

# OFFICIAL STATEMENT

## NEW ISSUE

### **Book-Entry-Only**

Ratings: Moody's - "Aa1"  
S&P - "AA+"  
(See "MISCELLANEOUS-Rating")

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, as hereafter defined, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS – Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See "LEGAL MATTERS -Tax Matters" herein.)*

## **\$90,265,000**

### **KNOX COUNTY, TENNESSEE**

### **General Obligation Bonds, Series 2017**

Dated: May 1, 2017.

Due: June 1, as shown below.

The \$90,265,000 General Obligation Bonds, Series 2017 (the "Bonds") are issuable in fully registered form in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2017 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry-only system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged. See section entitled "SECURITIES OFFERED – Security".

The Bonds maturing June 1, 2026 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2025.

<u>Due</u> <u>(June 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due</u> <u>(June 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2018	\$ 2,535,000	5.00%	0.87%	499512 7Z8	2028	\$ 4,615,000	4.00%	2.22%	c 499512 8K0
2019	2,975,000	5.00	0.98	499512 8A2	2029	4,795,000	5.00	2.30	c 499512 8L8
2020	3,120,000	5.00	1.12	499512 8B0	2030	5,035,000	5.00	2.40	c 499512 8M6
2021	3,275,000	5.00	1.25	499512 8C8	2031	5,285,000	3.00	2.92	c 499512 8N4
2022	3,440,000	5.00	1.41	499512 8D6	2032	5,445,000	3.00	3.02	499512 8P9
2023	3,615,000	5.00	1.56	499512 8E4	2033	5,610,000	3.00	3.04	499512 8Q7
2024	3,790,000	5.00	1.69	499512 8F1	2034	5,775,000	3.00	3.10	499512 8R5
2025	3,985,000	5.00	1.84	499512 8G9	2035	5,950,000	3.00	3.15	499512 8S3
2026	4,180,000	5.00	1.97	c 499512 8H7	2036	6,130,000	3.25	3.27	499512 8T1
2027	4,390,000	5.00	2.06	c 499512 8J3	2037	6,320,000	3.25	3.31	499512 8U8

c = Yield to call on June 1, 2025.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire OFFICIAL STATEMENT to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by Richard Armstrong, Esq., as County Law Director. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about May 1, 2017.

**Cumberland Securities Company, Inc.**  
Financial Advisor

April 19, 2017

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Bond Resolution.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Issuer, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer, the Financial Advisor or the Underwriter. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

\*\* These CUSIP numbers have been assigned by S&P CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The County is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

# KNOX COUNTY, TENNESSEE

## COUNTY OFFICIALS

Tim Burchett	<i>County Mayor</i>
Chris Caldwell	<i>Finance Director</i>
Foster D. Arnett, Jr.	<i>County Clerk</i>
Richard Armstrong	<i>County Law Director</i>
Ed Shouse	<i>County Trustee</i>

## BOARD OF COUNTY COMMISSIONERS

Brad Anders	Hugh Nystrom
Ed Brantley	John Schoonmaker
Charles Busler	Randy Smith
Michele Carringer	Bob Thomas
Carson Dailey	Dave Wright
Evelyn Gill	

## UNDERWRITER

J.P. Morgan Securities LLC  
New York, New York

## REGISTRATION AND PAYING AGENT

Regions Bank  
Nashville, Tennessee

## BOND COUNSEL

Bass, Berry & Sims PLC  
Knoxville, Tennessee

## FINANCIAL ADVISOR

Cumberland Securities Company, Inc.  
Knoxville, Tennessee



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## SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Official Statement*.

