018. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on a closed basis over a 30 year period beginning with June 30, 2008.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

E. On-Behalf Payments

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

Teacher Group Insurance Plan

The State of Tennessee makes a contribution (on-behalf payment) for retired teachers who participate in the State-administered Teacher Group Insurance Plan through TCRS as described in Note 5. D. The on-behalf payment for 2012 was \$350,211 and has been recorded as revenue and expenditure in the general purpose school fund.

Medicare Supplement Plan

Since Teachers are considered state employees per state statues, the State of Tennessee makes a contribution (on-behalf payment) for retired teachers to this Plan through the TCRS. The on-behalf payment for 2012 was \$1,805 and has been recorded as revenue and expenditure in the general purpose school fund.

F. Economic dependency

A material portion of the City's property tax revenue is derived from one taxpayer, the loss of which would have a material effect on the City. During the tax years ended December 31, 2011 and 2010, the taxes assessed on the above mentioned taxpayer accounted for approximately 25% of total property taxes assessed for each year.

G. Joint Ventures

Tri-Cities Airport Commission

Tri-Cities Airport Commission (the Airport) is jointly governed by representatives of Johnson City; Kingsport; Bristol, Tennessee; Bristol, Virginia and Washington and Sullivan Counties, Tennessee. The City initially contributed 20 percent of the start-up costs of the Airport in 1934 and has not contributed further since 1967. The City is represented by two of the Airport's twelve commissioners. The Airport prepares its own separate financial statements. The participating governments do not record any balances for the Airport. If the Airport ceased operations, disposition of its net assets would be controlled by the Federal Aviation Administration. The City would not be guaranteed a return of its initial investments or subsequent retained earnings.

Complete financial statements for the individual joint venture may be obtained at the administrative offices of:

Tri-Cities Airport Commission
P.O. Box 1055
Blountville, TN 37617

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

5. OTHER INFORMATION (CONTINUED):

G. Joint Ventures (continued)

Tri-Cities Airport Commission (continued)

Audited information as of June 30, 2012 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 6,160,383
Operating Expenses	(5,422,576)
Depreciation	(3,319,171)
Amortization	(13,500)
Other Income	1,253,169
Capital Contributions	<u>4,821,258</u>
Change in Net Assets	3,479,563
Net Assets, July 1	<u>63,023,491</u>
Net Assets, June 30	<u>\$ 66,503,054</u>
Total Assets	\$ 73,193,702
Total Liabilities	<u>(6,690,648)</u>
Total Net Assets	<u>\$ 66,503,054</u>

Phipps Bend Joint Venture

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

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

Note Receivable from Phipps Bend Venture	\$ 499,216
20% interest in capital of Phipps Bend Joint Venture	<u>342,814</u>
Total Investment	<u>\$ 842,030</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

H. Subsequent Events

The City has explored other retirement plan benefit options for its employees due to the City's rising contribution rates over the last decade to the TCRS defined benefit plan. Under the TCRS plan, the City's contribution rate has nearly doubled over the past decade to slightly more than 16% of payroll. Beginning July 1, 2012, all newly hired employees of the City will be required to participate in the City's new 401(a) defined contribution plan, with a 457(b) supplemental plan to accommodate employee contributions. The new plan only affects full-time City employees and non-teachers hired after June 30, 2012. New hires will be eligible for the new plan on the first day of their employment and will be fully vested after 6 years. New employees will have a mandatory contribution requirement of 5% of their salary to the plan, which the City will equally match. Additionally, employee voluntary contributions to the 457(b) component will be matched by the City up to 3%. No loans will be allowed from the corpus of the plan although employees facing severe financial conditions attributable to illness or accident can withdraw funds subject to any prevailing tax consequences.

On August 10, 2012, the City's component unit, the IDBK, entered into an exclusive purchase right and option agreement in the amount of \$10,000 for the potential purchase of two tracts of property located at the intersection of interstates I-81 and I-26 and commonly referred to as the Riggs Property Acreage. This property is located in the City's Border Region Retail Tourism Development District. The agreement provides for the option to purchase 137.70 acres on the west side of I-26 within 4 months, for \$30,000 per acre and the option to purchase 109.23 acres on the east side of I-26, within 9 months for \$27,000 per acre. These time frames will hopefully provide the City time to pursue interested developers who could bring new retail and tourism development to this area within the City.

On September 25, 2012, the Charter Application of Tri-Cities Airport Authority was filed with, and acknowledged by, the Secretary of State of Tennessee. On November 9, 2012, the Owners of the Tri-Cities Regional Airport TN/VA took the action necessary to create the Tri-Cities Airport Authority. The Tri-Cities Airport Authority adopted, ratified, and agreed to be bound by all contracts, agreements, leases, memoranda of understanding, and other legal obligations, which allowed the Owners and the Tri-Cities Airport Commission to manage and operate and oversee all Airport operations, duties, and functions.

In September 2012, the IDBK, a component unit of the City, purchased real property located on West Sullivan Street and Clinchfield Streets within the City, known as the Bray Property. The purpose of this purchase is for future economic development, which will involve a significant quantity of residential housing units being constructed in the downtown area of the City. The IDBK purchased the property with proceeds from a \$1,785,000 loan, to be repaid in five years with an interest rate of 2.9%. The net rental income derived from existing leases and rental agreements currently on the property is sufficient to pay accrued interest on the loan and IDBK will use such income to service the loan. As portions of the property are sold, IDBK will use the proceeds from the sales to reduce the principal balance outstanding on the loan. In the event net rental income from leases and rental agreements on the property, and the sale of part or all of the property, is not sufficient to cover the annual interest portion of the debt service on the loan, the City has approved an agreement with the IDBK to provide an annual contribution to the IDBK for this economic development project, in an amount up to the required annual debt service interest on the loan, which is \$51,765.

On December 6, 2012, the City's component unit, the IDBK, entered into an agreement with a developer, Stewart Taylor, for the purpose of developing property known as the Heritage Point Property and attracting an extraordinary retail facility to locate on the property, which is part of a 400 acre area located within the City's Border Region Retail Tourism Development District. The terms of the agreement grant the IDBK the exclusive right and option to purchase a specific section of the property for a period of one year for an option price of \$1 and a purchase price for the property of \$5,950,000. Upon receiving a firm written commitment from a "trigger tenant" retailer, the IDBK shall exercise its option to purchase the property contingent on the developer performing and advancing the funds necessary to prepare the property for development.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

H. Subsequent Events (continued)

The IDBK would then issue in the form of a bond or note to the developer, the purchase price and site development costs, payable within 4 years from the date of conveyance of the property at an interest rate of 4% per annum. The purchase price, site development costs, and interest shall be paid from the State sales and use tax incremental proceeds generated by the "trigger tenant" and any other retail facilities located within the district, and distributed to the City. The maximum site preparation costs for the entire Heritage Point Property development, payable to the developer by the IDBK, shall not exceed \$24,873,207, nor shall the IDBK be obligated to repay the developer for site preparation costs in the event the incremental increase in State sales and use tax proceeds distributed to the City, are not sufficient for this purpose. The City, by resolution number 2013-095 dated December 7, 2012, delegated the IDBK the statutory authority to carry out the project in the Border Region Retail Tourism Development District.

The City expects to establish an additional enterprise fund known as the, Aquatics Center Fund, in January 2013. This fund will be used to budget and account for the City's operation of a newly constructed Aquatics Center facility located in the Meadowview area of the City, which is scheduled to be in full operation in May 2013. The City anticipates the hiring of a director, manager, and other key personnel beginning in January 2013, resulting in the incurring of personnel and other operating expenses which will be budgeted and expended from within the fund.

I. Prior Period Adjustments

Governmental Capital Assets

A prior period adjustment was recorded in fiscal year 2012 that decreased governmental capital assets by \$2,137,263. The amount of this decrease is the result of three items; (1) the disposal of the old Washington Elementary school building valued at \$447,546 that had previously been sold; (2) the disposal of land valued at \$444,059 purchased for school purposes in the Stadium Court area which was erroneously recorded twice; (3) the disposal of annexed roads valued at \$1,245,658 consisting of Sullivan Gardens Parkway, Memorial Boulevard, Rock Springs Road, Rock Springs Drive and Popular Grove Road which are owned by the State of Tennessee and were erroneously capitalized. Accumulated depreciation was also decreased totaling \$772,005, consisting of \$447,546 related to the disposal of the school building and \$324,459 related to the disposal of the annexed roads. The net change in governmental capital assets after considering depreciation is \$1,365,258.

Solid Waste Landfill

A prior period adjustment recorded in fiscal year 2012 recognized an additional twenty-four years of accrued landfill closure costs totaling \$730,536. This adjustment was based upon an expected landfill life of 60 years from the permit year of 1986. This additional liability, as well as the previously recorded liability of \$50,723 was off-set by a prior period adjustment which wrote-off capitalized landfill closure costs incurred through June 30, 2011 totaling \$1,023,438. The net effect of these prior period adjustments increased pre-paid landfill closure costs by \$242,179.

Insurance Reserve Fund

A prior period adjustment was recorded in fiscal year 2012 to recognize the accrued liabilities for the City's self-insured, workers compensation and public liability claims, based upon an actuarial study dated January 2012. The workers compensation liability was increased by \$1,940,421 and the public liability claims liability was increased by \$980,000.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

5. OTHER INFORMATION (CONTINUED):

I. Prior Period Adjustments (continued)

Health Insurance / Retirees Health Insurance

A prior period adjustment was recorded in fiscal year 2012 to reduce accrued health insurance benefits payable in the City's self-funded, Health Insurance Fund and Retirees Health Insurance Fund by \$553,396 and \$116,604, respectively. These adjustments are a result of claims being processed and paid in a more timely fashion than in years previous.

**CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN
For the Fiscal Year Ended June 30, 2012**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 141,716,000	\$ 168,059,000	\$ 26,343,000	84.33%	\$ 35,364,000	74.49%
July 1, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 140,590,000	\$ 23,124,000	83.55%	\$ 31,672,000	73.01%

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

**CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS
For the Fiscal Year Ended June 30, 2012**

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	City Retiree	\$ 0	\$ 31,010,598	\$ 31,010,598	0.00%	\$ 27,872,345	111%
July 1, 2011	City Retiree	\$ 0	\$ 29,469,147	\$ 29,469,147	0.00%	\$ 26,800,332	110%
July 1, 2009	City Retiree	\$ 0	\$ 32,019,362	\$ 32,019,362	0.00%	\$ 23,721,000	134%
July 1, 2007	City Retiree	\$ 0	\$ 30,541,000	\$ 30,541,000	0.00%	\$ 21,931,000	139%

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	Teacher Group	\$ 0	\$ 16,816,000	\$ 16,816,000	0.00%	\$ 23,226,238	72%
July 1, 2011	Medicare	0	19,371,000	19,371,000	0.00%	23,226,238	83%
July 1, 2010	Teacher Group	\$ 0	\$ 17,243,000	\$ 17,243,000	0.00%	\$ 23,571,575	73%
July 1, 2010	Medicare	0	18,481,000	18,481,000	0.00%	23,571,575	78%
July 1, 2009	Teacher Group	\$ 0	\$ 17,196,000	\$ 17,196,000	0.00%	\$ 22,403,067	77%
July 1, 2009	Medicare	0	18,481,000	18,481,000	0.00%	22,403,067	82%
July 1, 2007	Teacher Group	\$ 0	\$ 17,503,000	\$ 17,503,000	0.00%	\$ 24,795,000	70%
July 1, 2007	Medicare	0	18,268,000	18,268,000	0.00%	24,795,000	74%

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



C. COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

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CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 60,900	\$ 204,144	\$ 204,953	\$ 809
Federal Interest Subsidy	0	244,923	244,923	0
Total Revenues	<u>60,900</u>	<u>449,067</u>	<u>449,876</u>	<u>809</u>
EXPENDITURES:				
Principal	6,202,200	5,427,297	5,426,273	1,024
Interest	4,001,500	4,550,566	4,549,707	859
Miscellaneous	30,800	25,844	7,387	18,457
Total Expenditures	<u>10,234,500</u>	<u>10,003,707</u>	<u>9,983,367</u>	<u>20,340</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,173,600)</u>	<u>(9,554,640)</u>	<u>(9,533,491)</u>	<u>21,149</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	<u>10,173,600</u>	<u>9,394,640</u>	<u>9,385,544</u>	<u>(9,096)</u>
Total Other Financing Sources (Uses)	<u>10,173,600</u>	<u>9,394,640</u>	<u>9,385,544</u>	<u>(9,096)</u>
Net Change in Fund Balances	0	(160,000)	(147,947)	12,053
Fund Balances, July 1, 2011	<u>0</u>	<u>160,000</u>	<u>169,280</u>	<u>9,280</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 21,333</u></u>	<u><u>\$ 21,333</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Special Revenue Funds						Permanent Fund		Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds	Allandale Trust Fund	
ASSETS:									
Cash	\$ 0	\$ 0	\$ 67,055	\$ 100	\$ 0	\$ 1,765,131	\$ 1,832,286	\$ 0	\$ 1,832,286
Equity in Pooled Cash & Investments	0	24,816	549,604	196,347	112,706	0	883,473	17,128	900,601
Long Term Certificates of Deposit	0	0	0	0	0	98,000	98,000	152,691	250,691
Investments	0	0	0	0	135,061	65,698	200,759	4,478	205,237
Accounts Receivable	0	1,275	0	0	30,751	848	32,874	0	32,874
Accrued Interest Receivable	0	0	0	0	0	0	0	32,349	32,349
Due from Other Governments	27,313	176,096	17,960	639,610	572,063	1,094,422	2,527,464	0	2,527,464
Due from Other Funds	0	0	0	0	221,293	0	221,293	0	221,293
Inventories	0	0	0	0	0	198,535	198,535	0	198,535
Restricted Investments	0	0	10,449	0	0	0	10,449	0	10,449
Total Assets	\$ 27,313	\$ 202,187	\$ 645,068	\$ 836,057	\$ 1,071,874	\$ 3,222,634	\$ 6,005,133	\$ 206,646	\$ 6,211,779
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts Payable	\$ 6,275	\$ 0	\$ 15,358	\$ 161,747	\$ 1,546	\$ 44,830	\$ 229,756	\$ 0	\$ 229,756
Other Liabilities	0	0	0	0	0	3,015	3,015	0	3,015
Due to Other Funds	10,842	0	17,960	75,033	432,005	779,307	1,315,147	0	1,315,147
Due to Other Governments	0	0	0	0	13	0	13	0	13
Deferred Revenue	0	2,866	0	0	0	91,752	94,618	0	94,618
Total Liabilities	17,117	2,866	33,318	236,780	433,564	918,904	1,642,549	0	1,642,549
Fund Balances:									
Nonspendable:									
Inventory	0	0	0	0	0	198,535	198,535	0	198,535
Allandale Trust Principal	0	0	0	0	0	0	0	152,691	152,691
Allandale Long-Term Receivable	0	0	0	0	0	0	0	32,349	32,349
Restricted:									
Unspent Federal Forfeitures	0	0	10,449	0	0	0	10,449	0	10,449
Assigned	10,196	199,321	601,301	599,277	638,310	2,105,195	4,153,600	21,606	4,175,206
Total Fund Balances	10,196	199,321	611,750	599,277	638,310	2,303,730	4,362,584	206,646	4,569,230
Total Liabilities and Fund Balances	\$ 27,313	\$ 202,187	\$ 645,068	\$ 836,057	\$ 1,071,874	\$ 3,222,634	\$ 6,005,133	\$ 206,646	\$ 6,211,779

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds						Permanent Fund	Total Nonmajor Governmental Funds	
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds		Allandale Trust Fund
REVENUES:									
Local Option Sales Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,356,622	\$ 0	\$ 3,356,622	\$ 0	\$ 3,356,622
Hotel/Motel Tax Allocation	0	0	0	0	374,900	0	374,900	0	374,900
Federal Government	530,599	569,281	243,452	1,305,321	0	7,592,568	10,241,221	0	10,241,221
State Government	0	34,154	0	1,561,740	0	995,852	2,591,746	0	2,591,746
Charges for Services	0	972	0	122,236	42,327	1,267,102	1,432,637	0	1,432,637
Fines and Forfeitures	0	0	151,785	0	0	0	151,785	0	151,785
Investment Earnings	0	0	22	0	2,335	910	3,267	8,586	11,853
Contributions and Donations	0	38,593	0	0	32,678	172,993	244,264	0	244,264
Total Revenues	530,599	643,000	395,259	2,989,297	3,808,862	10,029,425	18,396,442	8,586	18,405,028
EXPENDITURES:									
General & Administrative	0	1,004,883	3,297	0	0	0	1,008,180	0	1,008,180
School Food Service	0	0	0	0	0	2,998,494	2,998,494	0	2,998,494
School Federal Projects	0	0	0	0	0	5,242,634	5,242,634	0	5,242,634
Economic & Physical Development	538,498	0	0	0	0	0	538,498	0	538,498
Public Safety	0	0	354,305	0	0	0	354,305	0	354,305
Transportation	0	0	0	3,804,971	0	0	3,804,971	0	3,804,971
Culture and Recreation	0	0	0	0	327,622	0	327,622	0	327,622
Education	0	0	0	0	0	1,140,907	1,140,907	0	1,140,907
Capital Outlay	0	4,412	130,872	521,938	0	605,340	1,262,562	0	1,262,562
Total Expenditures	538,498	1,009,295	488,474	4,326,909	327,622	9,987,375	16,678,173	0	16,678,173
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,899)	(366,295)	(93,215)	(1,337,612)	3,481,240	42,050	1,718,269	8,586	1,726,855
OTHER FINANCING SOURCES (USES):									
Transfers In	0	442,735	0	1,313,188	0	61,700	1,817,623	0	1,817,623
Transfers Out	0	(1,348)	(12,400)	0	(3,396,442)	(11,504)	(3,421,694)	0	(3,421,694)
Total Other Financing Sources (Uses)	0	441,387	(12,400)	1,313,188	(3,396,442)	50,196	(1,604,071)	0	(1,604,071)
Net Change in Fund Balances	(7,899)	75,092	(105,615)	(24,424)	84,798	92,246	114,198	8,586	122,784
Fund Balances, July 1, 2011	18,095	124,229	717,365	623,701	553,512	2,211,484	4,248,386	198,060	4,446,446
Fund Balances, June 30, 2012	\$ 10,196	\$ 199,321	\$ 611,750	\$ 599,277	\$ 638,310	\$ 2,303,730	\$ 4,362,584	\$ 206,646	\$ 4,569,230

