

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

A comparison of revenues and expenses - budget and actual for proprietary funds for which City Council has legally adopted budgets is as follows:

	<u>Revenues, Transfers In and Capital Contributions</u>			<u>Expenses and Transfers Out</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 21,805	\$ 19,561	\$ (2,244)	\$ 21,839	\$ 18,563	\$ 3,276
Metro Parking	709	1,021	312	714	738	(24)
Public Assembly Facilities	3,947	3,433	(514)	3,947	3,613	334
Knoxville Area Transit (Component unit)	24,728	20,221	(4,507)	24,728	17,852	6,876
<i>Internal Service Funds</i>						
Office Services	472	478	6	472	462	10
Fleet Management	9,530	9,666	136	9,530	8,851	679
Risk Management	6,755	6,876	121	6,755	6,665	90
Employee Health Insurance	12,902	12,587	(315)	12,902	11,709	1,193
Equipment Replacement	2,027	2,284	257	2,074	2,080	(6)
City Buildings	1,361	1,350	(11)	1,361	1,207	154

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds except the Pension Trust Fund and the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority component unit enterprise funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash". Deficits in pooled cash are reported as interfund liabilities. See Note 8 for a schedule of interfund receivables and payables. In addition, investments are separately held by several of the City's funds.

Deposits - Deposits are included in the City's financial statements as "Cash", "Cash and temporary investments", "Restricted cash and investments", "Cash float on pooled cash", and "Unused bond proceeds." Certain certificates of deposit are included in "Investments." Cash equivalents are defined as short-term, highly liquid investments.

Deposits are classified into three categories of credit risk based upon the following:

**Category 1** includes deposits which are insured or collateralized by securities held by the City/component unit or its agent in the City's/component unit's name.

**Category 2** includes deposits which are collateralized by securities held by the pledging institution's trust department or agent in the City's/component unit's name.

**Category 3** includes deposits which are uncollateralized, which includes deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's/component unit's name.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

**Investments** - Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool. The state treasurer's investment pool is a SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value. The City is exempted from sharing in any realized gains and losses of the fund.

The City is not authorized to enter into reverse repurchase agreements. The Pension Trust Fund investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%. Although the average term of the loans is one week, either the Pension Trust Fund or the borrower can terminate securities loans on demand. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between maturities of the investment pool and the Pension Trust Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Pension Trust Fund cannot determine. The Pension Trust Fund cannot pledge, sell, or otherwise access collateral assets received unless the borrower defaults.

Investments are included in the City's financial statements as "Cash and temporary investments", "Investments", "Restricted cash and investments", "Unused bond proceeds", and "Restricted assets".

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end:

**Category 1** includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

**Category 2** includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

**Category 3** includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

The City's deposits and investments at June 30, 2004 are summarized as follows:

	Category			
	1	2	3	Total
<b>Deposits:</b>				
Bank balances	\$ 9,450	\$ -	\$ -	\$ 9,450
Carrying amounts	\$ 5,404	\$ -	\$ -	\$ 5,404
Undeposited cash funds				67
Total cash and deposits - carrying amount				\$ 5,471

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	Category			Carrying Value	Fair Value
	1	2	3		
<b>Investments:</b>					
United States Government obligations	\$ -	\$ 19,529	\$ -	\$ 19,529	\$ 19,529
Common stocks	-	342	-	342	342
Negotiable certificates of deposit	-	1,500	-	1,500	1,500
State and municipal obligations	-	2,249	-	2,249	2,249
Total classified investments	<u>\$ -</u>	<u>\$ 23,620</u>	<u>\$ -</u>	23,620	23,620
Investment in state treasurer's investment pool				<u>82,608</u>	<u>82,608</u>
Total investments				<u>\$ 106,228</u>	<u>\$ 106,228</u>