The Issuer .....	Knox County, Tennessee (the “County” or “Issuer”). See APPENDIX B contained herein.
Securities Offered .....	\$90,265,000 General Obligation Bonds, Series 2017 (the “Bonds”) of the County, dated the date of issuance May 1, 2017. The Bonds mature each June 1 beginning June 1, 2018 through June 1, 2037, inclusive. See the section entitled “SECURITIES OFFERED” herein for additional information.
Security .....	The Bonds are payable from unlimited <i>ad valorem</i> taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.
Purpose .....	The Bonds are being issued for the purpose of (i) constructing, improving, repairing, renovating and equipping of courtroom, corrective and detention facilities, schools and other educational facilities, libraries, stormwater drainage facilities, parks and recreation facilities and other public buildings, including any equipment required therefor; (ii) constructing and improving roads, streets, bridges and highways; (iii) payment of legal, fiscal, administrative, architectural and engineering costs incident to all of the foregoing (collectively, the “Projects”); (iv) reimbursement to the appropriate fund of the County for prior expenditures for the foregoing costs, if applicable; and (v) payment of costs incident to the issuance of the bonds. See the section entitled “SECURITIES OFFERED - Authority and Purpose” contained herein.
Optional Redemption .....	The Bonds maturing June 1, 2026 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2025. See the section entitled “SECURITIES OFFERED – Optional Redemption”.
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading “LEGAL MATTERS – Tax Matters” herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer, and estate taxes and Tennessee franchise and excise taxes. (See “LEGAL MATTERS -Tax Matters” herein.).
Ratings .....	Moody’s: “Aa1”, and S&P: “AA+”. See the section entitled “MISCELLANEOUS - Ratings” for more information.
Financial Advisor .....	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS-Financial Advisor; Related parties; Other” herein.
Underwriter.....	J.P. Morgan Securities LLC, New York, New York.

Bond Counsel .....	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Book-Entry Only .....	The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled “BASIC DOCUMENTATION - Book-Entry-Only System”
Registration Agent.....	Regions Bank, Nashville, Tennessee.
General.....	The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, <i>Tennessee Code Annotated</i> , as supplemented and revised. See “SECURITIES OFFERED” herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.
Disclosure .....	In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the County will provide the Municipal Securities Rulemaking Board (the “MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled “MISCELLANEOUS-Continuing Disclosure.”
Other Information.....	The information in this <i>Official Statement</i> is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof. For more information concerning the County or this <i>Official Statement</i> , contact Tim Burchett, County Mayor, 400 Main Street, County Building Suite 615, Knoxville, Tennessee 37902, (865) 215-2005; or the County's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.

**GENERAL FUND BALANCES**  
**For the Fiscal Year Ended June 30**

	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
Beginning Fund Balance	\$52,582,335	\$61,339,133	\$66,265,258	\$66,088,523	\$69,748,942
Revenues	154,439,392	161,309,341	158,864,154	163,215,522	170,308,332
Expenditures	146,135,527	152,727,690	159,138,472	164,225,904	173,510,005
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$8,303,865	\$8,581,651	\$(274,318)	\$(1,010,382)	(3,201,673)
Other Financing sources (Uses)	452,933	(1,606,594)	97,583	4,670,796	5,734,678
Adjusted from prior period	<u>-</u>	<u>(2,048,932)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Ending Fund Balance</b>	<b><u>\$61,339,133</u></b>	<b><u>\$66,265,258</u></b>	<b><u>\$66,088,523</u></b>	<b><u>\$69,748,937</u></b>	<b><u>\$72,281,942</u></b>

Source: Comprehensive Annual Financial Reports of Knox County, Tennessee.



**\$90,265,000**  
**KNOX COUNTY, TENNESSEE**  
**General Obligation Bonds, Series 2017**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto, is furnished in connection with the offering by Knox County, Tennessee (the "County") of \$90,265,000 General Obligation Bonds, Series 2017 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 et. seq., *Tennessee Code Annotated*, and other applicable provisions of law and pursuant to resolutions duly adopted by the Board of Commissioners of the County on March 27, 2017 (the "Resolutions").

The Bonds are being issued for the purpose of (i) constructing, improving, repairing, renovating and equipping of courtroom, corrective and detention facilities, schools and other educational facilities, libraries, stormwater drainage facilities, parks and recreation facilities and other public buildings, including any equipment required therefor; (ii) constructing and improving roads, streets, bridges and highways; (iii) payment of legal, fiscal, administrative, architectural and engineering costs incident to all of the foregoing (collectively, the "Projects"); (iv) reimbursement to the appropriate fund of the County for prior expenditures for the foregoing costs, if applicable; and (v) payment of costs incident to the issuance of the bonds.

**DESCRIPTION OF THE BONDS**

The Bonds will be dated and bear interest from their date of issuance and delivery May 1, 2017. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2017. The Bonds are issuable in book-entry-only form in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the County Mayor and shall be attested by the County Clerk. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of the authentication noted thereon.

**SECURITY**

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

The County, through its governing body, shall annually levy and collect a tax on all taxable property within the County, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the County and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected. The taxes may be reduced to the extent of direct appropriations from the General Fund of the County to the payment of debt service on the Bonds.