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
June 30, 2012

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Justice Assistance Grant Fund</u>	<u>Total Public Safety Funds</u>
ASSETS:				
Cash	\$ 0	\$ 67,055	\$ 0	\$ 67,055
Equity in Pooled Cash and Investments	83,450	466,154	0	549,604
Due from Other Governments	0	0	17,960	17,960
Restricted Investments	10,449	0	0	10,449
Total Assets	<u>\$ 93,899</u>	<u>\$ 533,209</u>	<u>\$ 17,960</u>	<u>\$ 645,068</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 0	\$ 15,358	\$ 0	\$ 15,358
Due to Other Funds	0	0	17,960	17,960
Deferred Revenue	0	0	0	0
Total Liabilities	<u>0</u>	<u>15,358</u>	<u>17,960</u>	<u>33,318</u>
Fund Balances:				
Restricted:				
Unspent Federal Forfeitures	10,449	0	0	10,449
Assigned	83,450	517,851	0	601,301
Total Fund Balances	<u>93,899</u>	<u>517,851</u>	<u>0</u>	<u>611,750</u>
Total Liabilities and Fund Balances	<u>\$ 93,899</u>	<u>\$ 533,209</u>	<u>\$ 17,960</u>	<u>\$ 645,068</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
For the Fiscal Year Ended June 30, 2012

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 243,452	\$ 243,452
State Government	0	0	0	0
Fines and Forfeitures	0	151,785	0	151,785
Investment Earnings	22	0	0	22
Total Revenues	22	151,785	243,452	395,259
EXPENDITURES:				
General and Administrative	0	3,297	0	3,297
Public Safety	0	196,633	157,672	354,305
Capital Outlay	0	45,092	85,780	130,872
Total Expenditures	0	245,022	243,452	488,474
Excess (Deficiency) of Revenues Over (Under) Expenditures	22	(93,237)	0	(93,215)
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(12,400)	0	0	(12,400)
Total Other Financing Sources (Uses)	(12,400)	0	0	(12,400)
Net Change in Fund Balances	(12,378)	(93,237)	0	(105,615)
Fund Balances, July 1, 2011	106,277	611,088	0	717,365
Fund Balances, June 30, 2012	<u>\$ 93,899</u>	<u>\$ 517,851</u>	<u>\$ 0</u>	<u>\$ 611,750</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
June 30, 2012

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
ASSETS:				
Cash	\$ 100	\$ 0	\$ 0	\$ 100
Equity in Pooled Cash and Investments	0	196,347	0	196,347
Due from Other Governments	316,170	93,611	229,829	639,610
Total Assets	\$ 316,270	\$ 289,958	\$ 229,829	\$ 836,057
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 10,563	\$ 4,014	\$ 147,170	\$ 161,747
Due to Other Governments	0	0	0	0
Due to Other Funds	14,337	0	60,696	75,033
Total Liabilities	24,900	4,014	207,866	236,780
Fund Balances:				
Assigned	291,370	285,944	21,963	599,277
Total Fund Balances	291,370	285,944	21,963	599,277
Total Liabilities and Fund Balances	\$ 316,270	\$ 289,958	\$ 229,829	\$ 836,057

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
For the Fiscal Year Ended June 30, 2012

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
REVENUES:				
Federal Government	\$ 1,004,452	\$ 300,869	\$ 0	\$ 1,305,321
State Government	274,517	6,749	1,280,474	1,561,740
Charges for Services	122,236	0	0	122,236
Investment Earnings	0	0	0	0
Total Revenues	1,401,205	307,618	1,280,474	2,989,297
EXPENDITURES:				
Transportation	1,217,894	347,792	2,239,285	3,804,971
Capital Outlay	468,517	5,696	47,725	521,938
Total Expenditures	1,686,411	353,488	2,287,010	4,326,909
Excess (Deficiency) of Revenues Over (Under) Expenditures	(285,206)	(45,870)	(1,006,536)	(1,337,612)
OTHER FINANCING SOURCES (USES):				
Transfers In	245,800	54,575	1,012,813	1,313,188
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	245,800	54,575	1,012,813	1,313,188
Net Change in Fund Balances	(39,406)	8,705	6,277	(24,424)
Fund Balances, July 1, 2011	330,776	277,239	15,686	623,701
Fund Balances, June 30, 2012	<u>\$ 291,370</u>	<u>\$ 285,944</u>	<u>\$ 21,963</u>	<u>\$ 599,277</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
June 30, 2012

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
ASSETS:							
Equity in Pooled Cash & Investments	\$ 0	\$ 96,542	\$ 0	\$ 82	\$ 5,851	\$ 10,231	\$ 112,706
Investments	3,112	0	18,877	1,150	56,043	55,879	135,061
Accounts Receivable	0	30,751	0	0	0	0	30,751
Due from Other Governments	572,063	0	0	0	0	0	572,063
Due from Other Funds	221,293	0	0	0	0	0	221,293
Total Assets	<u>\$ 796,468</u>	<u>\$ 127,293</u>	<u>\$ 18,877</u>	<u>\$ 1,232</u>	<u>\$ 61,894</u>	<u>\$ 66,110</u>	<u>\$ 1,071,874</u>
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,546	\$ 1,546
Due to Other Governments	0	0	0	0	0	13	13
Due to Other Funds	432,005	0	0	0	0	0	432,005
Total Liabilities	<u>432,005</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,559</u>	<u>433,564</u>
Fund Balances:							
Assigned	364,463	127,293	18,877	1,232	61,894	64,551	638,310
Total Fund Balances	<u>364,463</u>	<u>127,293</u>	<u>18,877</u>	<u>1,232</u>	<u>61,894</u>	<u>64,551</u>	<u>638,310</u>
Total Liabilities and Fund Balances	<u>\$ 796,468</u>	<u>\$ 127,293</u>	<u>\$ 18,877</u>	<u>\$ 1,232</u>	<u>\$ 61,894</u>	<u>\$ 66,110</u>	<u>\$ 1,071,874</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
For the Fiscal Year Ended June 30, 2012

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
REVENUES:							
Local Option Sales Tax	\$ 3,356,622	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,356,622
Hotel/Motel Tax Allocation	0	374,900	0	0	0	0	374,900
Charges for Services	0	0	0	0	0	42,327	42,327
Investment Earnings	2,190	0	23	2	57	63	2,335
Contributions and Donations	0	0	0	63	26,215	6,400	32,678
Total Revenues	3,358,812	374,900	23	65	26,272	48,790	3,808,862
EXPENDITURES:							
Culture and Recreation	0	278,046	0	0	10,420	39,156	327,622
Total Expenditures	0	278,046	0	0	10,420	39,156	327,622
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,358,812	96,854	23	65	15,852	9,634	3,481,240
OTHER FINANCING SOURCES (USES):							
Transfers In	0	0	0	0	0	0	0
Transfers Out	(3,099,863)	(296,579)	0	0	0	0	(3,396,442)
Total Other Financing Sources (Uses)	(3,099,863)	(296,579)	0	0	0	0	(3,396,442)
Net Change in Fund Balances	258,949	(199,725)	23	65	15,852	9,634	84,798
Fund Balances, July 1, 2011	105,514	327,018	18,854	1,167	46,042	54,917	553,512
Fund Balances, June 30, 2012	\$ 364,463	\$ 127,293	\$ 18,877	\$ 1,232	\$ 61,894	\$ 64,551	\$ 638,310

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
June 30, 2012

	<u>School Nutrition Services Fund</u>	<u>Special School Projects Fund</u>	<u>Public Law 93-380 Fund</u>	<u>Palmer Center Fund</u>	<u>Total Education Funds</u>
ASSETS:					
Cash	\$ 1,765,131	\$ 0	\$ 0	\$ 0	\$ 1,765,131
Equity in Pooled Cash and Investments	0	0	0	0	0
Long Term Certificates of Deposit	98,000	0	0	0	98,000
Investments	0	0	0	65,698	65,698
Accounts Receivable	848	0	0	0	848
Due from Other Governments	205,770	213,743	674,909	0	1,094,422
Inventories	198,535	0	0	0	198,535
Total Assets	<u>\$ 2,268,284</u>	<u>\$ 213,743</u>	<u>\$ 674,909</u>	<u>\$ 65,698</u>	<u>\$ 3,222,634</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 372	\$ 11,122	\$ 33,336	\$ 0	\$ 44,830
Other Liabilities	0	2,164	851	0	3,015
Due to Other Funds	11,852	148,301	619,154	0	779,307
Due to Other Governments	0	0	0	0	0
Deferred Revenue	41,032	29,152	21,568	0	91,752
Total Liabilities	<u>53,256</u>	<u>190,739</u>	<u>674,909</u>	<u>0</u>	<u>918,904</u>
Fund Balances:					
Nonspendable:					
Inventory	198,535	0	0	0	198,535
Assigned	2,016,493	23,004	0	65,698	2,105,195
Total Fund Balances	<u>2,215,028</u>	<u>23,004</u>	<u>0</u>	<u>65,698</u>	<u>2,303,730</u>
Total Liabilities and Fund Balances	<u>\$ 2,268,284</u>	<u>\$ 213,743</u>	<u>\$ 674,909</u>	<u>\$ 65,698</u>	<u>\$ 3,222,634</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
For the Fiscal Year Ended June 30, 2012

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
REVENUES:					
Federal Government	\$ 1,879,275	\$ 134,452	\$ 5,578,841	\$ 0	\$ 7,592,568
State Government	28,620	967,232	0	0	995,852
Charges for Services	1,243,508	23,594	0	0	1,267,102
Investment Earnings	829	0	0	81	910
Contributions and Donations	172,993	0	0	0	172,993
Total Revenues	3,325,225	1,125,278	5,578,841	81	10,029,425
EXPENDITURES:					
School Food Service	2,998,494	0	0	0	2,998,494
School Federal Projects	0	0	5,242,634	0	5,242,634
Education	0	1,140,907	0	0	1,140,907
Capital Outlay	234,566	46,071	324,703	0	605,340
Total Expenditures	3,233,060	1,186,978	5,567,337	0	9,987,375
Excess (Deficiency) of Revenues Over (Under) Expenditures	92,165	(61,700)	11,504	81	42,050
OTHER FINANCING SOURCES (USES):					
Transfers In	0	61,700	0	0	61,700
Transfers Out	0	0	(11,504)	0	(11,504)
Total Other Financing Sources (Uses)	0	61,700	(11,504)	0	50,196
Net Change in Fund Balances	92,165	0	0	81	92,246
Fund Balances, July 1, 2011	2,122,863	23,004	0	65,617	2,211,484
Fund Balances, June 30, 2012	<u>\$ 2,215,028</u>	<u>\$ 23,004</u>	<u>\$ 0</u>	<u>\$ 65,698</u>	<u>\$ 2,303,730</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CRIMINAL FORFEITURE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	6,000	6,000	0	(6,000)
Investment Earnings	0	0	22	22
Contributions and Donations	0	0	0	0
Total Revenues	<u>6,000</u>	<u>6,000</u>	<u>22</u>	<u>(5,978)</u>
EXPENDITURES:				
Public Safety	6,000	6,000	0	6,000
Capital Outlay	0	0	0	0
Total Expenditures	<u>6,000</u>	<u>6,000</u>	<u>0</u>	<u>6,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>22</u>	<u>22</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	(12,400)	(12,400)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(12,400)</u>	<u>(12,400)</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(12,400)</u>	<u>(12,378)</u>	<u>22</u>
Fund Balances, July 1, 2011	<u>0</u>	<u>12,400</u>	<u>106,277</u>	<u>93,877</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 93,899</u>	<u>\$ 93,899</u>

See Independent Auditors' Report.

**CITY OF KINGSPORT, TENNESSEE
DRUG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
State Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	166,000	166,000	151,785	(14,215)
Contributions and Donations	0	0	0	0
Total Revenues	<u>166,000</u>	<u>166,000</u>	<u>151,785</u>	<u>(14,215)</u>
EXPENDITURES:				
General and Administrative	5,000	3,532	3,297	235
Public Safety	93,000	204,896	196,633	8,263
Capital Outlay	68,000	57,572	45,092	12,480
Total Expenditures	<u>166,000</u>	<u>266,000</u>	<u>245,022</u>	<u>20,978</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(100,000)</u>	<u>(93,237)</u>	<u>6,763</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(100,000)</u>	<u>(93,237)</u>	<u>6,763</u>
Fund Balances, July 1, 2011	<u>0</u>	<u>100,000</u>	<u>611,088</u>	<u>511,088</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 517,851</u>	<u>\$ 517,851</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
State Government	\$ 1,309,600	\$ 1,309,600	\$ 1,280,474	\$ (29,126)
Investment Earnings	0	0	0	0
Miscellaneous	41,600	41,600	0	(41,600)
Total Revenues	<u>1,351,200</u>	<u>1,351,200</u>	<u>1,280,474</u>	<u>(70,726)</u>
EXPENDITURES:				
Highways and Streets	2,405,200	2,384,369	2,239,285	145,084
Capital Outlay	0	47,726	47,725	1
Total Expenditures	<u>2,405,200</u>	<u>2,432,095</u>	<u>2,287,010</u>	<u>145,085</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,054,000)</u>	<u>(1,080,895)</u>	<u>(1,006,536)</u>	<u>74,359</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	974,000	974,000	1,012,813	38,813
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>974,000</u>	<u>974,000</u>	<u>1,012,813</u>	<u>38,813</u>
Net Change in Fund Balances	<u>(80,000)</u>	<u>(106,895)</u>	<u>6,277</u>	<u>113,172</u>
Fund Balances, July 1, 2011	<u>80,000</u>	<u>106,895</u>	<u>15,686</u>	<u>(91,209)</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 21,963</u></u>	<u><u>\$ 21,963</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
REGIONAL SALES TAX REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local Option Sales Tax	\$ 3,245,300	\$ 3,245,300	\$ 3,356,622	\$ 111,322
Investment Earnings	0	0	2,190	2,190
Total Revenues	<u>3,245,300</u>	<u>3,245,300</u>	<u>3,358,812</u>	<u>113,512</u>
EXPENDITURES:				
Culture and Recreation	0	0	0	0
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,245,300</u>	<u>3,245,300</u>	<u>3,358,812</u>	<u>113,512</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>(3,245,300)</u>	<u>(3,245,300)</u>	<u>(3,099,863)</u>	<u>145,437</u>
Total Other Financing Sources (Uses)	<u>(3,245,300)</u>	<u>(3,245,300)</u>	<u>(3,099,863)</u>	<u>145,437</u>
Net Change in Fund Balances	0	0	258,949	258,949
Fund Balances, July 1, 2011	<u>0</u>	<u>0</u>	<u>105,514</u>	<u>105,514</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 364,463</u></u>	<u><u>\$ 364,463</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
VISITORS ENHANCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes	\$ 0	\$ 350,000	\$ 374,900	\$ 24,900
Total Revenues	<u>0</u>	<u>350,000</u>	<u>374,900</u>	<u>24,900</u>
EXPENDITURES:				
Culture and Recreation	280,000	280,000	278,046	1,954
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>280,000</u>	<u>280,000</u>	<u>278,046</u>	<u>1,954</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(280,000)</u>	<u>70,000</u>	<u>96,854</u>	<u>26,854</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	325,000	0	0	0
Transfers Out	<u>(278,000)</u>	<u>(303,000)</u>	<u>(296,579)</u>	<u>6,421</u>
Total Other Financing Sources (Uses)	<u>47,000</u>	<u>(303,000)</u>	<u>(296,579)</u>	<u>6,421</u>
Net Change in Fund Balances	(233,000)	(233,000)	(199,725)	33,275
Fund Balances, July 1, 2011	<u>233,000</u>	<u>233,000</u>	<u>327,018</u>	<u>94,018</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 127,293</u></u>	<u><u>\$ 127,293</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
STEADMAN CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 50	\$ 50	\$ 23	\$ (27)
Total Revenues	<u>50</u>	<u>50</u>	<u>23</u>	<u>(27)</u>
EXPENDITURES:				
Maintenance	<u>2,550</u>	<u>2,550</u>	<u>0</u>	<u>2,550</u>
Total Expenditures	<u>2,550</u>	<u>2,550</u>	<u>0</u>	<u>2,550</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,500)</u>	<u>(2,500)</u>	<u>23</u>	<u>2,523</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(2,500)	(2,500)	23	2,523
Fund Balances, July 1, 2011	<u>2,500</u>	<u>2,500</u>	<u>18,854</u>	<u>16,354</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,877</u>	<u>\$ 18,877</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
PUBLIC LIBRARY COMMISSION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 10	\$ 10	\$ 2	\$ (8)
Contributions and Donations	0	0	63	63
Total Revenues	<u>10</u>	<u>10</u>	<u>65</u>	<u>55</u>
EXPENDITURES:				
Culture and Recreation	10	10	0	10
Total Expenditures	<u>10</u>	<u>10</u>	<u>0</u>	<u>10</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>65</u>	<u>65</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	65	65
Fund Balances, July 1, 2011	<u>0</u>	<u>0</u>	<u>1,167</u>	<u>1,167</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,232</u></u>	<u><u>\$ 1,232</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
BAYS MOUNTAIN PARK FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 57	\$ (43)
Contributions and Donations	15,000	15,000	26,215	11,215
Total Revenues	<u>15,100</u>	<u>15,100</u>	<u>26,272</u>	<u>11,172</u>
EXPENDITURES:				
Culture and Recreation	26,500	26,500	10,420	16,080
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>10,420</u>	<u>16,080</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,400)</u>	<u>(11,400)</u>	<u>15,852</u>	<u>27,252</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(11,400)	(11,400)	15,852	27,252
Fund Balances, July 1, 2011	<u>11,400</u>	<u>11,400</u>	<u>46,042</u>	<u>34,642</u>
Fund Balances, June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 61,894</u></u>	<u><u>\$ 61,894</u></u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SENIOR CITIZENS ADVISORY BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Charges for Services	\$ 151,200	\$ 151,200	\$ 42,327	\$ (108,873)
Investment Earnings	100	100	63	(37)
Contributions and Donations	9,800	9,800	6,400	(3,400)
Total Revenues	<u>161,100</u>	<u>161,100</u>	<u>48,790</u>	<u>(112,310)</u>
EXPENDITURES:				
Culture and Recreation	161,100	162,902	39,156	123,746
Total Expenditures	<u>161,100</u>	<u>162,902</u>	<u>39,156</u>	<u>123,746</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(1,802)</u>	<u>9,634</u>	<u>11,436</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	(1,802)	9,634	11,436
Fund Balances, July 1, 2011	<u>0</u>	<u>1,802</u>	<u>54,917</u>	<u>53,115</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,551</u>	<u>\$ 64,551</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHOOL NUTRITION SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 1,712,800	\$ 1,712,800	\$ 1,879,275	\$ 166,475
State Government	26,900	26,900	28,620	1,720
Charges for Services	1,371,100	1,371,100	1,243,508	(127,592)
Investment Earnings	2,700	2,700	829	(1,871)
Contributions and Donations	171,900	171,900	172,993	1,093
Total Revenues	3,285,400	3,285,400	3,325,225	39,825
EXPENDITURES:				
School Food Service	3,073,800	3,073,800	2,998,494	75,306
Capital Outlay	211,600	526,805	234,566	292,239
Total Expenditures	3,285,400	3,600,605	3,233,060	367,545
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(315,205)	92,165	407,370
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	(315,205)	92,165	407,370
Fund Balances, July 1, 2011	0	315,205	2,122,863	1,807,658
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,215,028</u>	<u>\$ 2,215,028</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
PALMER CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 81	\$ (19)
Total Revenues	<u>100</u>	<u>100</u>	<u>81</u>	<u>(19)</u>
EXPENDITURES:				
Capital Outlay	<u>100</u>	<u>100</u>	<u>0</u>	<u>100</u>
Total Expenditures	<u>100</u>	<u>100</u>	<u>0</u>	<u>100</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>81</u>	<u>81</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	81	81
Fund Balances, July 1, 2011	<u>0</u>	<u>0</u>	<u>65,617</u>	<u>65,617</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,698</u>	<u>\$ 65,698</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
ALLANDALE TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 5,700	\$ 5,700	\$ 8,586	\$ 2,886
Total Revenues	<u>5,700</u>	<u>5,700</u>	<u>8,586</u>	<u>2,886</u>
EXPENDITURES:				
Culture and Recreation	<u>5,700</u>	<u>5,700</u>	<u>0</u>	<u>5,700</u>
Total Expenditures	<u>5,700</u>	<u>5,700</u>	<u>0</u>	<u>5,700</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>8,586</u>	<u>8,586</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	8,586	8,586
Fund Balances, July 1, 2011	<u>0</u>	<u>0</u>	<u>198,060</u>	<u>198,060</u>
Fund Balances, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 206,646</u>	<u>\$ 206,646</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2012