Component unit deposits and investments at June 30, 2004 are summarized as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System
	(all category 1)	(all category 1)		(all category 1)
<b>Deposits:</b>				
Bank balances	<u>\$ 186,959</u>	<u>\$ 5,275</u>	<u>\$ -</u>	<u>\$ 1</u>
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	\$ (9,120)	\$ 4,954	\$ -	\$ 1
Certificates of deposit	92,299	-	-	-
Money market	2,000			
Super NOW Account	<u>84,453</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits - carrying value	<u>\$ 169,632</u>	<u>\$ 4,954</u>	<u>\$ -</u>	<u>\$ 1</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>	<u>Total Carrying Amount</u>	<u>Total Fair Value</u>
<b>Investments:</b>	<u>(all category 1)</u>	<u>(all category 1)</u>		<u>(all category 2)</u>		
Cash equivalents	\$ -	\$ 58	\$ -	\$ 9,217	\$ 9,275	\$ 9,275
United States						
government securities	24,388	21,177	-	14,969	60,534	60,534
Equity securities	-	-	-	221,033	221,033	221,033
Corporate bonds	-	-	-	36,002	36,002	36,002
State and municipal						
government securities	-	-	-	11,760	11,760	11,760
International securities	-	-	-	95,051	95,051	95,051
Total classified Investments	<u>24,388</u>	<u>21,235</u>	-	<u>388,032</u>	<u>433,655</u>	<u>433,655</u>
Investments not categorized:						
Investments held by broker-						
dealers under securities loans:						
Broker-dealers holding cash						
collateral:						
United States						
government securities	-	-	-	38,012	38,012	38,012
Equity securities	-	-	-	20,470	20,470	20,470
Corporate bonds	-	-	-	833	833	833
Third parties holding cash						
collateral:						
United States						
government securities	-	-	-	11,519	11,519	11,519
Investments in state						
treasurer's investment						
pool	<u>21,056</u>	<u>-</u>	<u>766</u>	<u>-</u>	<u>21,822</u>	<u>21,822</u>
Total investments	<u>\$ 45,444</u>	<u>\$ 21,235</u>	<u>\$ 766</u>	<u>\$ 458,866</u>	<u>\$ 526,311</u>	<u>\$ 526,311</u>
Total deposits and						
investments	<u>\$ 215,076</u>	<u>\$ 26,189</u>	<u>\$ 766</u>	<u>\$ 458,867</u>		

The City of Knoxville Pension System also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the City of Knoxville Pension System financial statements) for \$60,295 held by broker dealers and \$11,698 held by third parties. The contract with the Pension System's custodian requires it to indemnify the Pension System if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, it has no credit risk exposure to the borrowers at June 30, 2004.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>
Deposits and investments are classified in the statement of net assets as follows:				
Cash and cash equivalents	\$ 88,308	\$ 4,619	\$ -	\$ 1
Investments	87,702	21,177	766	458,866
Bond funds	8,846	393	-	-
Unused bond proceeds	30,128	-	-	-
Other temporarily restricted assets	323	-	-	-
	<u>215,307</u>	<u>26,189</u>	<u>766</u>	<u>458,867</u>
Less accrued interest	<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits and investments	<u>\$ 215,076</u>	<u>\$ 26,189</u>	<u>\$ 766</u>	<u>\$ 458,867</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2004, including the applicable allowance for uncollectible accounts, consisted of the following:

	<u>Intergovern- mental</u>	<u>Interest and Dividends</u>	<u>Grants</u>	<u>Fines and Court Costs</u>	<u>Customers</u>	<u>Other</u>	<u>Allowance for Doubtful Accounts</u>	<u>Total</u>
General fund	\$ 12,315	-	-	19	-	414	-	12,748
Debt service fund	-	44	-	-	-	-	-	44
Capital projects fund	818	65	-	-	-	93	-	976
Other governmental activities	832	-	2,255	12,735	78	12	(10,596)	5,316
Knoxville Convention Center	-	-	-	-	-	652	-	652
Other business-type activities	-	-	-	-	286	-	-	286
Internal service funds	48	-	-	-	7	6	-	61
Total primary government	14,013	109	2,255	12,754	371	1,177	(10,596)	20,083
Component units:								
Knoxville Utilities Board	-	-	-	-	53,252	-	(712)	52,540
Metropolitan Knoxville Airport Authority	-	189	1,489	-	132	-	-	1,810
Knoxville Area Transit	-	-	3,062	-	136	-	-	3,198
Knoxville Employees' Pension Plan	-	979	-	-	-	7,131	-	8,110
Total reporting entity	<u>\$ 14,013</u>	<u>\$ 1,277</u>	<u>\$ 6,806</u>	<u>\$ 12,754</u>	<u>\$ 53,891</u>	<u>\$ 8,308</u>	<u>\$ (11,308)</u>	<u>\$ 85,741</u>