The Bonds are not obligations of the State of Tennessee (the "State") or any political subdivision thereof other than the County.

## **OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing June 1, 2026 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2025 at a redemption price of par plus accrued interest.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of County Commissioners, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the amount of the interest of each DTC Participant in the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

## **NOTICE OF REDEMPTION**

Notice of call for redemption shall be given by the Registration Agent on behalf of the County not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to affect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the County nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the

validity of such redemption. The Registration Agent shall mail said notices as and when directed by the County pursuant to written instructions from an authorized representative of the County (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the County to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

## **PAYMENT OF BONDS**

The Bonds will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for, on the dates provided herein, such interest being computed upon the basis of a 360-day year of twelve 30-day months. Interest on each Bond shall be paid by check or draft of the Registration Agent to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date. The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of the Registration Agent.

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## BASIC DOCUMENTATION

### REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the County will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as follows.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. For additional information, see the following section.

### BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, its successor or the Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the “Regular Record Date”) by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book entry system maintained by DTC (the “Book-Entry-Only System”). One fully registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

*DTC and its Participants.* DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry-only transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of

securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

*Purchase of Ownership Interests.* Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

*Payments of Principal and Interest.* Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC’s records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

*Notices.* Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial

Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NONE OF THE ISSUER, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

*Transfers of Bonds.* To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation, legal or otherwise, to any party other than to the registered owners of any Bond on the registration books of the Registration Agent.

## **DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM**

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the County determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the County will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to Beneficial Owners.

*No Assurance Regarding DTC Practices.* The foregoing information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the County believes to be reliable, but the County, the Bond Counsel, the Registration Agent and the Financial Advisor do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. None of the County, the Bond Counsel, the Registration Agent or the Financial Advisor will have any responsibility or obligation to the Participants, DTC or the persons for

whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

## **DISPOSITION OF BOND PROCEEDS**

The proceeds of the sale of the Bonds shall be applied by the County as follows:

- (a) all accrued interest, if any, shall be deposited to the appropriate fund of the County to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds; and
- (b) the remainder of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund to be known as the 2017 Construction Fund (the "Construction Fund") to be kept separate and apart from all other funds of the County. The County shall disburse funds in the Construction Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Project. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Construction Fund after completion of the Project and payment of authorized expenses shall be paid to the County Trustee and shall be used to pay principal of and interest on the Bonds. Moneys in the Construction Fund shall be invested at the direction of the County Trustee in such investments as shall be permitted by applicable law. Earnings from such investments in the Construction Fund shall be deposited in the County's debt service fund.

## **DISCHARGE AND SATISFACTION OF BONDS**

If the County shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

1. By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

2. By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers ("an Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice); or

3. By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the County shall also pay or cause to be paid all other sums payable hereunder by the County with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the County to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the County shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the County as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the County, as received by the Registration Agent. For the purposes of this Section, Defeasance Obligations shall direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described in this Section, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

## **REMEDIES OF BONDHOLDERS**

Under Tennessee law, any Bondholder has the right, in addition to all other rights:



(1) By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce its rights against the County, including, but not limited to, the right to require the County to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the County to carry out any other covenants and agreements, or

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such Bondholder.

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## LEGAL MATTERS

### LITIGATION

There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the County to sell or issue the Bonds.

### TAX MATTERS

#### **Federal**

*General.* Bass, Berry & Sims PLC, Knoxville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the County and assuming compliance by the County with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code"),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the County must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the County does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The County has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also the section "CHANGES IN FEDERAL AND STATE TAX LAW".

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Bonds, or under State, local or foreign tax law.

*Bond Premium.* If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

*Original Issue Discount.* A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Bond. Bond Counsel's opinion is that any original issue discount on these Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount

*Information Reporting and Backup Withholding.* Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

## **State Taxes**

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of

Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

## **CHANGES IN FEDERAL AND STATE TAX LAW**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **CLOSING CERTIFICATES**

Upon delivery of the Bonds, the County will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the County Mayor acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the County since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the County Mayor acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the County Mayor and County Clerk acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure

Certificate regarding certain covenants of the County concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel. Bond Counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, Bond Counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled “LEGAL MATTERS - Tax Matters.” The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled “MISCELLANEOUS – “Competitive Public Sale”, “Additional Information” and “Continuing Disclosure.”