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
ASSETS:					
Current Assets:					
Equity in Pooled Cash and Investments	\$ 509,440	\$ 3,156,000	\$ 2,263,164	\$ 549,677	\$ 6,478,281
Accounts Receivable	30,150	132	0	5,239	35,521
Accrued Interest Receivable	15,853	24	0	0	15,877
Due from Other Funds	198,480	0	0	0	198,480
Inventories	408,410	0	0	0	408,410
Prepays	435,194	166,463	3,069	1,111	605,837
Total Current Assets	1,597,527	3,322,619	2,266,233	556,027	7,742,406
Capital Assets:					
Land	14,695	0	0	0	14,695
Machinery and Equipment	25,662,088	0	0	0	25,662,088
Less: Accumulated Depreciation	(17,378,788)	0	0	0	(17,378,788)
Net Capital Assets	8,297,995	0	0	0	8,297,995
Other Assets:					
Advances to Other Funds	1,028,033	0	0	0	1,028,033
Deposits	0	30,000	102,000	25,500	157,500
Total Other Assets	1,028,033	30,000	102,000	25,500	1,185,533
Restricted Assets:					
Long Term Certificates of Deposit	1,500,000	500,000	0	0	2,000,000
Investments	1,124,797	0	0	0	1,124,797
Total Restricted Assets	2,624,797	500,000	0	0	3,124,797
Total Assets	13,548,352	3,852,619	2,368,233	581,527	20,350,731
LIABILITIES:					
Current Liabilities:					
Accounts Payable	101,436	8,235	31,472	0	141,143
Due to Other Governments	788	0	0	0	788
Claims Payable	0	1,000,000	0	0	1,000,000
Benefits Payable	0	2,380,000	294,927	55,073	2,730,000
Compensated Absences Payable	80,132	9,809	6,040	0	95,981
Total Current Liabilities	182,356	3,398,044	332,439	55,073	3,967,912
Total Liabilities	182,356	3,398,044	332,439	55,073	3,967,912
NET ASSETS:					
Invested in Capital Assets	8,297,995	0	0	0	8,297,995
Unrestricted	5,068,001	454,575	2,035,794	526,454	8,084,824
Total Net Assets	\$ 13,365,996	\$ 454,575	\$ 2,035,794	\$ 526,454	\$ 16,382,819

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2012

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
OPERATING REVENUE:					
Charges for Sales and Services	\$ 6,028,746	\$ 2,284,437	\$ 6,190,091	\$ 945,479	\$ 15,448,753
Miscellaneous	60,761	259,293	231,986	62,626	614,666
Total Operating Revenue	6,089,507	2,543,730	6,422,077	1,008,105	16,063,419
OPERATING EXPENSES:					
Personnel Services and Benefits	1,254,699	232,377	64,097	0	1,551,173
Materials and Supplies	3,405,105	1,583	1,660	0	3,408,348
Contractual Services	70,274	60,016	144,802	6,772	281,864
Insurance	1,842	408,400	361,293	41,949	813,484
Insurance Claims	0	1,649,057	5,578,711	1,041,739	8,269,507
Depreciation	1,454,255	0	0	0	1,454,255
Miscellaneous	60,985	33,291	554,124	41,918	690,318
Total Operating Expenses	6,247,160	2,384,724	6,704,687	1,132,378	16,468,949
Operating Income (Loss)	(157,653)	159,006	(282,610)	(124,273)	(405,530)
NONOPERATING REVENUES:					
Gain on Disposal of Capital Assets	15,986	0	0	0	15,986
Investment Earnings	65,476	20,930	11,496	2,249	100,151
Total Nonoperating Revenues	81,462	20,930	11,496	2,249	116,137
Income (Loss) Before Transfers	(76,191)	179,936	(271,114)	(122,024)	(289,393)
Transfers In	0	0	0	148,800	148,800
Transfers Out	0	0	(148,800)	0	(148,800)
Change in Net Assets	(76,191)	179,936	(419,914)	26,776	(289,393)
Net Assets, July 1, 2011	13,442,187	3,195,060	1,902,312	383,074	18,922,633
Prior Period Adjustment:					
(Increase) Decrease in Claims and Benefits Payable	0	(2,920,421)	553,396	116,604	(2,250,421)
Net Assets, June 30, 2012	\$ 13,365,996	\$ 454,575	\$ 2,035,794	\$ 526,454	\$ 16,382,819

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Interfund Services Provided	\$ 6,059,487	\$ 2,543,730	\$ 7,125,066	\$ 1,008,660	\$ 16,736,943
Payments to Suppliers	(4,213,835)	(2,232,060)	(6,758,702)	(1,159,818)	(14,364,415)
Payments to Employees	(1,258,117)	(232,318)	(62,825)	0	(1,553,260)
Net Cash Provided (Used) by Operating Activities	587,535	79,352	303,539	(151,158)	819,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers (To) From Other Funds	0	0	(148,800)	148,800	0
Due To (From) Other Funds	0	0	0	0	0
Advances (To) From Other Funds	399,000	0	0	0	399,000
Net Cash Provided (Used) by Noncapital Financing Activities	399,000	0	(148,800)	148,800	399,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of Capital Assets	(3,140,326)	0	0	0	(3,140,326)
Proceeds from Sales of Capital Assets	31,798	0	0	0	31,798
Net Cash Used by Capital and Related Financing Activities	(3,108,528)	0	0	0	(3,108,528)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from Maturities of Investments	513,876	0	0	0	513,876
Interest Received	64,885	20,940	11,496	2,249	99,570
Net Cash Provided (Used) by Investing Activities	578,761	20,940	11,496	2,249	613,446
Net Increase (Decrease) In Cash and Cash Equivalents	(1,543,232)	100,292	166,235	(109)	(1,276,814)
Cash and Cash Equivalents, July 1, 2011	2,052,672	3,055,708	2,096,929	549,786	7,755,095
Cash and Cash Equivalents, June 30, 2012	\$ 509,440	\$ 3,156,000	\$ 2,263,164	\$ 549,677	\$ 6,478,281
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (157,653)	\$ 159,006	\$ (282,610)	\$ (124,273)	\$ (405,530)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	1,454,255	0	0	0	1,454,255
(Increase) Decrease in Assets:					
Accounts Receivable	(30,020)	0	702,989	555	673,524
Inventory	4,544	0	0	0	4,544
Prepays	(435,194)	(1,757)	2,939	883	(433,129)
Increase (Decrease) in Liabilities:					
Accounts Payable	(244,979)	(157,956)	30,626	0	(372,309)
Claims Payable	0	20,000	0	0	20,000
Benefits Payable	0	60,000	(151,677)	(28,323)	(120,000)
Compensated Absences Payable	(3,418)	59	1,272	0	(2,087)
Net Cash Provided (Used) by Operating Activities	\$ 587,535	\$ 79,352	\$ 303,539	\$ (151,158)	\$ 819,268
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:					
Equity in Pooled Cash and Investments	\$ 509,440	\$ 3,156,000	\$ 2,263,164	\$ 549,677	\$ 6,478,281
Restricted Assets Cash in Bank	0	0	0	0	0
Cash and Cash Equivalents, June 30, 2012	\$ 509,440	\$ 3,156,000	\$ 2,263,164	\$ 549,677	\$ 6,478,281

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	Industrial Development Board	Emergency Communications District
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 6,936,166	\$ 661,076
Payments to Suppliers	(6,069,590)	(451,092)
Net Cash Provided (Used) by Operating Activities	866,576	209,984
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital Grants	0	24,000
Net Cash Provided by Noncapital Financing Activities	0	24,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Note Proceeds	3,500,000	0
Purchases of Capital Assets	(3,417,198)	(31,134)
Capital Grants	0	28,759
Principal Paid on Capital Debt	(615,466)	0
Interest Paid on Capital Debt	(180,199)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(712,863)	(2,375)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	2,007	51,940
Net Cash Provided by Investing Activities	2,007	51,940
Net Increase (Decrease) in Cash and Cash Equivalents	155,720	283,549
Cash and Cash Equivalents, July 1, 2011	376,786	2,271,274
Cash and Cash Equivalents, June 30, 2012	\$ 532,506	\$ 2,554,823
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 51,528	\$ 153,437
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	57,312	51,167
(Increase) Decrease in Assets:		
Accounts Receivable	901	1,657
Due from Other Governments	0	908
Due from Primary Government	906,177	0
Note Receivable from Other Non-Profit Organization	122,862	0
Land Held for Sale or Development	(3,807,376)	0
Prepaid Items	0	3,209
Increase (Decrease) in Liabilities:		
Accounts Payable	(808,204)	(394)
Other Payables	20,000	0
Deferred Income	4,323,376	0
Net Cash Provided (Used) by Operating Activities	\$ 866,576	\$ 209,984
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:		
Cash	\$ 293,557	\$ 2,554,823
Restricted Assets Cash in Bank	238,949	0
Cash and Cash Equivalents, June 30, 2012	\$ 532,506	\$ 2,554,823
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Decrease in Investment in Joint Venture	\$ (6,967)	\$ 0
Land Donated by Primary Government	\$ 580,338	\$ 0
Land Donated to Primary Government	\$ 237,807	\$ 0

See Independent Auditors' Report.

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D. SUPPLEMENTAL INFORMATION

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CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 23,217,830	\$ 22,878,461
Buildings	150,702,541	140,759,348
Improvements Other Than Buildings	15,738,092	15,314,742
Equipment	15,662,810	12,769,518
Software	582,763	466,846
Infrastructure	272,714,899	269,154,760
Construction in Progress	60,935,121	53,193,591
Total Governmental Funds Fixed Assets	<u><u>\$ 539,554,056</u></u>	<u><u>\$ 514,537,266</u></u>
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Obligation Bonds	\$ 356,914,734	\$ 346,780,783
Contributions from Municipalities	576,947	576,947
Federal Grants	7,369,208	6,850,644
State Grants	97,844	97,844
County Grants	19,817	63,817
Federal Revenue Sharing	247,612	247,612
General Fund Revenue	13,431,297	12,232,333
Gifts	24,395,972	23,841,890
Annexed Roads	13,674,454	10,656,357
Forfeitures	159,330	91,330
Special Revenue Funds	58,533,597	57,562,053
Operating Revenue	2,341,034	2,340,976
Notes Payable	857,089	1,089
Construction in Progress	60,935,121	53,193,591
Total Governmental Funds Capital Assets	<u><u>\$ 539,554,056</u></u>	<u><u>\$ 514,537,266</u></u>

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

A prior period adjustment was recorded in fiscal year 2012 that decreased governmental capital assets by \$2,137,263. This adjustment reflects disposal of a building that had been previously sold, disposal of land that had been recorded twice, and disposal of annexed roads that should not have been capitalized because they were state roads.

The 2011 information presented above includes the prior period adjustment.

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2012

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements other than Buildings</u>	<u>Equipment</u>	<u>Software</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
General Government:								
General Government	\$ 5,885,444	\$ 6,053,198	\$ 1,651,842	\$ 878,217	\$ 26,173	\$ 0	\$ 21,897,149	\$ 36,392,023
City Manager	0	0	20,889	0	0	0	0	20,889
Finance	0	0	5,797	0	193,628	0	0	199,425
Information Services	0	0	0	333,612	0	0	0	333,612
Geographic Information	0	0	0	109,060	0	0	0	109,060
Total General Government	5,885,444	6,053,198	1,678,528	1,320,889	219,801	0	21,897,149	37,055,009
Economic and Physical Development:								
Development Services	0	650,519	45,984	34,575	0	0	0	731,078
Transportation	0	975,014	104,076	2,177,403	78,467	0	0	3,334,960
Engineering	0	0	0	45,335	0	0	0	45,335
Total Economic and Physical Development	0	1,625,533	150,060	2,257,313	78,467	0	0	4,111,373
Public Safety:								
Police	90,587	4,650,342	61,647	1,778,279	23,053	0	0	6,603,908
Fire	823,230	3,789,595	208,179	1,323,321	0	0	2,646,244	8,790,569
Communication	0	66,535	0	66,972	0	0	0	133,507
Central Dispatch	0	0	0	2,046,631	0	0	0	2,046,631
Total Public Safety	913,817	8,506,472	269,826	5,215,203	23,053	0	2,646,244	17,574,615
Public Works:								
General and Administrative	0	340,217	16,284	33,180	0	344,470	0	734,151
Sanitation	0	0	0	5,000	0	0	0	5,000
Streets	0	0	1,123,214	433,761	0	22,108,783	9,390,201	33,055,959
Maintenance	0	136,572	0	231,850	0	0	0	368,422
Bridges System	0	0	0	0	0	6,179,390	1,455,188	7,634,578
Highways System	0	0	0	0	0	243,605,639	10,268	243,615,907
Total Public Works	0	476,789	1,139,498	703,791	0	272,238,282	10,855,657	285,414,017

(continued)

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2012

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements other than Buildings</u>	<u>Equipment</u>	<u>Software</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
Culture and Recreation:								
Senior Citizens	0	3,871,546	0	0	13,550	0	0	3,885,096
Recreation	10,485,109	17,365,283	3,921,066	518,213	0	0	17,988,920	50,278,591
Bays Mountain	980,962	886,158	285,641	837,359	0	0	597,229	3,587,349
Allandale	306,018	344,930	336,886	192,686	0	0	0	1,180,520
Library	133,000	3,620,618	0	141,106	0	476,617	0	4,371,341
Total Culture and Recreation	<u>11,905,089</u>	<u>26,088,535</u>	<u>4,543,593</u>	<u>1,689,364</u>	<u>13,550</u>	<u>476,617</u>	<u>18,586,149</u>	<u>63,302,897</u>
Education	<u>4,513,480</u>	<u>107,952,014</u>	<u>7,956,587</u>	<u>4,476,250</u>	<u>247,892</u>	<u>0</u>	<u>6,949,922</u>	<u>132,096,145</u>
Total Governmental Funds Capital Assets	<u>\$ 23,217,830</u>	<u>\$ 150,702,541</u>	<u>\$ 15,738,092</u>	<u>\$ 15,662,810</u>	<u>\$ 582,763</u>	<u>\$ 272,714,899</u>	<u>\$ 60,935,121</u>	<u>\$ 539,554,056</u>

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Fiscal Year Ended June 30, 2012

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Governmental Funds Capital Assets June 30, 2012</u>
General Government:					
General Government	\$ 35,524,660	\$ 2,492,697	\$ (1,625,334)	\$ 0	\$ 36,392,023
City Manager	20,889	0	0	0	20,889
Finance	193,628	5,797	0	0	199,425
Information Services	315,986	17,626	0	0	333,612
Geographic Information	110,365	7,695	(9,000)	0	109,060
Total General Government	36,165,528	2,523,815	(1,634,334)	0	37,055,009
Economic and Physical Development:					
Development Services	731,078	0	0	0	731,078
Transportation	2,980,022	451,990	(97,052)	0	3,334,960
Engineering	45,335	0	0	0	45,335
Total Economic and Physical Development	3,756,435	451,990	(97,052)	0	4,111,373
Public Safety:					
Police	6,412,245	983,670	(792,007)	0	6,603,908
Fire	6,937,296	2,193,877	(340,604)	0	8,790,569
Communication	133,507	0	0	0	133,507
Central Dispatch	2,090,631	0	(44,000)	0	2,046,631
Total Public Safety	15,573,679	3,177,547	(1,176,611)	0	17,574,615
Public Works:					
General and Administrative	709,174	24,977	0	0	734,151
Sanitation	5,000	0	0	0	5,000
Streets	26,034,124	7,131,198	(109,363)	0	33,055,959
Maintenance	216,673	151,749	0	0	368,422
Bridges System	7,661,504	0	(26,926)	0	7,634,578
Highways System	244,110,032	10,268	(504,393)	0	243,615,907
Total Public Works	278,736,507	7,318,192	(640,682)	0	285,414,017
Culture and Recreation:					
Senior Citizens	3,871,546	13,550	0	0	3,885,096
Recreation	42,605,697	17,457,478	(9,784,584)	0	50,278,591
Bays Mountain	3,343,641	1,076,924	(833,216)	0	3,587,349
Allandale	1,180,520	0	0	0	1,180,520
Library	4,355,388	15,953	0	0	4,371,341
Total Culture and Recreation	55,356,792	18,563,905	(10,617,800)	0	63,302,897
Education	124,948,325	7,638,574	(490,754)	0	132,096,145
Total Governmental Funds Capital Assets	\$ 514,537,266	\$ 39,674,023	\$ (14,657,233)	\$ 0	\$ 539,554,056

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

A prior period adjustment was recorded in fiscal year 2012 that decreased governmental capital assets by \$2,137,263.
The 2011 information above reflects the changes from the prior period adjustment.

