

CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 14 - JOINT VENTURES (continued)

Condensed Financial Information

The following is a summary of selected financial information of the City's joint ventures for the most recent period available:

	<u>Public Building Authority</u>	<u>Metropolitan Planning Commission</u>
Balance sheet date	June 30, 2004	June 30, 2004
Total assets	\$10,113	\$934
Long-term debt	11	-
Other liabilities	2,017	350
Net assets	8,085	584
Total revenues	11,210	2,827
Total expenses	10,994	2,699

Complete financial statements for each of these joint ventures may be obtained from their respective administrative offices as follows:

Public Building Authority
Room M22
400 Main
Knoxville, Tennessee 37902

Metropolitan Planning Commission
Suite 403, City/County Building
400 Main
Knoxville, Tennessee 37902

NOTE 15 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Chilhowee Park - The City entered into an agreement on July 1, 1994, with the Tennessee Valley Agricultural and Industrial Fair, Inc. (TVA & I Fair) whereby TVA & I Fair will provide management, control, routine maintenance, security, and operation of the Park for the period from July 1, 1994, to September 30, 2000, for a fee of \$225 per year. The City assumed management responsibility for the Park after expiration of the agreement.

Knoxville Zoo - The City entered into a new agreement on July 1, 2001, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park \$900 by August 1 each year through 2006.

Whittle Springs Golf Course - The City entered into an agreement on August 29, 1986, with HMS of Tennessee whereby HMS of Tennessee shall maintain, operate, and provide for capital improvements to Whittle Springs Municipal Golf Course from September 1, 1986, to September 1, 1996. HMS remits one dollar per year to the City of Knoxville and was required to spend \$200 on course improvements during the first 24-month period. The contract was extended for an additional ten (10) year period beginning September 1, 1996, to September 1, 2006.

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 15 - MANAGEMENT AGREEMENTS (continued)

Knoxville Municipal Golf Course - The City entered into an agreement on March 25, 1983, with C. E. Roberts, Inc. to develop and operate the Knoxville Municipal Golf Course from December 23, 1982, to December 23, 2007. Under terms of the lease, Roberts shall remit one dollar per year to the City as well as place 20% of its annual net income in a sinking fund reserved specifically for capital improvements to the golf course.

Parking Garages - The City entered into agreements with Republic Parking Systems, Inc. whereby Republic Parking Systems, Inc. will manage and operate the State Street and Main Avenue Parking Garages. The term of the agreements is for one year beginning July 10, 2004. Under the agreement, Republic Parking Systems, Inc. will receive \$119.2 for the State Street Garage and \$100.4 for the Main Avenue Garage payable in twelve monthly installments. The City must also make incentive payments equal to 10.0% of the revenue of each garage that exceeds the revenue of the previous year.

IJAMS Nature Park - The City entered into an agreement on August 2, 1993, with the IJAMS Nature Park whereby IJAMS will provide management and operation of a nature park. The agreement has been extended through July 31, 2005. The agreement calls for a management fee of \$109.

Knoxville Convention Center - The City entered into an agreement on November 22, 2000, with SMG to manage the first five years of operations of the Convention Center. The agreement calls for a fixed fee of \$275 in 2004, \$300 in 2005 and \$325 in 2006 and 2007.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal financial assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2004 in accordance with provisions of the Single Audit Act of 1984.

Urban Growth Plan - The City and Knox County entered into an agreement that defines City and County growth areas within the County. The agreement prohibits alteration to the Urban Growth Plan through December 31, 2004 and may be automatically extended for an additional three years through December 31, 2007. The agreement prohibits the City from annexing certain property for the four-year period unless certain conditions exist. The County agreed to invest \$5,000 from its current five-year capital plan for the City to make capital projects within its Empowerment Zone. The County will also designate an additional \$2,000 from its capital plan beginning in January 2005. Should the City take actions resulting in the residential annexation during the period of the agreement, all funds provided to the City by Knox County must be returned to the County within 15 days.

Knoxville Utilities Board

Purchased Gas Adjustments - Knoxville Utilities Board's gas division purchased gas adjustment mechanism allows the Division to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by Knoxville Utilities Board's Board of Commissioners. The purchased gas adjustment is intended to ensure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The purchased gas adjustment is also intended to ensure that no excess or deficient cost recovery from the Division's customers occurs.

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was \$923 at June 30, 2004.

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