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## MISCELLANEOUS

### RATING

Moody's Investor Services, Inc. ("Moody's") and S&P Global Ratings ("S&P") have given the Bonds the ratings of "Aa1" and "AA+", respectively to the Bonds. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings should be obtained from such agencies.

There is no assurance that such ratings will continue for any given period of time or that the rating may not be suspended, lowered or withdrawn entirely by Moody's and S&P, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and rating, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the ratings may have an adverse effect on the secondary market price of the Bonds.

Any explanation of the significance of the ratings may be obtained only from Moody's and S&P.

### COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on April 19, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 12, 2017.

The successful bidder for the Bonds was an account led by J.P. Morgan Securities LLC, New York, New York (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of \$98,479,263.34 (consisting of the par amount of the Bonds, plus an net offering premium of \$8,436,587.30 less an underwriter's discount of \$222,323.96) or 109.100164% of par.

### FINANCIAL ADVISOR; RELATED PARTIES; OTHER

*Financial Advisor.* Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the County for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the County to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the County, including without limitation any of the County's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the County, any of its affiliated or contractors and any outside parties has not been independently

verified by the Financial Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm and has not been engaged by the County to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

*Regions Bank.* Regions Bank (the “Bank”) is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent or filing agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds. In instances where the Bank serves the County in other normal commercial banking capacities, it will be compensated separately for such services.

*Official Statement.* Certain information relative to the location, economy and finances of the Issuer is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the County and will be compensated and/or reimbursed for such distribution and other such services.

*Bond Counsel.* From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the County and may do so again in the future.

*Other.* Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company’s role as serving as the County’s Dissemination Agent. If the County chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. including Dissemination Agent and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

## **ADDITIONAL DEBT**

The County has not authorized any additional debt. However, the County has ongoing needs that may or may not require the issuance of additional debt.

## **DEBT LIMITATIONS**

Pursuant to Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, there is no limit on the amount of bonds that may be issued when the County uses the statutory authority granted therein to issue bonds. (see “DEBT STRUCTURE - Indebtedness and Debt Ratios” for additional information.)

## **DEBT RECORD**

There is no record of a default on principal and interest payments by the County from information available. Additionally, no agreements or legal proceedings of the County relating to securities have been declared invalid or unenforceable.

## **CONTINUING DISCLOSURE**

The County will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2017 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the County. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the County with the Municipal Securities Rulemaking Board ("MSRB") at [www.emma.msrb.org](http://www.emma.msrb.org) and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year Filing History.* While it is believed that all appropriate filings were made with respect to the ratings of County's outstanding bond issues, which some were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transactions were made or made in a timely manner as required by SEC Rule 15c2-2. In the past five years, the County has filed its Annual Reports at [www.emma.msrb.org](http://www.emma.msrb.org) under the base CUSIP Number 499512 which is the base CUSIP Number for the County; however, the County inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the County was an obligated person. The County has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. With the exception of the foregoing, which the County does not deem to be material, for the past five years, the County has complied in all material respects with its existing continuing disclosure agreements in accordance with SEC Rule 15c2-12.

*Content of Annual Report.* The County's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the County for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the County's



audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information:

1. Property tax collections of the County for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-6;
2. Property tax rates and the estimated assessed value of property in the County for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-7;
3. The ten largest taxpayers as shown on page B-8;
4. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-10;
5. Information about the Bonded Debt Service Requirements - General Fund as of the end of such fiscal year as shown on page B-12;
6. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on page B-13;
7. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-14;

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to each of the Repositories or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

*Reporting of Significant Events.* The County will file notice regarding material events with the MSRB and the SID, if any, as follows:

1. Upon the occurrence of a Listed Event (as defined in (3) below), the County shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.
2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the County shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:
- a. Principal and interest payment delinquencies;
  - b. Non-payment related defaults, if material;
  - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - e. Substitution of credit or liquidity providers, or their failure to perform;
  - f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
  - g. Modifications to rights of Bondholders, if material;
  - h. Bond calls, if material, and tender offers;
  - i. Defeasances;
  - j. Release, substitution, or sale of property securing repayment of the securities, if material;
  - k. Rating changes;
  - l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
  - m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

*Termination of Reporting Obligation.* The County's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

*Amendment; Waiver.* Notwithstanding any other provision of the Disclosure Certificate, the County may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

*Default.* In the event of a failure of the County to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

## **ADDITIONAL INFORMATION**

Use of the words "shall," "must," or "will" in this Official Statement in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the County and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The County has deemed this OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission.

