

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

NOTE 19 - TRANSFERS

A detailed reconciliation of operating transfers at June 30, 2004 is as follows:

	Governmental Activities							Internal Service Funds	Total
	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscellaneous Grants	Miscellaneous Special Revenue Funds	Risk Management	
Primary Government:									
Governmental Activities:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 3,335	\$ 7	\$ 18	\$ -	\$ 3,360
Debt Service Fund	-	-	9,981	-	-	-	-	-	9,981
Capital Projects Fund	5,137	-	-	1,275	-	-	-	-	6,412
Community Development									
Block Grants	-	-	-	-	-	-	-	12	12
Storm Water	1,511	-	-	-	-	-	-	-	1,511
Solid Waste	8,276	-	-	-	-	85	-	-	8,361
Business-type Activities:									
Knoxville Convention Center	5,895	3,547	-	-	-	-	-	-	9,442
Public Assembly Facilities	1,598	-	-	-	-	-	-	-	1,598
Internal Service Funds:									
Risk Management	1,002	-	-	-	-	-	-	-	1,002
Employee Health Insurance	1,005	-	-	-	-	-	-	-	1,005
Equipment Replacement	29	-	-	-	-	100	-	-	129
	<u>\$ 24,453</u>	<u>\$ 3,547</u>	<u>\$ 9,981</u>	<u>\$ 1,275</u>	<u>\$ 3,335</u>	<u>\$ 192</u>	<u>\$ 18</u>	<u>\$ 12</u>	<u>\$ 42,813</u>

The general fund transfers funds, in accordance with its budget, to supplement revenues of the storm water, solid waste, Knoxville Convention Center, and public assembly facilities funds. Transfers are also made by the general fund to partially fund insurance and employee health insurance costs. The general fund and debt service fund transfer funds to the Knoxville Convention Center to partially fund debt service costs. Transfers from the general fund and state street aid fund are used to partially fund capital outlay costs in the capital projects fund.

Fines and court costs collected by city court are transferred to the general fund and certain special revenue funds based on approved schedules of costs.

The capital projects fund transferred funds to the debt service to fund retirement of the outstanding balance of the City's line of credit.

NOTE 20 - RETIREMENT AND DISABILITY PLANS

Plan Descriptions

City Employees' Pension Plan

The City also maintains a single-employer defined benefit pension plan (City Employees' Pension Plan), administered by the City of Knoxville Pension Board, which is comprised of three divisions of current membership and a membership of certain former City School employees. All participants are fully vested in the plan after 5 years of service. The plan includes employees of the City of Knoxville and certain employees of the Metropolitan Knoxville Airport Authority (MCAA).

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Division A - All employees of the City who were hired on or after January 16, 1963, and prior to July 1, 1997 became members of Division A. Employees of the Metropolitan Knoxville Airport Authority (MKAA) are considered employees of the City of Knoxville for purposes of participating in the Pension System. Participants of Division A are covered by Social Security. Division A is now a closed plan. Participation in Division A requires employee contributions of 3% of the first four thousand eight hundred dollars of annual earnings and 5% of annual earnings in excess of four thousand eight hundred dollars. Division A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

Division B - All employees of the City of Knoxville who were employed on January 16, 1963, and who participated in the City Employees' Pension Fund as created by the City of Knoxville Pension Act of 1935, were deemed to be members of Division B of the System unless they elected to transfer to Division A. (This excludes firefighters and police officers who were participants of the Firemen and Policemen Pension Fund created by the Firemen and Police Pension Act of 1929.) Participants of Division B are not covered by Social Security. Division B is now a closed plan and no participants can be added. Participation in Division B requires employee contributions of 4% of annual earnings. Division B provides for retirement benefits after 25 years of service and the attainment of age 50.

Division C - All firefighters and police officers employed after January 2, 1971, and those transferring from the Firemen and Policemen Pension Act of 1929 (now Division F) or Division B by election are participants of the Division C Plan. Participants of Division C are covered by Social Security. Participation in Division C requires employee contributions of 6% of annual earnings subject to a maximum of 30 years. Division C provides for retirement benefits after 25 years of service and attainment of age 50. Retirement is compulsory after reaching age 60.

Division F - All firefighters and police officers employed prior to January 16, 1963 (former members of the Firemen and Policemen Pension Act of 1929 plan, a "pay-as-you-go" funded plan which terminated as of June 30, 2000). Participants of Division F are not covered by Social Security. Participation in Division F requires employee contributions of 5% of monthly earnings. Division F provides for retirement benefits after 25 years of service and attainment of age 50.

Division G - As a condition of employment, each employee hired on or after January 1, 1997 becomes a member of Division G after six months of service. In addition, members who elected to transfer from Division A prior to May 15, 1997, and former non-participants who elected participation prior to May 15, 1997 became members of Division G. Members of Division G are covered by Social Security. Participation in Division G requires employee contributions of 6% of annual earnings. Division G provides for normal retirement benefits at age 62 or later.

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City Employees' Pension Plan. Because of the abolition of the City School System, the Board of Education Division of the City Employees' Pension Plan has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. At June 30, 2004 no liability existed.