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS
For the Fiscal Year Ended June 30, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Management Fund</u>	<u>Storm Water Management Fund</u>	<u>MeadowView Conference Resort and Convention Center Fund</u>	<u>Cattails at MeadowView Golf Course Fund</u>	<u>Total Enterprise Funds</u>
General and Administrative:							
Personnel Services	\$ 513,441	\$ 395,715	\$ 64,616	\$ 19,439	\$ 0	\$ 0	\$ 993,211
Contractual Services	485,057	226,972	6,900	120,941	53,193	195,885	1,088,948
Supplies	182,370	2,344	0	872	168,789	20,093	374,468
Insurance	44,496	44,700	22,000	0	8,349	29,403	148,948
Subsidies and Contributions	0	0	0	0	160,730	0	160,730
Base Management Fee	0	0	0	0	110,650	29,446	140,096
Other	137,191	107,726	31,353	0	211,157	46,876	534,303
Total General and Administrative	<u>1,362,555</u>	<u>777,457</u>	<u>124,869</u>	<u>141,252</u>	<u>712,868</u>	<u>321,703</u>	<u>3,440,704</u>
Operations:							
Water Plant Operations	2,282,118	0	0	0	0	0	2,282,118
Sewer Plant Operations	0	2,068,812	0	0	0	0	2,068,812
Water Distribution System Maintenance	2,922,026	0	0	0	0	0	2,922,026
Sewer Collection System Maintenance	0	1,595,325	0	0	0	0	1,595,325
Reading, Service and Maintenance of Meters	810,700	0	0	0	0	0	810,700
Landfill Operations and Services	0	0	807,815	0	0	0	807,815
Solid Waste Collection Services	0	0	693,075	0	0	0	693,075
Organic Refuse Services	0	0	2,111,717	0	0	0	2,111,717
Recycling Services	0	0	519,440	0	0	0	519,440
Storm Water Maintenance	0	0	0	530,323	0	0	530,323
Golf Grounds Maintenance	0	0	0	0	0	330,591	330,591
Golf Pro Shop	0	0	0	0	0	360,118	360,118
Golf Shop Food and Beverage	0	0	0	0	0	68,772	68,772
Total Operations	<u>6,014,844</u>	<u>3,664,137</u>	<u>4,132,047</u>	<u>530,323</u>	<u>0</u>	<u>759,481</u>	<u>15,100,832</u>
Total Operating Costs	<u>\$ 7,377,399</u>	<u>\$ 4,441,594</u>	<u>\$ 4,256,916</u>	<u>\$ 671,575</u>	<u>\$ 712,868</u>	<u>\$ 1,081,184</u>	<u>\$ 18,541,536</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>SCHOOL NUTRITION SERVICES FUND:</u>						
Pass Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (132,597)	\$ 1,409,184	\$ 1,438,686	\$ (162,099) *
10.553	School Breakfast Program	U.S. Department of Agriculture	(29,546)	426,464	440,589	(43,671) *
10.582	Fresh Fruit and Vegetable Program	U.S. Department of Agriculture	(1,768)	1,768	0	0
Pass Through Tennessee Department of Agriculture:						
10.569	Commodity Supplemental Feeding	U.S. Department of Agriculture	113,195	138,705	92,519	159,381 ***
Total School Nutrition Services Fund			<u>(50,716)</u>	<u>1,976,121</u>	<u>1,971,794</u>	<u>(46,389)</u>
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass Through Tennessee Department of Education:						
84.010	Title I, Project 11-01	U.S. Department of Education	(172,171)	468,317	296,146	0
84.010	Title I, Project 12-01	U.S. Department of Education	0	1,224,274	1,446,478	(222,204) *
ARRA 84.389	Title I, Project 10-21 ARRA	U.S. Department of Education	(123,456)	220,364	96,908	0
84.027	IDEA Part B, 11-01	U.S. Department of Education	(106,152)	807,388	701,236	0
84.027	IDEA Part B, 12-01	U.S. Department of Education	0	934,221	1,119,309	(185,088) *
ARRA 84.391	IDEA Part B, 10-21 ARRA	U.S. Department of Education	(105,834)	148,810	42,976	0
84.048	Carl Perkins, 2011	U.S. Department of Education	(12,627)	41,040	28,413	0
84.048	Carl Perkins, 2012	U.S. Department of Education	0	55,243	117,947	(62,704) *
84.173	Pre School 11-01	U.S. Department of Education	(3,000)	3,000	0	0
84.173	Pre School 12-01	U.S. Department of Education	0	39,518	41,137	(1,619) *
ARRA 84.392	Pre School 10-21 ARRA	U.S. Department of Education	(23,468)	25,887	2,419	0
84.367	Title II, 2010, 2010-21	U.S. Department of Education	(11,000)	45,303	34,303	0
84.367	Title II, 2011, 2011-01	U.S. Department of Education	(80,904)	246,132	165,228	0
84.367	Title II, 2012, 2012-01	U.S. Department of Education	0	171,749	277,158	(105,409) *
ARRA 84.386	Title II D e4000, 2010-01 ARRA	U.S. Department of Education	(15,602)	15,602	0	0
ARRA 84.387	Title X, 2010-01 ARRA	U.S. Department of Education	(8,371)	8,459	88	0
ARRA 84.395	Race To The Top, 2011, ARRA	U.S. Department of Education	(75,754)	75,754	0	0
ARRA 84.395	Race To The Top, 2012, ARRA	U.S. Department of Education	0	345,253	381,670	(36,417) *
ARRA 84.395	Race To The Top, 11-21, ARRA	U.S. Department of Education	0	65,341	65,341	0
ARRA 84.410	Education Jobs Fund, ARRA	U.S. Department of Education	(63,370)	757,788	751,623	(57,205) *
Pass Through Cocke County:						
84.365	Title III, 2011-01	U.S. Department of Education	(9,772)	9,790	18	0
84.365	Title III, 2012-01	U.S. Department of Education	0	6,250	10,513	(4,263) *
Total Public Law 93-380 Fund			<u>(811,481)</u>	<u>5,715,483</u>	<u>5,578,911</u>	<u>(674,909)</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
17.279	Green Collar Job Preparation CO-196394-09	U.S. Department of Labor	(4,462)	4,462	0	0
84.215	Elem Sec School Counseling	U.S. Department of Education	0	134,452	134,452	0
Pass-Through Tennessee Department of Education:						
84.386	Education for Tennessee Grant	U.S. Department of Education	(30,730)	30,730	0	0
84.196	Homeless Assistance Grant	U.S. Department of Education	(14,852)	37,986	37,000	(13,866) *
93.558	Youth Empowerment Initiative	U.S. Dept. of Health & Human Services	(41,908)	41,908	0	0
84.184	Safe and Supportive School Grant (S3)	U.S. Department of Education	0	0	581	(581) *
Total Special School Projects Fund			<u>(91,952)</u>	<u>249,538</u>	<u>172,033</u>	<u>(14,447)</u>
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
ARRA 16.607	Bulletproof Vest Partnership Program 10054361	U.S. Department of Justice	0	8,246	8,246	0
ARRA 16.710	COPS Hiring Program 2009RKWX0812 ARRA	U.S. Department of Justice	(68,367)	246,957	263,854	(85,264) *
97.044	Staffing Adequate Fire & Emergency Response EMW-2010-FH-00918	U.S. Dept. of Homeland Security	0	174,269	257,116	(82,847) *
Pass Through Tennessee Emergency Management Agency						
97.078	Buffer Zone Protection Program 2009-BF-T9-0011	U.S. Dept. of Homeland Security	(4,900)	42,234	37,334	0
Pass Through Tennessee State Library and Archives						
45.310	Computers and Software	Institute of Museum & Library Services	0	5,731	2,866	2,865 **
Pass Through Tennessee Department of Transportation						
20.600	Aggressive Driving Multiple Violation Campaign	U. S. Dept. of Transportation	(11,705)	22,304	10,599	0
20.607	DUI Offender Countermeasures Z12GHS159	U. S. Dept. of Transportation	0	5,819	13,805	(7,986) *
Pass Through Community Capacity Development Office						
16.595	Weed and Seed Program	U.S. Department of Justice	(133)	0	(133)	0
Total Special Revenue General Projects Fund			<u>(85,105)</u>	<u>505,560</u>	<u>593,687</u>	<u>(173,232)</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of HUD	(51,780)	469,650	443,270	(25,400) *
Pass-Through Tennessee Department of Health & Human Services:						
14.231	Emergency Shelter Grant Program	U.S. Department of HUD	(1,926)	87,342	87,329	(1,913) *
Total Community Development Fund			<u>(53,706)</u>	<u>556,992</u>	<u>530,599</u>	<u>(27,313)</u>
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X278	U.S. Department of Transportation	(22,847)	25,408	2,561	0
20.507	FTA Capital/Operating/Planning TN-90-X296	U.S. Department of Transportation	(110,150)	109,970	(180)	0
20.507	FTA Capital/Operating/Planning TN-90-X318	U.S. Department of Transportation	(124,096)	488,051	488,554	(124,599) *
20.507	FTA Capital/Operating/Planning TN-90-X334	U.S. Department of Transportation	0	0	99,730	(99,730) *
ARRA	20.507 FTA Capital ARRA Grant TN-96-X008 ARRA	U.S. Department of Transportation	0	413,787	413,787	0
Total Federal Transit Administration Fund			<u>(257,093)</u>	<u>1,037,216</u>	<u>1,004,452</u>	<u>(224,329)</u>
<u>CAPITAL PROJECTS FUND:</u>						
Direct Programs:						
ARRA	81.128 Energy Efficiency and Conservation Block Grant ARRA EE0002433	U.S. Department of Energy	22,561	0	14,060	8,501 **
Pass-Through Tennessee Department of Transportation:						
20.219	STP-EN-8200(22/29)	U.S. Department of Transportation	(58,862)	58,862	0	0
20.205	Safe Routes to Schools SRTS-9108(30)	U.S. Department of Transportation	(598)	0	3,134	(3,732) *
Pass-Through Appalachian Regional Commission						
23.011	CO-16121-08	Appalachian Regional Commission	(9,875)	43,620	33,745	0
23.011	TN-16331-09	Appalachian Regional Commission	0	0	159,425	(159,425) *
Total Capital Projects Fund			<u>(46,774)</u>	<u>102,482</u>	<u>210,364</u>	<u>(154,656)</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>GENERAL PURPOSE SCHOOL FUND:</u>						
	Pass-Through Tennessee Department of Labor: 84.002 Adult Basic Education	U.S. Department of Education	(50,173)	231,782	230,256	(48,647) *
	Pass-Through Tennessee Department of Education: State Fiscal Stabilization Fund:					
ARRA	84.397 SFSF - Safe Schools ARRA	U.S. Department of Education	(8,719)	15,209	6,490	0
ARRA	84.397 SFSF - Extended Contract ARRA	U.S. Department of Education	(150,653)	192,300	41,647	0
ARRA	84.397 SFSF - Family Resource ARRA	U.S. Department of Education	(15,810)	15,810	0	0
ARRA	84.397 SFSF - Coordinated School Health ARRA	U.S. Department of Education	(33,142)	38,224	5,082	0
	Total General Purpose School Fund		<u>(258,497)</u>	<u>493,325</u>	<u>283,475</u>	<u>(48,647)</u>
<u>GENERAL FUND:</u>						
	Pass-Through First Tennessee Development District: 93.044 Title III-B Transportation& III-D Health Promotion	U.S. Dept of Health & Human Services	(4,400)	17,142	13,900	(1,158) *
	Pass-Through Financial Commission for Appalachia HIDTA: 95.001 High Intensity Drug Trafficking Area	Executive Office of the President	(4,095)	17,299	13,204	0
	Total General Fund		<u>(8,495)</u>	<u>34,441</u>	<u>27,104</u>	<u>(1,158)</u>
<u>JUSTICE ASSISTANCE GRANT FUND:</u>						
	Direct Programs:					
	16.579 Justice Assistance Grant / 2008-DJ-BX-0378	U.S. Department of Justice	0	1,245	1,245	0
	16.579 Justice Assistance Grant / 2009-DJ-BX-0800	U.S. Department of Justice	(10,000)	18,291	8,291	0
	16.579 Justice Assistance Grant / 2010-DJ-BX-0770	U.S. Department of Justice	0	36,560	36,560	0
	16.579 Justice Assistance Grant / 2011-DJ-BX-3394	U.S. Department of Justice	0	30,687	30,687	0
ARRA	16.804 Justice Assistance Grant / 2009-SB-B9-0981 ARRA	U.S. Department of Justice	2,508	1,669	4,177	0
	Pass Through Tennessee Office of Criminal Justice Programs: 16.738 Kingsport Targeted Community Crime Reduction DG1132208-00	U.S. Department of Justice	(72,178)	216,710	162,492	(17,960) *
	Total Justice Assistance Grant Fund		<u>(79,670)</u>	<u>305,162</u>	<u>243,452</u>	<u>(17,960)</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(210) 2011	Federal Highway Administration	(69,570)	177,819	108,249	0
20.205	FHWA Project No. SPR-PL-1-(268) 2012	Federal Highway Administration	0	61,900	100,364	(38,464) *
20.505	FTA Capital / Operating / Planning Section 5303 10	U.S. Department of Transportation	(11,004)	30,135	29,544	(10,413) *
20.205	Resurfacing STP-M-9108(30) 82956-3578-54	U.S. Department of Transportation	0	0	40,298	(40,298) *
Pass-Through Virginia Department of Transportation:						
20.205	FHWA Project VA PL Funds 2012	Federal Highway Administration	0	2,746	4,000	(1,254) *
20.205	FHWA Project VA SPR Funds 2010	Federal Highway Administration	(12,399)	20,937	8,538	0
20.505	FTA Capital / Operating / Planning VA 2012	U.S. Department of Transportation	0	1,843	3,375	(1,532) *
Total Metropolitan Planning Office Fund			<u>(92,973)</u>	<u>295,380</u>	<u>294,368</u>	<u>(91,961)</u>
<u>SEWER FUND:</u>						
Pass - Through Tennessee Dept of Environment & Conservation:						
ARRA 66.458	Clean Water SRF Loan ARRA Funded Loan	U.S. Dept. of Environmental Protection	(68,131)	68,131	0	0
ARRA 66.458	Clean Water SRF ARRA Funded Principal Forgiveness	U.S. Dept. of Environmental Protection	(272,524)	272,524	0	0
Total Sewer Fund			<u>(340,655)</u>	<u>340,655</u>	<u>0</u>	<u>0</u>
Total Federal Awards			<u>\$ (2,177,117)</u>	<u>\$ 11,612,355</u>	<u>\$ 10,910,239</u>	<u>\$ (1,475,001)</u>

NOTE A: BASIS OF PRESENTATION

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

NOTE B: FOOD DISTRIBUTION

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

NOTE C: PAYMENTS TO SUB-RECIPIENTS

Payments were made from the Community Development Block Grant to the South Central Kingsport CDC, CASA of Sullivan County, and Learning Centers of KHRA in the amounts of \$43,350; \$18,288; and \$38,275 respectively.