*(The remainder of this page left blank intentionally.)*

## **CERTIFICATION OF THE COUNTY**

On behalf of the County, we hereby certify that to the best of our knowledge and belief, the information contained herein as of this date is true and correct in all material respects, and does not contain an untrue statement of material fact or omit to state a material fact required to be stated where necessary to make the statement made, in light of the circumstance under which they were made, not misleading.

/s/ Tim Burchett  
County Mayor

ATTEST:

/s/ Foster D. Arnett, Jr.  
County Clerk



## **APPENDIX A**

### **LEGAL OPINION**





**LAW OFFICES OF  
BASS, BERRY & SIMS PLC  
900 SOUTH GAY STREET, SUITE 1700  
KNOXVILLE, TENNESSEE 37902**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Knox County, Tennessee (the "Issuer") of the \$90,265,000 General Obligation Bonds, Series 2017 (the "Bonds"), dated May 1, 2017. We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the Board of County Commissioners of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the territorial limits of the Issuer.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolutions authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

## **APPENDIX B**

### **SUPPLEMENTAL INFORMATION STATEMENT**



**COUNTY OF KNOX, TENNESSEE**  
**SUPPLEMENTAL INFORMATION STATEMENT**

In addition to providing audited financial information as of and for the year ended June 30, 2015, the County of Knox, Tennessee, intends that this Supplemental Information Statement will be used, together with information specifically provided by the County for that purpose, in connection with the offering and issuance by the County of its securities.

The County has prepared a comprehensive annual financial report containing additional financial statements and other information for the periods covered by this Supplemental Information Statement.

Please contact Mr. Chris Caldwell, Director of Finance, City/County Building, 400 Main Avenue, Room 630, Knoxville, Tennessee 37902, 865-215-2350, for questions regarding information in this Supplemental Information Statement, copies of Comprehensive Annual Financial Reports, or placement on the mailing list for the Supplemental Information Statement.

The date of this Supplemental Information Statement is as of June 30, 2016, unless otherwise noted. The information, estimates, and expressions of opinion in this Supplemental Information Statement are subject to change without notice. The delivery of this Supplemental Information Statement shall not, under any circumstances, create any implication that there has been no material change in the affairs of the County since the date of this Supplemental Information Statement.

No person, except as noted on the cover page, has been authorized by the County to give any information or to make any representations not contained in this Supplemental Information Statement or any supplement which may be issued hereto, and if given or made, such other information or representations must not be relied upon as having been authorized.

*[balance of page left blank]*

# **COUNTY OF KNOX, TENNESSEE**

## **INTRODUCTION**

Knox County (the “County”) is located in the eastern portion of the State. Founded in 1791 where the French Broad and Holston Rivers converge to form the Tennessee River, The City of Knoxville (the “City”), the County seat, is the largest city in East Tennessee and ranks third largest in the state. The County is located in a broad valley between the Cumberland Mountains to the northwest and the Great Smoky Mountains to the southeast.

To the north, Union and Grainger Counties border the County. Jefferson and Sevier Counties make up the County's eastern border, while the County's southern border is provided by Blount and Loudon Counties. To the immediate west of the County lies Anderson County. Knoxville, the County seat, is located approximately 50 miles west of the North Carolina state line. Total land area of the County is approximately 528 square miles. It has a 2010 U.S. Census population of 432,226, which ranks it as the third largest county in Tennessee.

The City of Knoxville is the largest incorporated municipality in the County with a 2010 U. S. Census population of approximately 178,874 persons. The only other municipality within the County, Farragut, has a 2010 U.S. Census population of approximately 20,676 persons. The City has a land area of approximately 99.4 square miles within its corporate limits and is located on the Tennessee River near the geographic center of East Tennessee, a highly industrialized section of the State.

## **GOVERNMENTAL STRUCTURE**

The County has operated under a County Mayor/County Commission form of government since September 1, 1980, and a Home Rule Charter since September 1, 1990. Policy making and legislative authority are vested in the County Mayor (the Executive Branch of the County) and the County Commission (the Legislative Branch of the County). The County Commission is responsible, among other things, for passing ordinances, adopting the budget and appointing committees. The County Mayor is the Chief Fiscal Officer of the County and is responsible, among other things, for carrying out the policies and ordinances of the County Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of many of the County’s departments. The executive and administrative powers are vested in the County Mayor, who is elected at large for a four-year term. The County Mayor is authorized to administer, supervise and control all departments and to appoint all members of boards and commissions created by the County Charter or by ordinance enacted pursuant to the County Charter unless otherwise accepted. A majority plus one vote of the County Commission is required to override the County Mayor’s veto. The Charter also provides for a commission chairperson who is elected by the Commission for a one-year term and is the presiding officer of the Commission. The Commission is the legislative body of the County government and is composed of 11 members who are elected for four-year terms with one member elected from each of nine districts and two at large members.

