

CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 11 - FUND BALANCES DESIGNATED FOR FUTURE USE

Certain fund balances are designated by the City to be used for future requirements relating to the stated purpose of each fund. At June 30, 2004, the following designations were made:

<u>Fund</u>	<u>Amount Designated</u>	<u>Stated Purpose</u>
Coster Redevelopment	\$ 185	Held for cleanup of various sites
Krutch Park Trust	713	Maintenance and groundskeeping of a downtown City park
Knoxville Civic Revitalization	2,016	Oversee the development of World's Fair Site
City Choice Plus	<u>190</u>	Payment of insurance premiums by employees
Total	\$ <u>3,104</u>	

NOTE 12 - RISK MANAGEMENT

Primary government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Risk Management Fund, an internal service fund, was established to consolidate all of the City's insurance under a comprehensive risk management program.

Revenues come from either the City's General Fund or from inter-fund charges. Revenues are forecasted to match expenses, which include estimated incurred losses from claims, premiums for excess insurance coverage, various taxes and assessments, and administrative operating expenses.

The City insures itself against potential losses by purchases various types of insurance coverage including fiduciary liability, professional liability, crime coverage, long-term disability, boiler and machinery, and group life coverage. The City insures itself against potential losses as the result of auto liability, general liability, and workers compensation through participation in a risk management pool. The pool requires each participant in the pool to share the liability for claims if the pool becomes insolvent. At present, the City has no indication that it will incur a liability as a result of its participation in the pool. Settled claims have not exceeded the above coverages in any of the past three fiscal years.

Insurance Coverage

The City accounts for its self-insurance activities in the Employee Health Insurance Fund. The City has experienced no significant reduction in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Employee Health Insurance Fund

The City maintains as an internal service fund, the Employee Health Insurance Fund, to provide medical coverage for City employees and their families with the employees paying a portion of the costs.

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 12 - RISK MANAGEMENT (continued)

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of \$5,592 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$3,625 related to the remaining lawsuits and claims not determined to be probable liabilities. Since the outcome is not probable, a liability has not been recorded for these lawsuits and claims.

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2004, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. An analysis of claims activity is as follows for the years ended June 30, 2004 and 2003:

	<u>2004</u>		<u>2003</u>
Claims liability, beginning of year	\$ 4,730	\$	3,465
Provision for incurred claims	5,592		5,715
Payments made on claims	<u>(4,730)</u>		<u>(4,450)</u>
Claims liability, end of year	\$ <u>5,592</u>	\$	<u>4,730</u>

Component units

Knoxville Utilities Board

In the normal course of business, there are various lawsuits pending against the Knoxville Utilities Board. Management has reviewed these lawsuits with counsel, is vigorously defending the Utilities Board's position, and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Utilities Board's financial position, results of operations or cash flows.

The Knoxville Utilities Board is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

In 2002, in response to changes in availability and the cost of insurance, the Knoxville Utilities Board decreased its property insurance coverage. The Knoxville Utilities Board also increased its deductible to a level where the Knoxville Utilities Board is essentially self-insuring for property insurance, except in the event of a catastrophic event and the resulting losses. The Knoxville Utilities Board's property insurance coverage excludes protection for fire, vandalism, flood and earthquake.

At June 30, 2004, the amount of these liabilities was \$1,782. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>2004</u>		<u>2003</u>
Claims liability, beginning of year	\$ 1,618	\$	4,033
Provision for incurred claims	13,049		9,540
Payments made on claims	<u>(12,885)</u>		<u>(11,955)</u>
Claims liability, end of year	\$ <u>1,782</u>	\$	<u>1,618</u>

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

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NOTE 12 - RISK MANAGEMENT (continued)

Metropolitan Knoxville Airport Authority

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct, and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. After the September 11, 2001 terrorist attacks, the Authority's insurance carrier limited war risk liability coverage to \$1 million. The Authority purchased additional war risk liability coverage up to a maximum of \$50 million subject to a \$10 million deductible. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 - SEGMENT INFORMATION

Segment information for business-type component units is as follows:

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority provides services through two divisions - McGhee Tyson Airport and Downtown Island Airport. Summary financial information for each of the activities is presented below:

Condensed Statement of Net Assets

	McGhee- <u>Tyson</u>	Downtown <u>Island</u>	<u>Total</u>
Assets:			
Current Assets	\$ 27,998	\$ 130	\$ 28,128
Restricted assets	901	46	947
Net capital assets	167,663	3,306	170,969
Other assets	<u>3,713</u>	<u>9</u>	<u>3,722</u>
Total assets	<u>\$ 200,275</u>	<u>\$ 3,491</u>	<u>\$ 203,766</u>
Liabilities:			
Current liabilities	\$ 2,412	\$ 80	\$ 2,492
Long-term debt	<u>106,547</u>	<u>430</u>	<u>106,977</u>
Total liabilities	<u>108,959</u>	<u>510</u>	<u>109,469</u>
Net assets:			
Invested in capital assets, net of related debt	63,339	2,883	66,222
Restricted	901	47	948
Unrestricted	<u>27,076</u>	<u>51</u>	<u>27,127</u>
Total net assets	<u>91,316</u>	<u>2,981</u>	<u>94,297</u>
	<u>\$ 200,275</u>	<u>\$ 3,491</u>	<u>\$ 203,766</u>

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