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

See Independent's Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2012

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>GENERAL FUND:</u>						
31625-17103	TAC Technical Assistance Grant	Tennessee Arts Commission	\$ (1,750)	\$ 1,750	\$ 0	\$ 0
Pass-Through First Tennessee Development District:						
KINGS-2012-HOOT-12	State Senior Center Operations Grant	TN Department of Health & Human Services	(6,667)	30,575	25,575	(1,667) *
Total General Fund			(8,417)	32,325	25,575	(1,667)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
DGA 19734	Kingsport Art and Sculpture Walk	Tennessee Arts Commission	(6,300)	6,300	0	0
31625-18118	Kingsport Art and Sculpture Walk	Tennessee Arts Commission	0	9,750	9,750	0
5-J/11	Arts Build Community Grant	Tennessee Arts Commission	(2,100)	2,100	0	0
Total Special Revenue General Projects Fund			(8,400)	18,150	9,750	0
<u>METROPOLITAN PLANNING ORGANIZATION FUND:</u>						
GG-07-26135-00	TN-80-X003-01 Operating 82-5303-S3-006	Tennessee Department of Transportation	(594)	594	0	0
GG-11-35738-00	TN-80-0004-00 Operating 82-5303-S3-012	Tennessee Department of Transportation	(781)	3,172	3,298	(907) *
825303-S3-013	TN-80-0004-01 Operating 82-5303-S3-013	Tennessee Department of Transportation	0	0	395	(395) *
Total Metropolitan Planning Organization Fund			(1,375)	3,766	3,693	(1,302)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
GG-10-30730	TN-90-X-278 Operating 82-5307-S3-009	Tennessee Department of Transportation	(7,878)	7,877	(1)	0
GG-10-30807	TN-90-X-296 Capital 82-UROP-S3-007	Tennessee Department of Transportation	(7,392)	7,349	(43)	0
GG-10-30730	TN-90-X-296 Operating 82-UROP-S3-009	Tennessee Department of Transportation	(15,696)	15,696	0	0
GG-11-34501	TN-90-X-318 Operating 82-5307-S3-009	Tennessee Department of Transportation	(62,048)	244,768	246,052	(63,332) *
GG-12-38186	TN-90-X-334 Operating 82-5307-S3-011	Tennessee Department of Transportation	0	0	28,509	(28,509) *
Total Federal Transit Administration Fund			(93,014)	275,690	274,517	(91,841)
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
GG-12-30644	Truancy Intervention Program	Tennessee Department of Children's Services	(19,975)	49,341	52,115	(22,749) *
119-12-02-041	LEAPS Program	Tennessee Department of Education	(46,911)	207,723	225,811	(64,999) *
GP-46590	Safe Schools	Tennessee Department of Education	0	21,933	17,925	4,008 **
MX0-AAX	Pre-Kindergarten- Lottery	Tennessee Department of Education	(39,336)	455,362	487,301	(71,275) **
MTE-AAX	Family Resource	Tennessee Department of Education	0	14,038	27,290	(13,252) *
GZB-AAX	Coordinated School Health	Tennessee Department of Education	0	67,753	94,776	(27,023) *
Total Special School Projects Fund			(106,222)	816,150	905,218	(195,290)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2012

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expend- itures	Balance June 30, 2012
<u>CAPITAL PROJECTS FUND:</u>						
GG-09-25533-00	Madd Branch Storm Water Device	Tennessee Department of Agriculture	27,500	0	0	27,500 **
GG-08-22460-00	Madd Branch Improvement	Tennessee Department of Agriculture	(8,830)	62,350	53,520	0
GG-11-34696-00	Phase 3 Enhancements Domtar & Eastman Parks	Tennessee Dept of Environment & Conservation	0	1,846	12,000	(10,154) *
GG-11-34695-00	Local Park and Recreation Fund	Tennessee Dept of Environment & Conservation	0	0	14,405	(14,405) *
TVA Rebate Program	Energy Efficient Schools Initiative Grant	Tennessee Department of Education	0	127,000	127,000	0
DG-08-22849-00	Tennessee Agricultural Enhancement Program	Tennessee Department of Agriculture	(2,500)	2,500	0	0
Total Capital Projects Fund			<u>16,170</u>	<u>193,696</u>	<u>206,925</u>	<u>2,941</u>
<u>SEWER FUND:</u>						
SRF-2007-197	State Revolving Loan Fund	Tennessee Dept of Environment & Conservation	(1,080,023)	1,080,023	491,691	(491,691) *
CGA-2009-240 ARRA	State Revolving Loan Fund State Funded	Tennessee Dept of Environment & Conservation	(340,655)	340,655	0	0
Total Sewer Fund			<u>(1,420,678)</u>	<u>1,420,678</u>	<u>491,691</u>	<u>(491,691)</u>
Total State Awards for the Primary Government			<u>(1,621,936)</u>	<u>2,760,455</u>	<u>1,917,369</u>	<u>(778,850)</u>
<u>COMPONENT UNIT</u>						
<u>INDUSTRIAL DEVELOPMENT BOARD:</u>						
GG-10-30537-00	Advanced Manufacturing Partnership	TN Dept of Economic and Community Development	0	250,000	31,105	218,895 **
GG-12-37809-00	Fast Track Program (C & F Automitive)	TN Dept of Economic and Community Development	0	450,000	450,000	0
Total Industrial Development Board			<u>0</u>	<u>700,000</u>	<u>481,105</u>	<u>218,895</u>
Total State Awards			<u>\$ (1,621,936)</u>	<u>\$ 3,460,455</u>	<u>\$ 2,398,474</u>	<u>\$ (559,955)</u>

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

See Independent's Auditor's Report.

STATISTICAL SECTION

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

Contents:

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Financial Trends

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

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Revenue Capacity

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

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Debt Capacity

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

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Demographic and Economic Information

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

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Operating Information

Tables 19 - 29 contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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

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CITY OF KINGSPORT, TENNESSEE
NET ASSETS BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 235,345,000	\$ 236,295,000	\$ 236,125,000	\$ 245,201,000	\$ 244,856,000	\$ 251,706,778	\$ 255,888,658	\$ 262,313,208	\$ 246,176,930	\$ 241,652,040
Restricted	6,876,000	6,694,000	1,081,000	4,099,000	33,768,000	30,399,946	22,286,383	184,626	184,662	178,140
Unrestricted	39,600,000	38,668,000	50,500,000	38,707,000	9,145,000	2,085,078	(702,400)	6,871,567	9,312,041	284,928
Total Governmental Activities Net Assets	\$ 281,821,000	\$ 281,657,000	\$ 287,706,000	\$ 288,007,000	\$ 287,769,000	\$ 284,191,802	\$ 277,472,641	\$ 269,369,401	\$ 255,673,633	\$ 242,115,108
Business-Type Activities										
Invested in Capital Assets, Net of Related Debt	\$ 103,253,000	\$ 113,859,000	\$ 119,477,000	\$ 126,885,000	\$ 133,869,000	\$ 142,403,592	\$ 149,317,029	\$ 157,978,008	\$ 163,891,065	\$ 169,428,141
Restricted	1,068,000	562,000	897,000	838,000	952,000	1,119,119	939,246	882,421	1,432,126	619,678
Unrestricted	3,939,000	43,000	3,174,000	6,069,000	10,225,000	13,816,505	16,644,944	16,420,757	17,296,662	17,772,154
Total Business-Type Activities Net Assets	\$ 108,260,000	\$ 114,464,000	\$ 123,548,000	\$ 133,792,000	\$ 145,046,000	\$ 157,339,216	\$ 166,901,219	\$ 175,281,186	\$ 182,619,853	\$ 187,819,973
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$ 338,598,000	\$ 350,154,000	\$ 355,602,000	\$ 372,086,000	\$ 378,725,000	\$ 394,110,370	\$ 405,205,687	\$ 420,291,216	\$ 410,067,995	\$ 411,080,181
Restricted	7,944,000	7,256,000	1,978,000	4,937,000	34,720,000	31,519,065	23,225,629	1,067,047	1,616,788	797,818
Unrestricted	43,539,000	38,711,000	53,674,000	44,776,000	19,370,000	15,901,583	15,942,544	23,292,324	26,608,703	18,057,082
Total Primary Government Net Assets	\$ 390,081,000	\$ 396,121,000	\$ 411,254,000	\$ 421,799,000	\$ 432,815,000	\$ 441,531,018	\$ 444,373,860	\$ 444,650,587	\$ 438,293,486	\$ 429,935,081

Source: City of Kingsport Finance Department

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

CITY OF KINGSPORT, TENNESSEE
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
General Government	\$ 5,295,000	\$ 6,571,000	\$ 4,687,000	\$ 5,605,000	\$ 10,185,000	\$ 10,448,110	\$ 8,346,300	\$ 11,201,367	\$ 14,877,308	\$ 12,574,751
Public Safety	13,395,000	13,918,000	14,767,000	16,076,000	16,994,000	19,844,589	19,955,908	19,485,392	20,186,463	20,995,344
Public Works	9,225,000	10,151,000	8,737,000	11,638,000	11,388,000	13,370,957	12,871,747	14,690,010	15,325,189	13,397,601
Highway Transportation Planning	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852	3,846,573	3,804,969
Economic and Physical Development	3,066,000	2,829,000	3,065,000	3,280,000	3,418,000	4,097,855	4,397,024	4,234,673	4,792,022	4,852,780
Culture and Recreation	4,469,000	4,294,000	4,456,000	5,253,000	5,097,000	6,802,922	6,535,076	6,144,900	6,590,859	6,691,418
Education	50,950,000	52,939,000	54,274,000	57,985,000	60,306,000	66,063,108	69,060,256	71,107,497	75,900,414	75,544,772
Interest on Long-Term Debt	2,329,000	2,228,000	2,002,000	1,737,000	1,470,000	3,244,491	3,276,319	4,069,104	4,718,229	4,551,533
Other	314,000	475,000	0	0	0	0	0	0	0	0
Total Governmental Activities Expenses	91,409,000	96,098,000	94,667,000	104,468,000	111,678,000	126,993,208	127,975,129	136,700,795	146,237,057	142,413,168
Business-Type Activities:										
Water	7,503,000	7,483,000	7,618,000	8,051,000	7,910,000	8,971,314	9,208,308	9,068,323	9,630,478	10,329,009
Sewer	6,824,000	7,631,000	7,545,000	7,700,000	7,582,000	7,941,556	8,527,859	8,082,865	8,227,535	8,267,253
Solid Waste Management	2,915,000	3,078,000	3,304,000	3,168,000	4,432,000	3,798,666	3,643,156	3,614,988	4,009,722	4,367,121
Storm Water Management	0	0	0	0	0	0	0	0	0	671,575
MeadowView Conference Center	1,701,000	2,321,000	1,740,000	1,392,000	1,230,000	1,246,702	1,461,629	1,986,408	1,597,797	1,362,677
Cattails at MeadowView Golf Course	1,246,000	1,255,000	1,323,000	1,355,000	1,432,000	1,447,591	1,361,077	1,586,343	1,384,281	1,325,339
Total Business-Type Activities Expenses	20,189,000	21,768,000	21,530,000	21,666,000	22,586,000	23,405,829	24,202,029	24,338,927	24,849,813	26,322,974
Total Primary Government Expenses	\$ 111,598,000	\$ 117,866,000	\$ 116,197,000	\$ 126,134,000	\$ 134,264,000	\$ 150,399,037	\$ 152,177,158	\$ 161,039,722	\$ 171,086,870	\$ 168,736,142
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$ 406,000	\$ 322,000	\$ 368,000	\$ 507,000	\$ 821,000	\$ 138,937	\$ 194,323	\$ 687,263	\$ 1,596,808	\$ 681,275
Public Safety	274,000	216,000	287,000	288,000	314,000	2,478,198	2,384,667	1,789,496	1,820,625	1,179,259
Highway Transportation Planning	49,000	98,000	95,000	88,000	97,000	97,070	120,520	103,207	110,713	122,236
Economic and Physical Development	241,000	321,000	308,000	435,000	519,000	513,595	562,536	1,192,238	1,079,506	996,925
Culture and Recreation	519,000	495,000	571,000	679,000	678,000	748,935	754,137	818,919	987,328	988,565
Education	2,600,000	2,571,000	2,648,000	2,639,000	2,726,000	2,472,281	2,452,987	2,475,034	2,485,634	2,540,181
Operating Grants and Contributions	24,420,000	25,195,000	27,005,000	26,957,000	29,035,000	31,848,530	32,757,394	34,317,663	37,442,335	38,727,209
Capital Grants and Contributions	1,629,000	940,000	2,738,000	1,627,000	706,000	6,982,702	4,179,278	7,348,567	9,217,970	4,786,618
Total Governmental Activities Program Revenues	30,138,000	30,158,000	34,020,000	33,220,000	34,896,000	45,280,248	43,405,842	48,732,387	54,740,919	50,022,268
Business-Type Activities:										
Charges for Services:										
Water	10,708,000	11,198,000	11,904,000	12,493,000	13,445,000	13,073,516	12,981,541	12,513,017	12,383,505	12,667,214
Sewer	10,429,000	11,120,000	12,709,000	12,895,000	13,357,000	12,740,996	13,081,940	12,618,400	12,276,442	12,371,334
Solid Waste Management	383,000	441,000	580,000	489,000	580,000	783,960	679,518	772,999	829,411	944,641
Storm Water Management	0	0	0	0	0	0	0	0	0	910,822
MeadowView Conference Center	248,000	248,000	267,000	253,000	287,000	283,188	259,746	251,800	303,648	321,915
Cattails at MeadowView Golf Course	973,000	958,000	950,000	982,000	1,025,000	1,095,861	1,042,420	981,837	938,658	1,011,026
Operating Grants and Contributions	0	0	0	0	0	0	0	0	229,976	186,888
Capital Grants and Contributions	0	0	0	0	0	2,660,735	2,123,441	1,296,823	655,174	65,871
Total Business-Type Activities Program Revenues	22,741,000	23,965,000	26,410,000	27,112,000	28,694,000	30,638,256	30,168,606	28,434,876	27,616,814	28,479,711
Total Primary Government Program Revenues	\$ 52,879,000	\$ 54,123,000	\$ 60,430,000	\$ 60,332,000	\$ 63,590,000	\$ 75,918,504	\$ 73,574,448	\$ 77,167,263	\$ 82,357,733	\$ 78,501,979

(continued)

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (Expense)/Revenue										
Governmental Activities	\$ (61,271,000)	\$ (65,940,000)	\$ (60,647,000)	\$ (71,248,000)	\$ (76,782,000)	\$ (81,712,960)	\$ (84,569,287)	\$ (87,968,408)	\$ (91,496,138)	\$ (92,390,900)
Business-Type Activities	2,552,000	2,197,000	4,880,000	5,446,000	6,108,000	7,232,427	5,966,577	4,095,949	2,767,001	2,156,737
Total Primary Government Net (Expense) Revenue	\$ (58,719,000)	\$ (63,743,000)	\$ (55,767,000)	\$ (65,802,000)	\$ (70,674,000)	\$ (74,480,533)	\$ (78,602,710)	\$ (83,872,459)	\$ (88,729,137)	\$ (90,234,163)
General Revenues and Other Changes in Net Assets										
<u>Governmental Activities:</u>										
Taxes:										
Property Taxes	\$ 36,399,000	\$ 38,532,000	\$ 39,122,000	\$ 41,609,000	\$ 42,857,000	\$ 43,181,138	\$ 45,003,403	\$ 45,938,645	\$ 47,144,856	\$ 48,236,082
Sales Taxes	24,133,000	24,394,000	25,174,000	26,154,000	27,570,000	27,531,437	27,003,900	26,304,997	27,514,740	29,469,816
Other Taxes	4,013,000	3,826,000	3,743,000	4,460,000	5,069,000	6,117,575	5,447,237	5,017,241	5,234,872	5,633,647
Grants and Contributions Not Restricted	565,000	581,000	524,000	589,000	713,000	641,999	970,035	1,040,878	986,665	1,361,422
Unrestricted Investment Earnings	673,000	598,000	1,015,000	1,662,000	2,801,000	3,392,236	1,624,800	786,056	421,579	401,451
Gain (Loss) on Disposal of Capital Assets	4,000	13,000	30,000	2,000	4,000	269,917	18,322	(869,975)	0	0
Miscellaneous	933,000	1,589,000	944,000	972,000	1,340,000	1,036,779	790,029	742,259	755,400	960,663
Transfers	(2,987)	(3,757,000)	(3,856,000)	(3,899,000)	(3,810,000)	(4,035,319)	(3,007,600)	(3,874,687)	(4,425,338)	(3,615,027)
Total Governmental Activities	66,717,013	65,776,000	66,696,000	71,549,000	76,544,000	78,135,762	77,850,126	75,085,414	77,632,774	82,448,054
<u>Business-Type Activities:</u>										
Unrestricted Investment Earnings	295,000	239,000	351,000	877,000	1,334,000	1,024,862	600,431	409,331	146,328	153,080
Gain (Loss) on Disposal of Capital Assets	6,000	4,000	(8,000)	0	2,000	50	(12,605)	0	0	5,812
Miscellaneous	0	7,000	5,000	22,000	0	0	0	0	0	0
Transfers	2,987,000	3,757,000	3,856,000	3,899,000	3,810,000	4,035,319	3,007,600	3,874,687	4,425,338	3,615,027
Total Business-Type Activities	3,288,000	4,007,000	4,204,000	4,798,000	5,146,000	5,060,231	3,595,426	4,284,018	4,571,666	3,773,919
Total Primary Government	\$ 70,005,013	\$ 69,783,000	\$ 70,900,000	\$ 76,347,000	\$ 81,690,000	\$ 83,195,993	\$ 81,445,552	\$ 79,369,432	\$ 82,204,440	\$ 86,221,973
Change in Net Assets										
Governmental Activities	\$ 5,446,013	\$ (164,000)	\$ 6,049,000	\$ 301,000	\$ (238,000)	\$ (3,577,198)	\$ (6,719,161)	\$ (12,882,994)	\$ (13,863,364)	\$ (9,942,846)
Business-Type Activities	5,840,000	6,204,000	9,084,000	10,244,000	11,254,000	12,292,658	9,562,003	8,379,967	7,338,667	5,930,656
Total Primary Government	\$ 11,286,013	\$ 6,040,000	\$ 15,133,000	\$ 10,545,000	\$ 11,016,000	\$ 8,715,460	\$ 2,842,842	\$ (4,503,027)	\$ (6,524,697)	\$ (4,012,190)