The County and its Component Units, which are separate entities for which the County is financially accountable, provide a full range of services including, but not limited to, the construction and maintenance of highways, streets, and infrastructure; police protection; emergency telephone services; elementary and secondary education; community services; sanitation services; recreation and cultural events.

## **ADMINISTRATION**

The following are brief personal resumes of County Administration Officials:

### **TIM BURCHETT, COUNTY MAYOR**

Mr. Burchett was elected to serve a four-year term for Knox County from September 1, 2010 to August 31, 2014 and was subsequently re-elected to a second four-year term ending August 31, 2018. Mr. Burchett attended the University of Tennessee and earned a degree in education. Before being elected County Mayor, Mr. Burchett had served 16 years in the Tennessee General Assembly. In 1994 Mr. Burchett was elected to the Tennessee State House of Representatives, and then in 1998 he was elected to the first of three terms as 7<sup>th</sup> District Tennessee State Senator. He served as the chairman of the Budget Subcommittee in Finance, and was secretary of the Finance, Ways and Means Committee. Mr. Burchett also sat on the State and Local Government Committee, as well as the Commerce, Labor and Agriculture Committee.

## **CHRIS CALDWELL – DIRECTOR OF FINANCE**

Mr. Caldwell accepted the position of Senior Director of Finance for Knox County in 2012. Before accepting the position, he was the Accounting & Budgeting Director and has worked for Knox County since 2002. He has a Bachelor's of Business Administration from Lincoln Memorial University and a Master's in Business Administration from Bellevue University. He is currently a member of Government Finance Officers Association (GFOA) and Tennessee Government Finance Officers Association (TGFOA).

## **RICHARD ARMSTRONG - LAW DIRECTOR**

Mr. Armstrong grew up in the Skaggsston community of east Knox County, Tennessee. He received his Bachelor of Arts from the University of Tennessee, a Doctorate in Education from Columbia University, and Juris Doctorate from Nashville School of Law. Mr. Armstrong came to the Law Director's office from private practice where he represented clients across Tennessee. Prior to entering private practice, Mr. Armstrong worked as an environmental scientist for the Tennessee Valley Authority for thirty-two years. During his time with TVA, Bud advised local, state, and federal agencies on regulatory matters. Mr. Armstrong has served as a member of the Knox County Commission and on several local boards including the East Tennessee Historical Society, the Candoro Arts & Heritage Center and East Knox Business and Professional Association. He is a Past Master of Woodward Lodge F&AM, Knoxville Scottish Rite, and Kerbela Shrine.

# **FINANCIAL MANAGEMENT SYSTEM**

## **DEPARTMENT OF FINANCE**

The Department of Finance is responsible for all fiscal affairs, financial management and related systems of the County. The Director of Finance/Administration is in charge of overall County financial policy and reports directly to, and is appointed by, the County Mayor. The Director is the primary administrative officer responsible for accounting, financial reporting, debt policy and financial support systems. The activities of the department are currently organized into the following sections: Payroll, Accounting, Budget/Program, Purchasing, Mail, Finance Systems, and Risk Management.

## **FISCAL YEAR**

The County operates on a fiscal year that commences July 1 and ends June 30.

## **FINANCIAL REPORTING**

The County maintains a financial reporting system that provides timely and accurate reports on the County's financial position and the results of its operation. The County's financial statements are audited annually by independent certified public accountants. The reports of such accountants with respect to the County's financial statements for the fiscal year ended June 30, 2016, are included elsewhere in the Official Statement. The financial reporting entity (the Government) includes all the funds and the account groups of the primary government (i.e. the County) as well as all of its Component Units. Component Units are legally separate entities for which the Primary Government is financially accountable. Component Units are discretely presented in separate columns in the combined financial statements to emphasize that they are legally separate from the Primary Government and to differentiate their financial position, results of operations and cash flows from those of the Primary Government. The Knox County Board of Education (the School Board), Knox County Emergency Communications District (the District) and the Development Corporation of Knox County are reported as discretely presented Component Units in the County's annual financial statements.

