

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Certain differences exist between the governmental fund financial statements and the government-wide financial statements. These differences relate to differences between the modified accrual basis of accounting used in the fund financial statements and the accrual basis of accounting used in the government-wide financial statements and to the consolidation of the internal service funds into the governmental activities in the government-wide financial statements.

Reconciliations between the governmental fund balance sheet and the government-wide statement of net assets and between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are shown on pages 23 and 25, respectively.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the miscellaneous grants fund, animal control fund, miscellaneous special revenue funds, miscellaneous community development funds, city judges' retirement fund, Krutch park fund, Knoxville civic revitalization fund and city choice fund. City Council adopts project-length budgets for the capital projects fund. In addition City Council adopts annual operating budgets for all enterprise and internal service funds. The City prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

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

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

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year end. Encumbered appropriations are reappropriated in the ensuing year's budget. The following supplemental and reductions in appropriations were enacted by City Council during the fiscal year 2004.

General fund	\$ 2,755
Special revenue funds	5,648
Debt Service	8,225
Capital projects funds	(1,232)

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

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