Source: City of Kingsport Finance Department

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

Table 3

CITY OF KINGSPORT, TENNESSEE
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2003	\$ 36,399,000	\$ 24,133,000	\$ 659,000	\$ 1,272,000	\$ 1,318,000	\$ 764,000	\$ 64,545,000
2004	38,532,000	24,394,000	379,000	1,416,000	1,296,000	735,000	66,752,000
2005	39,122,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,039,000
2006	41,609,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,223,000
2007	42,857,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,496,000
2008	43,181,138	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,830,150
2009	45,003,403	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,454,540
2010	45,938,645	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,260,883
2011	47,144,856	27,514,740	555,283	1,681,523	1,617,478	1,380,588	79,894,468
2012	48,236,082	29,469,816	609,312	1,746,264	1,778,471	1,499,600	83,339,545

Source: City of Kingsport Finance Department

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

Table 4

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012
General Fund										
Reserved	\$ 3,378,000	\$ 3,950,000	\$ 3,607,000	\$ 3,232,000	\$ 3,510,000	\$ 3,391,331	\$ 2,384,571	\$ 1,574,013	\$ 0	\$ 0
Unreserved	14,920,000	12,720,000	12,078,000	15,420,000	17,409,000	14,848,415	12,927,260	13,155,138	0	0
Nonspendable	0	0	0	0	0	0	0	0	44,571	23,543
Restricted	0	0	0	0	0	0	0	0	0	0
Committed	0	0	0	0	0	0	0	0	0	0
Assigned	0	0	0	0	0	0	0	0	1,440,450	739,876
Unassigned	0	0	0	0	0	0	0	0	12,099,373	11,809,520
Total General Fund	\$ 18,298,000	\$ 16,670,000	\$ 15,685,000	\$ 18,652,000	\$ 20,919,000	\$ 18,239,746	\$ 15,311,831	\$ 14,729,151	\$ 13,584,394	\$ 12,572,939
All Other Governmental Funds										
Reserved	\$ 5,602,000	\$ 4,713,000	\$ 7,797,000	\$ 4,747,000	\$ 5,695,000	\$ 14,961,015	\$ 16,130,214	\$ 9,018,913	\$ 0	\$ 0
Unreserved, reported in:										
Debt Service	0	71,000	33,000	69,000	1,022,000	1,140,765	626,839	411,923	0	0
Special Revenue Funds	5,732,000	5,956,000	5,385,000	5,050,000	7,556,000	6,895,192	7,432,715	6,594,744	0	0
Capital Project Funds	6,689,000	6,532,000	688,000	3,757,000	33,434,000	30,073,388	22,101,833	38,247,760	0	0
Permanent Fund	0	0	0	0	0	20,293	28,232	36,804	0	0
Nonspendable	0	0	0	0	0	0	0	0	335,358	391,421
Restricted	0	0	0	0	0	0	0	0	29,898,833	32,898,517
Committed	0	0	0	0	0	0	0	0	195,000	15,000
Assigned	0	0	0	0	0	0	0	0	10,303,693	8,663,697
Total all Other Governmental Funds	\$ 18,023,000	\$ 17,272,000	\$ 13,903,000	\$ 13,623,000	\$ 47,707,000	\$ 53,090,653	\$ 46,319,833	\$ 54,310,144	\$ 40,732,884	\$ 41,968,635

Source: City of Kingsport Finance Department

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

* FY 2011 Implementation of GASB Statement No. 54 Fund Balance Classification

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Taxes	\$ 45,098,000	\$ 46,524,000	\$ 48,415,000	\$ 51,532,000	\$ 53,341,000	\$ 57,472,994	\$ 58,697,849	\$ 59,644,769	\$ 61,736,098	\$ 64,053,048
Licenses and Permits	264,000	324,000	350,000	350,000	526,000	778,788	544,797	354,400	339,843	390,916
Intergovernmental	46,018,000	46,457,000	49,907,000	50,004,000	52,686,000	52,217,860	54,633,138	57,016,177	57,618,712	60,411,908
Charges for Services	3,503,000	3,561,000	3,669,000	3,900,000	4,162,000	3,940,109	4,056,619	4,903,995	5,059,845	4,788,526
Fines and Forfeitures	421,000	297,000	443,000	560,000	787,000	2,233,346	2,083,918	1,404,126	1,475,914	888,013
Contributions and Donations	319,000	272,000	579,000	459,000	316,000	385,508	343,405	417,259	544,308	478,234
Investment Earnings	488,000	395,000	731,000	1,188,000	2,123,000	2,754,996	1,209,675	534,657	285,622	301,300
Miscellaneous	276,000	327,000	332,000	360,000	555,000	714,899	438,420	620,950	1,087,540	712,967
Total Revenues	96,387,000	98,157,000	104,426,000	108,353,000	114,496,000	120,498,500	122,007,821	124,896,333	128,147,882	132,024,912
Expenditures:										
General Government	5,526,000	5,657,000	5,898,000	6,240,000	7,698,000	8,228,820	8,287,499	9,493,673	8,937,456	9,897,339
Public Safety	12,634,000	13,085,000	13,890,000	14,556,000	15,568,000	16,983,599	17,862,379	18,183,202	18,602,375	19,206,238
Public Works	4,299,000	5,207,000	4,814,000	5,018,000	5,178,000	5,639,582	6,162,895	6,297,624	6,292,395	6,104,746
Transportation	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852	4,404,721	3,804,971
Development	2,816,000	2,556,000	2,948,000	3,068,000	3,219,000	3,681,462	3,884,126	3,823,882	4,258,551	4,209,456
Recreation	3,274,000	3,022,000	3,726,000	4,011,000	3,933,000	4,594,675	4,884,551	4,883,835	5,203,012	5,137,420
Education	46,818,000	48,581,000	51,437,000	53,181,000	55,800,000	57,969,972	60,328,330	62,216,835	63,944,855	65,758,406
Miscellaneous	309,000	348,000	516,000	722,000	878,000	1,019,288	860,350	1,164,299	1,179,584	1,108,609
Capital Outlay	7,502,000	10,048,000	11,933,000	10,562,000	4,954,000	21,263,050	30,907,899	23,141,716	20,219,807	25,002,612
Debt Service:										
Principal	19,770,000	11,060,000	7,847,000	8,525,000	8,488,000	12,191,783	7,750,015	4,286,390	5,271,066	5,426,273
Interest	2,299,000	2,170,000	1,982,000	1,735,000	1,470,000	2,449,755	2,761,593	3,612,987	4,930,280	4,549,707
Bond Issuance Costs	123,000	211,000	43,000	100,000	300,000	389,556	405,059	459,043	20,479	435,261
Arbitrage Rebate	0	0	0	0	0	0	0	0	0	0
Other Charges	5,000	30,000	15,000	20,000	11,000	7,590	19,516	9,744	33,061	7,387
Total Expenditures	107,741,000	104,668,000	107,728,000	110,632,000	110,317,000	137,540,308	147,646,711	143,341,082	143,297,642	150,648,425
Excess (deficiency) of revenues over (under) expenditures	(11,354,000)	(6,511,000)	(3,302,000)	(2,279,000)	4,179,000	(17,041,808)	(25,638,890)	(18,444,749)	(15,149,760)	(18,623,513)

(Continued)

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other Financing Sources (Uses):										
Transfers In	29,658,000	28,792,000	30,494,000	32,824,000	36,504,000	36,400,996	33,134,077	28,905,392	29,214,433	28,958,597
Transfers Out	(32,681,000)	(32,606,000)	(34,396,000)	(36,723,000)	(40,314,000)	(40,680,728)	(36,665,512)	(32,780,079)	(33,051,330)	(32,573,624)
Issuance of Debt	17,155,000	13,725,000	2,850,000	6,771,000	35,441,000	23,120,000	19,260,000	29,207,043	4,097,044	26,376,201
Premiums on Debt Issued	0	561,000	0	0	0	112,398	211,590	520,024	0	740,813
Sale of Building	0	0	0	0	0	800,000	0	0	0	0
Payments to Refunded Bond Escrow Agent	0	(6,340,000)	0	0	0	0	0	0	0	(4,654,178)
Total Other Financing Sources (Uses)	14,132,000	4,132,000	(1,052,000)	2,872,000	31,631,000	19,752,666	15,940,155	25,852,380	260,147	18,847,809
Net Change in Fund Balances	<u>\$ 2,778,000</u>	<u>\$ (2,379,000)</u>	<u>\$ (4,354,000)</u>	<u>\$ 593,000</u>	<u>\$ 35,810,000</u>	<u>\$ 2,710,858</u>	<u>\$ (9,698,735)</u>	<u>\$ 7,407,631</u>	<u>\$ (14,889,613)</u>	<u>\$ 224,296</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>22.0%</u>	<u>14.0%</u>	<u>10.3%</u>	<u>10.3%</u>	<u>9.5%</u>	<u>12.6%</u>	<u>9.0%</u>	<u>6.6%</u>	<u>8.3%</u>	<u>7.9%</u>

Source: City of Kingsport Finance Department

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

Table 6

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

Fiscal Year	Property Tax	Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2003	\$ 36,117,000	\$ 24,133,000	\$ 659,000	\$ 1,272,000	\$ 1,318,000	\$ 764,000	\$ 64,263,000
2004	37,775,000	24,394,000	379,000	1,416,000	1,296,000	735,000	65,995,000
2005	39,290,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,207,000
2006	41,770,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,384,000
2007	42,929,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,568,000
2008	43,322,288	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,971,300
2009	44,749,419	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,200,556
2010	45,745,881	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,068,119
2011	47,130,788	27,514,740	555,283	1,681,523	1,617,478	1,380,588	79,880,400
2012	48,337,930	29,469,816	609,312	1,746,264	1,778,471	1,499,600	83,441,393

Source: City of Kingsport Finance Department

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

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

Table 7

CITY OF KINGSPORT, TENNESSEE
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30	Tax Year	Real Property				Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
		Residential and Farm Property	Industrial and Commercial Property	Personal Property	Public Utility				
2003	2002	\$ 381,837,990	\$ 353,943,783	\$ 306,104,121	\$ 44,088,034	\$ 1,085,973,928	\$ 2.29	\$ 3,512,115,287	30.92%
2004	2003	386,620,196	381,988,450	337,980,179	43,108,340	1,149,697,165	2.29	3,705,828,043	31.02%
2005	2004	392,197,892	390,447,568	332,088,376	46,710,193	1,161,444,029	2.29	3,736,183,711	31.09%
2006	2005	416,736,199	438,583,408	360,312,126	48,475,652	1,264,107,385	2.26	4,053,938,000	31.18%
2007	2006	432,446,370	451,842,280	382,898,959	46,401,525	1,313,589,134	2.26	4,194,699,000	31.32%
2008	2007	443,963,472	459,872,279	341,168,271	40,991,606	1,285,995,628	2.30	4,137,292,349	31.08%
2009	2008	456,423,060	480,026,995	345,357,678	40,519,972	1,322,327,705	2.30	4,250,624,664	31.11%
2010	2009	542,112,415	601,517,500	408,047,665	47,796,156	1,599,473,736	1.94	5,119,304,395	31.24%
2011	2010	576,028,905	624,738,933	387,994,899	54,381,309	1,643,144,046	1.94	5,258,154,390	31.25%
2012	2011	594,243,299	636,435,237	359,672,056	51,874,049	1,642,224,641	1.97	5,261,284,595	31.21%

Source: City of Kingsport Finance Department

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

Table 8

**CITY OF KINGSPORT, TENNESSEE
PROPERTY TAX RATES (PER \$100 ASSESSED VALUE)
DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years**

Fiscal Year Ended June 30	City Direct Rates	Overlapping Rates	
		Sullivan County	Hawkins County
2003	\$ 2.2900	\$ 2.3500	\$ 2.4100
2004	2.2900	2.3500	2.4100
2005	2.2900	2.6700	2.5300
2006	2.2600	2.5300	2.6800
2007	2.2600	2.5300	2.3600
2008	2.3000	2.5300	2.6100
2009	2.3000	2.5300	2.6100
2010	1.9400	2.1307	2.7050
2011	1.9400	2.1307	2.7050
2012	1.9700	2.1307	2.3450

Source: City of Kingsport Finance Department

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

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

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 385,515,630	1	23.5%	\$ 287,876,000	1	26.5%
Domtar, Inc (Weyerhaeuser Co/ Willamette Industries)	30,146,575	2	1.8%	23,205,000	2	2.1%
Wellmont Health System/ Holston Valley Health Care	25,428,251	3	1.5%	5,196,000	10	0.5%
Kingsport Town Center (Fort Henry Mall- Baltry, LLC)	17,232,320	4	1.0%	11,454,000	6	1.1%
Kingsport Power Company	16,676,099	5	1.0%	14,227,000	4	1.3%
Brandy Mill Apartments, LLC	12,846,360	6	0.8%			
Eastman Credit Union	11,929,701	7	0.7%			
Mountain States Health / HCA	11,362,600	8	0.7%	7,917,000	8	0.7%
Wal Mart Properties/Real Estate	10,621,946	9	0.6%	8,301,000	7	0.8%
Inland Western Kpt East Stone LLC - Clara F Jackson	9,895,480	10	0.6%			
Sprint/United Inter-Mountain Telephone Southeast				14,676,000	3	1.4%
Quebecor				12,529,000	5	1.2%
AFG/AGC Industries				6,493,000	9	0.6%
Totals	\$ 531,654,962		32.2%	\$ 391,874,000		36.2%

Total Taxable Assessed Value:
 FYE 2012 (Tax Year 2011) \$ 1,642,224,641
 FYE 2003 (Tax Year 2002) 1,085,973,928

Source: City of Kingsport Finance Department

Table 10

CITY OF KINGSPORT, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Tax Levy for Fiscal Year	Subsequent Adjustments to Levy	Adjusted Tax Levy	Collected within the Fiscal Year of the Levy		Total Collections to Date			Uncollected Delinquent Taxes
				Amount	Percentage of Adjusted Levy	Collections in Subsequent Years	Amount	Percentage of Adjusted Levy	
2003	\$ 24,868,827	\$ 30,954	\$ 24,899,781	\$ 24,104,536	96.81%	\$ 781,630	\$ 24,886,166	99.95%	\$ 13,615
2004	26,332,293	(43,131)	26,289,162	25,315,529	96.30%	946,290	26,261,819	99.90%	27,343
2005	26,616,925	(48,704)	26,568,221	25,793,768	97.09%	746,117	26,539,885	99.89%	28,336
2006	28,738,644	(47,915)	28,690,729	27,985,510	97.54%	662,875	28,648,385	99.85%	42,344
2007	29,564,326	(34,083)	29,530,243	28,769,796	97.42%	727,632	29,497,428	99.89%	32,815
2008	29,582,951	19,285	29,602,236	28,616,818	96.67%	919,888	29,536,706	99.78%	65,530
2009	30,553,586	(46,380)	30,507,206	29,616,908	97.08%	765,035	30,381,943	99.59%	125,263
2010	31,362,309	(190,881)	31,171,428	30,151,757	96.73%	823,084	30,974,841	99.37%	196,587
2011	32,011,845	237,635	32,249,480	31,071,305	96.35%	819,823	31,891,128	98.89%	358,352
2012	32,276,181	404,387	32,680,568	31,684,065	96.95%	0	31,684,065	96.95%	996,503

Source: City of Kingsport Finance Department

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

FISCAL YEAR ENDED JUN 30	TOTAL LOCAL OPTION SALES TAX COLLECTIONS	GENERAL FUND	REGIONAL SALES TAX FUND
2003	\$ 15,970,648	\$ 13,110,702	\$ 2,859,946
2004	16,621,795	13,649,100	2,972,695
2005	16,669,868	13,685,614	2,984,254
2006	17,103,371	14,019,410	3,083,961
2007	17,833,634	14,618,999	3,214,635
2008	17,854,873	14,640,220	3,214,653
2009	17,634,903	14,478,441	3,156,462
2010	17,067,113	14,009,678	3,057,435
2011	17,778,766	14,594,959	3,183,807
2012	18,789,437	15,432,814	3,356,623

Source: City of Kingsport Finance Department

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

Table 12

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

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Notes Payable	General Obligation Bonds	Revenue Bonds	Notes Payable			
2003	\$ 48,434,000	\$ 4,450,000	\$ 61,394,000	\$ 270,000	\$ 13,046,000	\$ 127,594,000	11.37%	\$ 2,876
2004	49,288,000	346,000	63,890,000	240,000	7,920,000	121,684,000	11.01%	2,751
2005	44,395,000	241,000	63,045,000	225,000	6,293,000	114,199,000	9.85%	2,591
2006	38,931,000	3,932,000	60,303,000	210,000	5,829,000	109,205,000	9.11%	2,475
2007	63,481,000	6,302,000	53,665,000	195,000	5,423,000	129,066,000	10.23%	2,921
2008	74,292,500	6,419,174	47,477,500	180,000	5,591,065	133,960,239	10.68%	3,015
2009	86,349,375	5,872,283	66,339,999	160,000	15,578,624	174,300,281	12.81%	3,809
2010	111,818,918	5,323,392	72,989,778	140,000	22,190,263	212,462,351	15.09%	4,486
2011	107,172,668	8,795,620	66,372,528	0	24,288,460	206,629,276	13.23%	4,193
2012	121,844,913	10,615,303	68,975,283	0	23,658,574	225,094,073	13.74%	4,452

Source: City of Kingsport Finance Department

Note:

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

Table 13

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

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Reserves	Net General Obligation Bonds	Estimated Actual Taxable Value of Property	Per Capita
2003	\$ 109,828,000	\$ 73,000	\$ 109,755,000	3.13%	\$ 2,474
2004	113,178,000	158,000	113,020,000	3.05%	2,555
2005	107,440,000	410,000	107,030,000	2.86%	2,429
2006	99,234,000	338,000	98,896,000	2.44%	2,241
2007	117,146,000	765,000	116,381,000	2.77%	2,634
2008	121,770,000	971,096	120,798,904	2.92%	2,719
2009	152,689,374	600,280	152,089,094	3.58%	3,323
2010	184,808,696	468,937	184,339,759	3.60%	3,893
2011	173,545,196	1,230,382	172,314,814	3.28%	3,497
2012	190,820,196	148,495	190,671,701	3.62%	3,771

Source: City of Kingsport Finance Department

Note:

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

CITY OF KINGSPORT, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
For the Fiscal Year Ended June 30, 2012

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid with Property Taxes:			
Net Direct Debt:			
City of Kingsport	\$ 124,575,760 (1)	100.00%	\$ 124,575,760
Total Direct Debt	<u>124,575,760</u>	<u>100.00%</u>	<u>124,575,760</u>
Overlapping Debt:			
Sullivan County	77,688,152	43.96% (2)	34,149,997
Hawkins County	<u>85,616,148</u>	<u>6.85% (2)</u>	<u>5,861,370</u>
Subtotal, Overlapping Debt	<u>163,304,300</u>		<u>40,011,367</u>
Total Direct and Overlapping Debt	<u><u>\$ 287,880,060</u></u>		<u><u>\$ 164,587,127</u></u>

(1) Includes MeadowView Conference Resort and Convention Center and Solid Waste Management General Obligation Debt.