Because of the close relationship between the County and the School Board and the fact that the School Board does not issue financial statements separate from those of the County, many of the supplemental schedules and other financial information are consolidated in the annual financial statements to more properly reflect the activities of the County and the School Board.

## **ACCOUNTING SYSTEM**

The Finance/Administration Department maintains separate accounting systems for the County and its Component Units except for the Development Corporation of Knox County and the Great Schools Partnership (a discretely presented component unit of the Knox County Board of Education), which maintain their own systems.

## **BASIS OF ACCOUNTING**

The County follows generally accepted accounting principles set forth in statements and interpretations issued by the Governmental Accounting Standards Board (GASB). Accounting records for general governmental operations are maintained on a modified accrual basis. Under this system, revenues are recorded when susceptible to accrual, that is, both measurable and available. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable and if the liability will be paid from expendable available financial resources. Budgetary control is maintained at each of the appropriate funds by a formal appropriation and encumbrance system. Salary expenditure and commitments such as purchase orders and contracts are recorded when the liability is incurred.

A comprehensive statement of the County's accounting policies, including significant changes in accounting practices during the fiscal year ended June 30, 2016 is presented in the Notes to Financial Statements in Appendix C.

## **FUND STRUCTURE**

The County has the following fund types:

1. **Governmental** Funds are used to account for the County's general government activities.
2. **Proprietary** Funds are used to account for ongoing activities and organizations that are similar to private enterprises.
3. **Fiduciary** Funds are used to account for assets held by the County in a trustee capacity or as an agent on behalf of others.

## **CASH MANAGEMENT SYSTEM**

Cash is invested in certificates of deposit, obligations of the U.S. Government, corporate bonds, and the State of Tennessee Local Government Investment Pool.

The County's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. Accordingly, the majority of deposits were either insured by federal depository insurance or collateralized.

## **BOND AUTHORIZATION**

Bonds are authorized on behalf of the County by an initial resolution (if not a refunding) and a detailed resolution of the County Commission, each of which requires a simple majority. The initial resolution must be published one time in a newspaper of general circulation in the County. Unless ten percent of the registered voters of the County protest the issuance of the Bonds within 20 days of publication, the Bonds may be issued as authorized.

## **SHORT TERM BORROWING**

Under the present Tennessee law, counties in Tennessee are authorized through their respective governing bodies upon approval by the State Director of Local Finance, to issue interest bearing bond anticipation notes and capital outlay notes for all municipal purposes for which general obligation bonds can be legally authorized and issued.

## **DEBT LIMIT**

Present Tennessee law provides that bonds may be issued by a county without regard to any limit on indebtedness.

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## **PROPERTY TAX**

### **ASSESSMENTS**

The property tax on real estate and personal property provides the County with a major source of revenue for a variety of functions. The property tax that can be levied is without limit as to rate or amount. The County Commission reserves and allocates a portion of the property tax rate among general government, public education and the repayment of the debt service.

All real estate and personal property, including some utilities not under the jurisdiction of the State of Tennessee, are assessed by the Knox County Assessor of Property. Utilities and carriers (railroads, truck lines, airlines, bus lines, etc.) are assessed by the State, and some intangible personal property assessments related to banks are assessed by the State Division of Property Assessments. The County completed a complete reappraisal of all properties in the County for the 2013 tax year collections and FY 2014. The 2014 appraised value is approximate market value as of that time. The ratio of assessment under the Property Assessment and Classification Act of 1973, provides for assessing farm and residential real property at 25% of the current market value, railroads, commercial and industrial real property at 40% of the current market value, personal property at 30% of the current market value, and real and personal property of public utilities is generally 40% of the current value.

With the 2014 appraisal completed, new appraisal changes in real estate will occur only when improvements are made to existing structures, demolition of existing structures occur, or when improvements were made on vacant property. Reappraisal does not occur based on property sales. Personal property assessments are made annually based upon returns submitted by the taxpayers and are, therefore, maintained on a current basis. Appraisals by the State of Tennessee for utilities and carriers are made annually based upon returns and are also maintained at current market value. The County plans to revise all assessments every four years in the future based on current market values.