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

(amounts expressed in thousands)

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension Board issues a publicly available financial report that includes financial statements and required supplementary information for the City Employees' Pension Plan. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The Plan is also included in the reporting entity as a discretely presented component unit.

Knoxville Utilities Board Pension Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by section 1107(J) of the charter of the City of Knoxville. The plan is designed to provide retirement, disability and death benefits. Due to the structure of the plan, all participants are fully vested as a result of retiree medical health benefits being paid out of the Plan's funds. The Plan is a governmental plan as described by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants. The Plan is currently overfunded.

At January 1, 2003, the date of the latest actuarial valuation, the Plan had 777 retirees and beneficiaries currently receiving benefits and 43 terminated employees entitled to benefits but not yet receiving them. Of the approximately 1,008 current employees in the plan, 929 were fully vested at December 31, 2003. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Pension System, P.O. Box 59017, Knoxville, TN 37950-9017. The plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP) - CEP is available to eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999. All new eligible employees become participants on the date of employment with KUB. Participation in CEP does not require or permit employee contributions.

Plan A - Plan A benefits are for former City Employees' Pension Plan Division A active employees, vested terminated employees, retirees, and beneficiaries. All employees participating in the City Employees' Pension Plan Division A as of June 30, 1999 were eligible to participate in the KUB Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3% of the first four thousand eight hundred dollars of annual earnings and 5% of annual earnings in excess of four thousand eight hundred dollars. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

Plan B - Plan B benefits are for former City Employees' Pension Plan Division B active employees, vested terminated employees, retirees, and beneficiaries. All employees participating in the City Employees' Pension Plan Division B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4% of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

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CITY OF KNOXVILLE, TENNESSEE

Notes to Financial Statements

June 30, 2004

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NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Annual Pension Costs

City Employees' Pension Plan

For the year ended June 30, 2004, the annual pension cost for the City and participating component units was \$1,450 and was equal to the required and actual contributions. The required contribution was determined as part of the July 1, 2004 actuarial valuation using the aggregate method with supplemental liability for Plan F. Under this method, the unfunded actuarial liability is only identified and amortized for Plan F. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 8.0% per year compounded annually, (b) annual projected salary increases based on plan experience for employees at various categories of years of service (from 3.5% to 12% and on which no explicit assumption is made regarding the portion attributable to the effect of inflation on salaries), and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The unfunded actuarial liability for Plan F is being amortized over 30 years on a closed basis beginning in July 1, 2001.

Trend information for the City's contributions to the City Employees' Pension Plan for the last three years is as follows:

Year Ended June, 30	General Government Divisions A, B and G		Board of Education		Firefighters and Police Divisions C and F		Total City Employees' Pension Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$279	100%	\$ -	100%	\$1,171	100%	\$1,450	100%	\$ -
2003	-	100%	-	100%	871	100%	871	100%	-
2002	-	100%	-	100%	808	100%	808	100%	-

Knoxville Utilities Board Pension Plan

The Knoxville Utilities Board Pension Plan recommends employer contributions as a percentage of the monthly earnings of Plan members based on an actuarial valuation. The recommended contributions are determined using an individual entry actuarial funding method. The System is required to contribute at an actuarially determined rate. The current rate is 0% due to the Plan being fully funded.

The Plan's annual pension cost and net pension obligation to the Plan for the current year were zero. In January 2004 the Plan's actuaries performed a valuation of the pension benefit obligation, which continues to be fully funded. The annual required contribution for the current year was determined as part of the January 1, 2002, actuarial valuation. Significant actuarial assumptions used in the valuation include (a) rate of return on investments of 8%, (b) 1983 Group Annuity Mortality Table, (c) annual projected salary increased based on participants' ages ranging from age 25 to 65 with salary increases from 3.21% to 6.26%, and (d) cost of living adjustment of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a four-year period.

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(amounts expressed in thousands)

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Trend information for KUB's contributions to the Plan for the last three years is as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2003	\$ -	N/A	\$ -
December 31, 2002	-	N/A	-
December 31, 2001	-	N/A	-

Defined Contribution Plan

Knoxville Utilities Board

The Knoxville Utilities Board has a defined contribution employee retirement savings plan covering all full-time employees, which provides for stipulated matching contributions and discretionary contributions by the Knoxville Utilities Board, as determined by its Board of Commissioners. System contributions to the Plan for the year ended June 30, 2004 totaled \$2. The Knoxville Utilities Board Pension Plan funds the 401(k) matching contribution using a portion of the excess pension assets accumulated during previous years. The trustee custodian holds the funds until necessary for distribution.

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority provides retirement benefits for all of its full-time employees through a defined contribution plan that was established under the authority of the Board of Commissioners and is administered by International City Management Association Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment.

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$484 in 2004. Employee contributions totaled \$33 in 2004.

NOTE 21 – RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$7,880
Payments by the Knoxville Utilities Board to the City of Knoxville for in lieu of property tax	\$9,950
Payments by the Knoxville Utilities Board to the City of Knoxville for other services provided	\$331
Subsidies paid by the City to Knoxville Area Transit	\$9,942
Amounts due to the Knoxville Utilities Board from the City of Knoxville for electric, gas, water and sewer service (included in accounts payable in the financial statements of the primary government and accounts receivable in the financial statements of the Knoxville Utilities)	\$678