(2) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the City's boundaries and dividing it by the county's total taxable assessed value.

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

Sources:

- City of Kingsport Finance Department
- County Governments
- Tennessee Comptroller of the Treasury Division of Property Assessments

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt Limit	\$ 217,194,786	\$ 229,939,433	\$ 232,288,806	\$ 252,821,477	\$ 262,717,827	\$ 257,199,126	\$ 264,465,541	\$ 319,894,747	\$ 328,628,809	\$ 328,444,928
Total Net Debt Applicable to Limit	<u>62,796,000</u>	<u>56,978,000</u>	<u>50,275,000</u>	<u>43,335,000</u>	<u>65,910,000</u>	<u>74,655,000</u>	<u>101,870,000</u>	<u>128,636,532</u>	<u>123,381,532</u>	<u>124,575,760</u>
Legal Debt Margin	<u>\$ 154,398,786</u>	<u>\$ 172,961,433</u>	<u>\$ 182,013,806</u>	<u>\$ 209,486,477</u>	<u>\$ 196,807,827</u>	<u>\$ 182,544,126</u>	<u>\$ 162,595,541</u>	<u>\$ 191,258,215</u>	<u>\$ 205,247,277</u>	<u>\$ 203,869,168</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	<u>28.91%</u>	<u>24.78%</u>	<u>21.64%</u>	<u>17.14%</u>	<u>25.09%</u>	<u>29.03%</u>	<u>38.52%</u>	<u>40.21%</u>	<u>37.54%</u>	<u>37.93%</u>
Legal Debt Margin Calculation for Fiscal Year 2012										
Total Taxable Assessed Value										<u>\$ 1,642,224,641</u>
Debt Limit (20% of Taxable Assessed Value)										328,444,928
Debt Applicable to Limit:										
General Obligation Debt										121,844,913
Add: Solid Waste General Obligation Debt										1,714,762
Add: MeadowView Conference Center General Obligation Debt										<u>1,016,085</u>
Total Net Debt Applicable to Limit										<u>124,575,760</u>
Legal Debt Margin										<u>\$ 203,869,168</u>

Limitation on Borrowing Power

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

Bond Rating: "Standard & Poor's" AA-
 "Moody's" Aa2

Source: City of Kingsport Finance Department

Table 16

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

Fiscal Year	Operating Revenue	(1) Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
<u>Water and Sewer Revenue Bonds:</u>							
2003	\$ 21,137,000	\$ 8,770,000	\$ 12,367,000	\$ 6,669,000	\$ 1,609,000	\$ 8,278,000	1.49
2004	22,318,000	9,321,000	12,997,000	6,851,000	1,775,000	8,626,000	1.51
2005	24,613,000	9,144,000	15,469,000	8,173,000	1,732,000	9,905,000	1.56
2006	25,388,000	9,601,000	15,787,000	6,334,000	1,734,000	8,068,000	1.96
2007	26,802,000	9,341,000	17,461,000	6,327,000	1,608,000	7,935,000	2.20
2008	25,814,512	10,578,186	15,236,326	5,271,846	1,606,431	6,878,277	2.22
2009	26,063,481	11,109,643	14,953,838	4,967,220	1,309,336	6,276,556	2.38
2010	25,131,017	10,772,806	14,358,211	5,643,153	1,007,724	6,650,877	2.16
2011	24,659,947	11,054,147	13,605,800	6,087,198	843,459	6,930,657	1.96
2012	25,038,548	11,818,993	13,219,555	6,751,577	730,976	7,482,553	1.77

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

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

Table 17

**CITY OF KINGSPORT, TENNESSEE
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Population	Personal Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
2003	44,362	\$ 1,122,314,238	\$ 25,299	*	*	6,412	5.9%
2004	44,231	1,105,023,073	24,983	*	*	6,382	5.5%
2005	44,070	1,159,746,120	26,316	*	*	6,377	5.5%
2006	44,130	1,198,703,190	27,163	*	*	6,451	5.4%
2007	44,191	1,261,608,859	28,549	*	*	6,455	4.2%
2008	44,435	1,254,044,570	28,222	*	*	6,396	6.2%
2009	45,763	1,360,533,990	29,730	*	*	6,392	9.4%
2010	47,356	1,407,893,880	29,730	*	*	6,439	8.8%
2011	49,275	1,561,869,675	31,697	*	*	6,556	8.6%
2012	50,561	1,637,670,790	32,390	*	*	6,698	8.4%

* Information was not available.

Source:

City of Kingsport Planning Department
U.S. Census Bureau

Table 18

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

Employer	2012			2003		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	6,691	1	8.8%	8,000	1	10.8%
Wellmont Health Systems	2,711	2	3.6%	2,400	2	3.2%
Brock	1,452	3	1.9%	N/A	-	-
Kingsport City Schools	1,040	4	1.4%	960	6	1.3%
Holston Medical Group	792	5	1.0%	N/A	-	-
Wal-Mart	760	6	1.0%	980	5	1.3%
City of Kingsport	746	7	1.0%	755	7	1.0%
Jacobs	725	8	1.0%	N/A	-	-
Mountain States Health	724	9	1.0%	700	8	0.9%
BAE SYSTEMS Ordnance Systems, Inc.	577	10	0.8%	379	9	0.5%
AFG Industries	N/A	-	-	1,160	3	1.6%
Quebecor World	N/A	-	-	1,120	4	1.5%
Weyerhaeuser Company	N/A	-	-	360	10	0.5%
	16,218		21.4%	16,814		22.7%
Total Sullivan County Employment:						
	FYE 2012	75,670				
	FYE 2003	73,920				

Source:

-NETWORKS/Sullivan Partnership & Employers

CITY OF KINGSPORT, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	81	79	80	81	80	92	96	96	93	95
Public Safety	233	235	237	237	243	254	257	262	264	267
Public Works	105	105	109	106	113	119	120	122	123	124
Development	49	46	47	47	36	25	24	25	22	23
Recreation	53	54	56	57	57	58	59	58	58	58
Education	924	945	961	970	978	982	993	1,010	1,013	1,040
Water	78	78	80	80	80	78	78	76	74	73
Sewer	46	45	40	40	40	40	41	40	41	42
Solid Waste	36	36	36	35	31	30	30	30	30	32
	<u>1,605</u>	<u>1,623</u>	<u>1,646</u>	<u>1,653</u>	<u>1,658</u>	<u>1,678</u>	<u>1,698</u>	<u>1,719</u>	<u>1,718</u>	<u>1,754</u>

Sources:
 -City of Kingsport Finance Department
 -Kingsport City School System

Table 20

**CITY OF KINGSPORT, TENNESSEE
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Education:										
Student Transportation:										
Miles	388,455	388,964	361,607	369,438	368,869	377,916	355,694	371,912	371,726	392,811
Average Daily Ridership	2,262	2,136	1,784	1,864	1,949	1,943	1,754	1,717	1,505	1,526
Public Safety:										
Police:										
Physical Arrests	3,662	3,605	3,605	3,251	3,206	3,348	3,587	4,584	5,066	4,838
Parking Citations	5,345	4,990	4,990	3,509	3,722	3,016	2,804	1,814	1,074	2,874
Traffic Citations	7,833	7,246	10,163	12,484	12,895	12,957	12,030	7,579	5,127	11,568
Calls for Service	41,949	41,206	41,206	44,236	47,934	48,981	46,249	57,153	59,755	59,147
Fire:										
Calls for Service	5,481	5,820	5,775	5,752	5,987	6,445	6,515	6,468	7,388	8,106
Inspections	2,855	2,812	2,507	2,873	3,403	2,899	3,378	3,378	3,339	1,951
Fire Loss	\$ 810,418	\$ 998,465	\$ 4,063,555	\$ 2,402,520	\$ 1,471,657	\$ 1,565,342	\$ 1,909,032	\$ 3,390,231	\$ 846,950	\$ 664,820
Public Works:										
Potholes Repaired	*	*	701	735	538	924	1,102	2,762	4,985	4,147
Streets Swept (linear miles)	*	*	4,320	4,500	7,853	6,339	6,247	6,456	5,105	7,409
Traffic Signal Maintenance Calls	425	552	607	630	650	547	598	599	610	557
Leaves Collected (Tons)	*	1,416	1,649	1,703	1,716	1,595	1,907	1,497	1,628	1,780
Parks and Recreation:										
Civic Auditorium Rentals	538	651	857	825	1,127	899	881	1,349	796	539
Civic Auditorium Attendance	51,241	69,927	55,573	53,000	54,219	70,197	72,773	147,764	96,248	106,807
Pool Attendance	26,851	21,347	29,516	29,500	27,552	25,231	18,120	22,886	8,548	23,209
Participation in Athletic Division events	58,391	56,342	175,379	176,000	180,766	187,561	198,544	201,225	265,231	278,829
Participation in Cultural Arts Division events	6,716	7,101	15,238	15,028	16,708	9,891	13,088	10,057	12,761	9,276
Participation in Community Services Division events	14,666	16,571	26,483	33,229	34,673	76,402	78,918	141,772	138,817	167,631
Renaissance Center Rentals	525	531	2,073	2,000	1,908	1,870	2,135	2,110	1,959	1,861
Renaissance Center Attendance	97,191	87,003	192,270	190,000	181,650	198,575	222,294	211,738	188,576	166,175
Allandale Rentals	205	176	305	315	297	293	274	342	304	226
Allandale Visitors	24,931	26,572	33,023	33,000	29,808	23,591	22,598	27,435	25,986	32,296
K - Play Games Played	n/a	n/a	1,200	1,300	1,350	1,428	1,560	1,768	1,825	1,875
K - Play Attendance	n/a	n/a	83,000	86,000	91,145	97,320	124,728	172,930	185,856	188,997
Lynn View Rentals	n/a	n/a	n/a	n/a	n/a	n/a	n/a	36	238	271
Lynn View Attendance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18,116	43,615	48,278
Senior Center:										
Active Members	2,287	2,287	1,876	2,000	1,842	2,365	2,673	2,591	2,801	3,012
Average Daily Attendance	159	171	159	175	188	226	241	247	252	325
Bays Mountain Park:										
Total Programs	*	2,103	1,400	1,400	1,667	1,259	2,090	1,771	1,422	3,658
Total Attendance	161,577	155,436	157,420	151,000	148,041	173,063	192,529	176,813	201,129	178,069
Library:										
Total Circulation	189,309	181,554	183,679	188,448	206,586	210,476	241,239	244,735	248,709	248,482
Building Attendance	186,046	177,729	170,014	169,122	176,854	193,344	209,234	213,379	206,533	199,875
Water:										
Average Daily Consumption in Gallons	16.2 mgd	14.8 mgd	14.8 mgd	15.2 mgd	14.5mgd	14.6 mgd	15.2 mgd	15.1 mgd	14.7 mgd	14.5 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	16.2 mgd	17.8 mgd
Water Taps	446	212	584	588	339	442	256	219	168	191
Sewer:										
Average Daily Treatment in Gallons	9.0 mgd	9.0 mgd	9.0 mgd	9.2 mgd	8.8 mgd	8.8 mgd	8.6 mgd	9.3 mgd	8.5 mgd	7.5 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	17.0 mgd	17.0 mgd	17.0 mgd	12.4 mgd	12.4 mgd	12.4 mgd	12.4 mgd	17.7 mgd	16.8 mgd
Sewer Taps	262	264	481	402	187	206	165	84	237	179
Solid Waste:										
Landfill Material Accepted (Tons)	40,066	46,547	33,681	25,056	24,434	32,574	26,958	25,077	61,326	34,268
Household Refuse Collected (Tons)	16,009	16,213	16,125	16,374	16,046	16,244	15,924	16,437	16,647	18,452
Recyclables Collected (Tons)	1,922	1,028	2,128	2,167	2,587	2,613	2,728	1,715	1,848	1,772
Golf Course:										
Rounds of Golf	25,503	26,376	25,900	26,925	26,175	27,338	26,233	24,225	23,515	25,915

Source: Various City Departments

* Data was unavailable for this time period

**CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Education:										
Student Transportation:										
Buses	36	36	35	35	35	37	38	38	40	40
Public Safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	92	92	104	104	104	109	109	109	117	117
Motorcycle Units	1	1	1	1	1	1	1	1	0	0
Fire:										
Stations	6	6	6	6	6	6	6	7	7	7
Fire Trucks/Rescue Units	14	15	14	14	14	14	14	15	16	16
Public Works:										
Streets (Miles)	419	423	425	427	434	443	456	459	472	490
Street Lights	8,845	9,000	9,600	9,600	8,921	9,031	9,114	9,219	9,372	9,737
Traffic Signals	93	95	102	101	103	102	101	101	104	103
Leisure Services:										
Parks and Recreation:										
Park Sites	19	17	17	17	17	17	18	18	18	18
Park Acreage	250	191	191	191	191	191	237	237	237	237
Swimming Pools	2	2	2	2	2	2	1	1	1	1
Splash Pad	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Tennis Courts	8	8	8	8	8	8	8	8	8	8
Community Centers	5	5	5	5	5	5	5	5	5	5
Senior Citizens:										
Senior Center	1	1	1	1	1	1	1	1	1	1
Other Recreational Facilities:										
Bays Mountain Park & Nature Center -Acreage	3,400	3,461	3,461	3,461	3,550	3,550	3,550	3,550	3,550	3,550
Hunter Wright Baseball Stadium - Acreage	54	54	54	54	54	54	54	54	54	54
Allandale - Acreage	25	25	25	25	25	25	25	25	25	25
Civic Auditorium - Acreage	5	5	5	5	5	5	5	5	5	5
Dogwood Park Facility - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	3	3	3	3
Lynn View Facility - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	14	14	14	14
Renaissance Center - Acreage	5	5	5	5	5	5	5	5	5	5
Legion Pool - Acreage	5	5	5	5	5	5	5	5	5	5
School System:										
Elementary Schools	7	7	7	7	7	7	7	8	8	8
Middle Schools	2	2	2	2	2	2	2	2	2	2
High Schools	1	1	1	1	1	1	1	1	1	1
Water and Sewer:										
Water Mains (Miles)	750	750	750	750	750	817	826	828	828	832
Fire Hydrants	1,900	1,917	1,917	1,960	1,691	1,740	1,754	1,794	1,848	1,898
Sanitary Sewers (Miles)	470	480	495	525	515	515	518	524	533	540
Storm Sewers (Miles)	209	209	209	209	209	209	209	209	209	209
Solid Waste:										
Collection Trucks	14	14	14	15	14	15	15	15	15	15
Golf Courses	1	1	1	1	1	1	1	1	1	1
Cattails Golf Course - Acreage	192	192	192	192	192	192	192	192	192	192

Source: Various City Departments

CITY OF KINGSPORT, TENNESSEE
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS
June 30, 2012

Water Rates:

		Inside City	
First	2,000 gallons	\$ 3.43	per 1000 gal
Next	13,000 gallons	\$ 2.76	per 1000 gal
Next	55,000 gallons	\$ 2.13	per 1000 gal
Over	70,000 gallons	\$ 1.53	per 1000 gal
		Outside City	
First	2,000 gallons	\$ 11.22	per 1000 gal
Next	13,000 gallons	\$ 6.79	per 1000 gal
Next	35,000 gallons	\$ 6.14	per 1000 gal
Next	70,000 gallons	\$ 5.70	per 1000 gal
Next	70,000 gallons	\$ 4.66	per 1000 gal
Over	190,000 gallons	\$ 4.39	per 1000 gal

Sewer Rates:

		Inside City	
Minimum charge		\$ 13.64	2,000 gal
Additional gallons		\$ 6.82	per 1000 gal
		Outside City	
Minimum charge		\$ 21.08	2,000 gal
Additional gallons		\$ 10.54	per 1000 gal

Number of Customers:

	Inside City	Outside City
Water	22,001	12,490
Sewer	20,039	955

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER
June 30, 2012
(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	5,303,046,000	
C	Water Purchased	4,483,700	
D	Total Water Treated and Purchased		5,307,529,700
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	3,162,410,800	
G	Metered for Consumption (in house usage)	259,463,510	
H	Fire Department(s) Usage	977,277	
I	Flushing	42,961,702	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	2,439,350	
L	Bulk Sales	0	
M	Water Bill Adjustments	0	
N	Total Accounted for Water		3,468,252,639
	(Sum Lines F thru M)		
O	Unaccounted for Water		1,839,277,061
	(Line D minus Line N)		
P	Percent Unaccounted for Water		34.65%
	(Line O divided by Line D times 100)		

Q Other (explain)

Explain Other:

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

Sources: City of Kingsport Finance Department
City of Kingsport Water Department

CITY OF KINGSPORT, TENNESSEE SCHEDULE OF UNACCOUNTED FOR WATER - AWWA METHOD June 30, 2012

AWWA WLCC Free Water Audit Software: Reporting Worksheet				Back to
Copyright © 2010, American Water Works Association. All Rights Reserved. WASv4.2				
<input type="button" value="Click to access definition"/>		Water Audit Report for: City of Kingsport Reporting Year: 2012 / 7/2011 - 6/2012		
Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades				
All volumes to be entered as: MILLION GALLONS (US) PER YEAR				
WATER SUPPLIED				
<< Enter grading in column 'E'				
Volume from own sources:	7	5,303.046	Million gallons (US)/yr (MG/Yr)	
Master meter error adjustment (enter positive value):	5	79.500	under-registered MG/Yr	
Water imported:	5	4.484	MG/Yr	
Water exported:	8	6.360	MG/Yr	
WATER SUPPLIED:		5,380.670	MG/Yr	
AUTHORIZED CONSUMPTION				
Billed metered:	9	3,156.050	MG/Yr	
Billed unmetered:	N/A	0.000	MG/Yr	
Unbilled metered:	9	259.464	MG/Yr	
Unbilled unmetered:	8	71.279	MG/Yr	
AUTHORIZED CONSUMPTION:		3,486.793	MG/Yr	
WATER LOSSES (Water Supplied - Authorized Consumption)				
		1,893.877	MG/Yr	
Apparent Losses				
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Unauthorized consumption:	9	13.452	MG/Yr	
Customer metering inaccuracies:	10	34.500	MG/Yr	
Systematic data handling errors:	8	0.500	MG/Yr	
Apparent Losses:		48.452		
Real Losses (Current Annual Real Losses or CARL)				
Real Losses = Water Losses - Apparent Losses:		1,845.425	MG/Yr	
WATER LOSSES:		1,893.877	MG/Yr	
NON-REVENUE WATER				
NON-REVENUE WATER:		2,224.620	MG/Yr	
= Total Water Loss + Unbilled Metered + Unbilled Unmetered				
SYSTEM DATA				
Length of mains: 10 826.0 miles				
Number of active AND inactive service connections: 10 38,419				
Connection density: 47 conn./mile main				
Average length of customer service line: 10 0.0 ft (pipe length between curbstop and customer meter or property boundary)				
Average operating pressure: 10 112.5 psi				
COST DATA				
Total annual cost of operating water system: 10 \$13,796,630 \$/Year				
Customer retail unit cost (applied to Apparent Losses): 8 \$7.49 \$/1000 gallons (US)				
Variable production cost (applied to Real Losses): 8 \$356.06 \$/Million gallons				
PERFORMANCE INDICATORS				
Financial Indicators				
Non-revenue water as percent by volume of Water Supplied:				41.3%
Non-revenue water as percent by cost of operating system:				8.2%
Annual cost of Apparent Losses:				\$362,904
Annual cost of Real Losses:				\$657,082
Operational Efficiency Indicators				
Apparent Losses per service connection per day:				3.46 gallons/connection/day
Real Losses per service connection per day*:				131.60 gallons/connection/day
Real Losses per length of main per day*:				N/A
Real Losses per service connection per day per psi pressure:				1.17 gallons/connection/day/psi
<input type="checkbox"/> Unavoidable Annual Real Losses (UARL):				420.13 million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):				1,845.42 million gallons/year
<input type="checkbox"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:				4.39
* only the most applicable of these two indicators will be calculated				
<b style="color: red;">WATER AUDIT DATA VALIDITY SCORE:				
*** YOUR SCORE IS: 76 out of 100 ***				
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score				
PRIORITY AREAS FOR ATTENTION:				
Based on the information provided, audit accuracy can be improved by addressing the following components:				
1: Volume from own sources				
2: Master meter error adjustment				
3: Water imported				
For more information, click here to see the Grading Matrix worksheet				

Table 25

**CITY OF KINGSPORT, TENNESSEE
TOP TEN WATER CUSTOMERS
For the Fiscal Year Ended June 30, 2012**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY12 Water Sales</u>
Eastman Chemical Company	728,746,625	\$ 1,419,013	11.94%
BAE Systems	60,895,600	93,623	0.79%
Domtar Paper Company, LLC	50,309,400	92,737	0.78%
AGC	48,909,500	77,961	0.66%
Wellmont Health System	47,214,100	73,507	0.62%
Warriors Path State Park	12,600,900	59,326	0.50%
Kingsport Housing Authority	28,403,800	54,067	0.45%
Indian Path Hospital	21,395,000	33,134	0.28%
Model City II, L.P.	13,003,500	26,826	0.23%
Cross Creek, LLC	9,731,200	23,987	0.20%
	<u>1,021,209,625</u>	<u>\$ 1,954,181</u>	<u>16.44%</u>

Source: City of Kingsport Finance Department

Table 26

**CITY OF KINGSPORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
For the Fiscal Year Ended June 30, 2012**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY12 Sewer User Fees</u>
Eastman Chemical Company	172,395,100	\$ 1,179,725	10.00%
Wellmont Health System	40,291,300	274,857	2.33%
Kingsport Housing Authority	28,386,500	195,026	1.65%
Domtar Paper Company, LLC	22,719,500	155,051	1.31%
Warriors Path State Park	11,648,300	122,488	1.04%
Indian Path Hospital	13,948,900	95,190	0.81%
Sullivan County Department of Education	10,130,500	91,363	0.77%
Allandale Falls Apt, LLC	13,156,600	89,728	0.76%
Model City II, L.P.	12,653,900	86,326	0.73%
Cross Creek, LLC	9,731,200	66,367	0.56%
	<u>335,061,800</u>	<u>\$ 2,356,121</u>	<u>19.97%</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF BONDS PAYABLE - FUTURE REQUIREMENTS
JUNE 30, 2012

Table 27

REVENUE AND GENERAL OBLIGATION BONDS										
Fiscal Year	General Obligation Public Improvement Bonds		Water Bonds		Sewer Bonds		MeadowView Conference Resort and Convention Center and Cattails Golf Course Bonds		Combined Bonds and Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 6,308,676	\$ 4,751,634	\$ 2,122,646	\$ 989,040	\$ 3,666,942	\$ 1,054,561	\$ 771,736	\$ 654,822	\$ 20,320,057	
2014	6,335,006	4,620,455	2,207,181	915,488	3,895,693	947,995	794,122	634,213	20,350,153	
2015	7,202,913	4,383,627	2,181,133	820,730	3,814,534	787,364	824,421	608,048	20,622,770	
2016	7,082,143	4,133,961	1,697,847	729,989	2,907,487	633,276	852,524	580,760	18,617,987	
2017	7,092,232	3,885,558	1,559,568	666,151	2,189,044	533,629	881,154	552,302	17,359,638	
2018	7,332,749	3,639,855	1,362,897	606,662	1,813,709	465,947	770,643	520,974	16,513,436	
2019	6,984,187	3,376,741	1,269,189	551,157	1,290,889	406,672	795,735	489,889	15,164,459	
2020	6,833,134	3,122,145	1,201,506	497,984	937,662	363,888	827,700	457,894	14,241,913	
2021	7,088,766	2,854,471	1,248,115	444,636	963,403	327,568	864,716	424,625	14,216,300	
2022	7,079,112	2,571,628	1,190,453	387,134	629,088	287,882	896,346	389,726	13,431,369	
2023	6,998,245	2,297,640	1,262,816	332,775	645,576	261,930	933,361	353,483	13,085,826	
2024	7,279,559	2,016,406	1,193,230	274,536	666,258	234,863	970,953	312,432	12,948,237	
2025	7,525,449	1,714,911	1,199,554	219,076	673,618	206,897	1,011,380	269,726	12,820,611	
2026	7,816,082	1,401,120	1,134,359	162,988	689,359	178,127	1,053,395	224,007	12,659,437	
2027	8,146,503	1,070,502	492,318	109,707	710,385	147,908	1,100,796	175,087	11,953,206	
2028	5,852,718	718,931	488,981	88,140	649,963	116,079	1,153,338	123,888	9,192,038	
2029	4,671,924	455,407	505,160	65,818	671,792	85,487	1,211,122	66,053	7,732,763	
2030	3,363,822	242,744	524,465	42,730	697,473	53,824	84,242	5,318	5,014,618	
2031	1,256,884	91,407	248,872	18,228	280,880	20,339	13,363	887	1,930,860	
2032	1,309,571	46,639	259,062	9,297	292,435	10,374	13,932	453	1,941,763	
	<u>\$ 123,559,675</u>	<u>\$ 47,395,782</u>	<u>\$ 23,349,352</u>	<u>\$ 7,932,266</u>	<u>\$ 28,086,190</u>	<u>\$ 7,124,610</u>	<u>\$ 15,824,979</u>	<u>\$ 6,844,587</u>	<u>\$ 260,117,441</u>	
							Principal	Interest	Total	
			General Obligation				\$ 123,559,675	\$ 47,395,782	\$ 170,955,457	
			Revenue and General Obligation				67,260,521	21,901,463	89,161,984	
			TOTAL				<u>\$ 190,820,196</u>	<u>\$ 69,297,245</u>	<u>\$ 260,117,441</u>	

Note: Future interest requirements shown above reflect interest on TMBF bonds at the maximum possible rate of interest and interest on BABS bonds net of the 35% Federal interest subsidy.

Source: City of Kingsport Finance Department

Table 28

CITY OF KINGSPORT, TENNESSEE
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2012

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
John Campbell	City Manager	\$ 164,231	\$ 5,000
J. Michael Billingsley	City Attorney	120,158	-
James H. Demming	City Recorder/Chief Financial Officer/ City Treasurer	108,857	385,000
Lyle Ailshie	Director of Schools	159,000	-
Gale Osborne	Chief of Police	95,236	-
Dennis R. Phillips	Mayor	3,000	-
Tom C. Parham	Vice-Mayor	2,400	-
John Clark	Alderman	2,400	-
Valerie Joh	Alderman	2,400	-
Mike McIntire	Alderman	2,400	-
Tom Segelhorst	Alderman	2,400	-
Jantry Shupe	Alderman	2,400	-

Source: City of Kingsport Finance Department

Table 29

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2012**

<u>Type of Coverage/ Insurance Carrier</u>	<u>Policy Number</u>	<u>Policy Period</u>	<u>Details of Coverage</u>	<u>Claim Limits</u>	<u>Annual Premiums</u>
<u>Comprehensive General Liability</u> TML Risk Management Pool	TML-21300	7/1/12-7/1/15 Annual Renewal 7/1/12-7/1/13	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000,000 3,000,000 Replacement 3,000,000	\$ 139,921
Safety National Casualty Corporation	AGC-4045694 (reinsurance agreement)	1/1/12-1/1/13	Worker's Compensation	Statutory	136,566
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	104703171	1/1/12-1/1/13	Employee Blanket Dishonesty (City)	500,000	1,770
Travelers Insurance Co.	105012751	7/1/12- 7/1/13	Employee Blanket Dishonesty (Schools)	510,000	6,640
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty</u> Continental Casualty Company	RMP2071010211	12/31/11-12/31/12	Buildings and Contents	301,116,369	141,754
FCCI Insurance Company	CPP0012129-01	2/13/12-2/13/13	Justice Center Commercial/ Gen Property	7,217,881	11,235
Hartford Insurance Co.	20MSCYQ7488	5/26/12-5/26/13	Grand Piano - Allandale		534
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	3/1/12-3/1/13	Boilers and Machinery	100,000	4,556
<u>Public Officials Bond</u> Travelers Insurance Company	105376299	11/1/11-11/1/12	Bond - Treasurer (J. Demming) (State of Tennessee Schools)	1,277,000	1,908
Travelers Insurance Company	400NS5672	3/15/12-3/15/13	Bond - Recorder (J. Demming)	385,000	1,536
Travelers Insurance Company	104224291	10/1/11-10/1/12	Bond - City Manager (J. Campbell)	5,000	100
Travelers Insurance Company	105795556	1/1/12-12/31/12	Bond - City Judge (W. K. Rogers)	1,000	100
Western Surety Company	58368775	4/4/12-4/4/13	Blanket Notary Errors and Omissions	25,000	884
<u>Other</u> Stadium General Liability/ Hunter Wright Property - D.B. High School Montgomery Insurance Company	CBP9566738	3/8/12-3/8/13	General Liability/ Scoreboard/ Public Address system	2,000,000	1,343
Total Premium					<u>\$ 448,847</u>

Source: City of Kingsport

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Board of Aldermen
City of Kingsport, Tennessee
Kingsport, Tennessee 37660

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City of Kingsport, Tennessee's basic financial statements and have issued our report thereon dated December 26, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee. Other auditors audited the financial statements of the Emergency Communications District (ECD), a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the City of Kingsport, Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Kingsport, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kingsport, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kingsport, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingsport, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Kingsport, Tennessee in a separate letter dated December 26, 2012.

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

This report is intended solely for the information and use of management, the Audit Committee, the Board of Mayor and Aldermen, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
December 26, 2012



**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Honorable Mayor and Board of Aldermen
City of Kingsport, Tennessee
Kingsport, Tennessee 37660

Compliance

We have audited the City of Kingsport, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City of Kingsport, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Kingsport, Tennessee's management. Our responsibility is to express an opinion on the City of Kingsport, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kingsport, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Kingsport, Tennessee's compliance with those requirements.

In our opinion, the City of Kingsport, Tennessee, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the City of Kingsport, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Kingsport, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. **Accordingly, we do not express an opinion on the effectiveness of the City of Kingsport, Tennessee's internal control over compliance.**

Providing Professional Business Advisory & Consulting Services

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City of Kingsport, Tennessee's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City of Kingsport, Tennessee's compliance but not to provide an opinion on the effectiveness of the City of Kingsport, Tennessee's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kingsport, Tennessee's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
December 26, 2012

CITY OF KINGSPORT, TENNESSEE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2012

Section I - Summary of Auditors' Results

1. The auditor's report expresses an **unqualified opinion** on the basic financial statements.
2. **Three significant deficiencies** related to the audit of the financial statements were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Two of these deficiencies are reported as material weaknesses.**
3. **No instances of noncompliance** material to the basic financial statements were disclosed.
4. **No significant deficiencies** related to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs expresses an **unqualified opinion.**
6. The audit disclosed **no audit findings** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Program</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Improving Teacher Quality State Grants (Title II)	84.367
Education Jobs Fund – ARRA	84.410
COPS Hiring Program – ARRA	16.710
Urban Mass Transit Authority	20.507
Urban Mass Transit Authority – ARRA	20.507
Race-to-the-Top – ARRA	84.395

8. The **threshold** for distinguishing Type A and B programs was **\$327,307**.
9. The City of Kingsport, Tennessee was determined to be a **low risk auditee**.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Section II – Findings - Financial Statement Audit

12-1: Landfill Closure Liability (Material Weakness)

Condition: The City had not properly recorded the landfill closure liability and related closure costs incurred. The City had never accrued an estimated liability for landfill closure costs until the year ended June 30, 2011. The landfill has been in operation approximately 25 years and should have closure costs recorded over that period. Closure costs incurred were incorrectly capitalized as non-depreciable assets instead of reducing the closure liability.

Cause: Management's accounting treatment of closure costs incurred and the related closure liability were incorrect.

Effect: Current year assets and liabilities were materially misstated. Also, prior years fund balance was materially misstated.

Recommendation: We recommend that the City implement procedures to ensure that all landfill liabilities and related costs are captured and recorded accurately.

Management Response: The need to record a closure liability for the landfill had been discussed previously and we had started accruing closure costs in FY 2011. However it had not been discussed that we needed to record costs for the 25 years the landfill site had been in operation. Over the years expenses related to landfill closure had been capitalized but not depreciated because they were not yet considered placed in service. The new revision of the Blue Book made it clear that expenses for closure should be applied against the accrued closure liability. We have posted a prior period adjustment to accrue additional closure costs of \$730,536 which brought the total liability to \$781,259 and then applied the previously capitalized costs of \$1,023,438 against the liability. The end result was prepaid closure costs of \$242,179 at June 30, 2011. We will continue to make annual accruals of landfill closure costs and apply allowed expenses against the liability.

12-2: Recording of Accrual for Self-Insurance Claims & Other Liabilities (Material Weakness)

Condition: The City failed to record an adequate accrual for the self-insured workers compensation and general liability claims. In addition the City recorded too large of a liability related to self-insurance health claims.

Cause: The City used incorrect assumptions in preparing an estimate for unreported claims related to self-insurance.

Effect: Self-insurance claims payable are misstated.

Recommendation: We recommend the City implement procedures to ensure the proper recording of an estimate of unreported self-insurance claim liabilities.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Management's Response: For self-insured workers compensation and general liability claims in the City's Insurance Reserve Fund, the City had recorded a reserve fund balance in FY 2005 as a result of an actuarial report. It had never been brought to our attention that an actual liability needed to be recorded. We have posted a prior period adjustment to increase workers compensation liability by \$1,940,421 and to increase general liability claims liability by \$980,000. We will continue to adjust the liability each year to match the appropriate actuarial reports.

For self-insured health claims recorded in the City's Health Insurance Fund and Retirees Health Insurance Fund, the City had previously recorded a liability to cover 3 months of health insurance claims. Health insurance claims processing has become faster over recent years due to electronic filing of claims. In addition the City's current health claims administrator seems to process claims faster than the previous administrator. Most claims are now paid within 6 weeks. We have posted a prior period adjustment to reduce health insurance claims payable by \$553,396 in the Health Insurance Fund and \$116,604 in the Retirees Health Insurance Fund. We will continue to adjust the health insurance claims liability to match the lag report provided by the claims administrator.

12-3: Recording of Drug Fund Seized Assets (Significant Deficiency)

Condition: The City failed to record seized cash which had been awarded by the State of Tennessee as a result of drug arrests by the City.

Cause: The City did not record the cash when it was received and awarded by the State.

Effect: The Drug fund cash and revenues were understated.

Recommendation: We recommend the City implement procedures to ensure that all cash on hand is recorded when it is received.

Management's Response: In the last two years, police personnel have done a much better job getting forfeited cash to finance as soon as it has been awarded to the City. This particular deposit was received in July but awarded to the City in FY 2012. In the future finance personnel will review large forfeited cash deposits received from July to September to be sure they are recorded in the correct fiscal year.

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

None

Section IV – Findings and Questioned Costs – State of Tennessee

None