Public utilities are assessed by the State of Tennessee and are automatically reviewed by the State Board of Equalization. These assessments include real estate and personal property on the basis of location and usage. Currently, under a ruling by the State Board of Equalization, the appraised value of public utilities is being reduced by multiplying it by a factor computed by dividing the appraised valuation for tax purposes of all real property within the County by the current market value. The assessed value is based on this reduced appraised value.

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## PROPERTY TAX LEVIES AND COLLECTIONS

<b>Fiscal Year Ended June 30</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY</b>		<b>Collections in Subsequent Years</b>	<b>TOTAL COLLECTION TO DATE</b>	
		<b><u>Amount</u></b>	<b><u>Percentage of Levy</u></b>		<b><u>Amount</u></b>	<b><u>Percentage of Levy</u></b>
2007	\$214,476	\$207,118	96.6%	\$ 7,201	\$214,319	99.9%
2008	223,256	215,195	96.4%	7,864	223,059	99.9%
2009	232,373	221,475	95.3%	10,566	232,041	99.9%
2010	237,469	227,064	95.6%	9,939	237,003	99.8%
2011	240,062	230,908	96.2%	8,558	239,466	99.8%
2012	243,793	234,803	96.3%	8,167	242,970	99.7%
2013	248,573	240,734	96.8%	6,756	247,490	99.6%
2014	251,167	244,964	97.5%	4,651	249,615	99.4%
2015	255,177	248,448	97.4%	4,021	254,469	99.0%
2016	259,457	251,951	97.1%	932	252,883	97.5%

\* Amounts expressed in thousands

Source: 2016 Knox County, Tennessee Comprehensive Annual Financial Report.

Property Taxes are normally due on August 1 and become delinquent on the following March 1 each year. A penalty of 1% accrues the first of each month taxes remain delinquent and interest accrues at ½% per month until paid.

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## ASSESSED AND ACTUAL VALUE OF TAXABLE PROPERTY

<b>Tax Year*</b>	<b>REAL PROPERTY</b>		<b>PERSONAL PROPERTY</b>		<b>PUBLIC UTILITY PROPERTY</b>	<b>Total Assessed Value</b>
	<b>Assessed Value</b>	<b>Actual Value</b>	<b>Assessed Value</b>	<b>Actual Value</b>	<b>Assessed Value</b>	
2006	\$7,255,065,650	\$27,802,132,373	\$542,154,459	\$1,807,181,530	\$255,770,424	\$8,052,990,533
2007	7,635,792,420	29,423,731,801	499,933,519	1,832,466,531	246,497,046	8,382,222,985
2008	7,976,427,050	30,721,021,883	508,763,916	1,864,833,649	253,346,840	8,738,537,806
2009	9,362,397,250	32,825,951,200	560,310,232	1,867,700,773	280,334,439	10,203,041,921
2010	9,487,154,290	33,269,026,900	528,662,092	1,762,206,973	263,184,246	10,279,000,628
2011	9,616,297,845	33,731,135,812	543,061,119	1,812,105,998	274,110,589	10,433,469,553
2012	9,711,747,868	33,930,700,639	591,845,675	1,976,239,726	273,717,371	10,577,310,914
2013	10,012,139,066	34,680,083,345	616,746,814	2,055,289,398	264,507,966	10,893,393,846
2014	10,129,496,628	34,713,275,661	630,715,359	2,100,718,093	277,646,472	11,037,858,459
2015	10,281,353,708	36,919,465,794	639,749,886	2,213,323,837	282,369,358	11,203,472,952

Source: Tax Aggregate Reports of Tennessee prepared by the State Board of Equalization for the Tax Years 2006 through 2015.

\* The Tax Year coincides with the calendar year; therefore, Tax Year 2015 is actually Fiscal Year 2015-2016.

## PROPERTY TAX RATE DISTRIBUTION

	<b>Fiscal Year Ended June 30,</b>				
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
General Government	\$0.97	\$0.97	\$0.96	\$0.96	\$0.97
Schools	\$1.08	\$1.08	\$1.06	\$0.88	\$0.88
Debt Service Fund	<u>\$0.31</u>	<u>\$0.31</u>	<u>\$0.30</u>	<u>\$0.48</u>	<u>\$0.47</u>
<b>Total Tax Levy</b>	<b><u>\$2.36</u></b>	<b><u>\$2.36</u></b>	<b><u>\$2.32</u></b>	<b><u>\$2.32</u></b>	<b><u>\$2.32</u></b>

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

## TAX RATE LIMITATIONS

The Ad Valorem (Real Estate Personal Property) tax levy is without legal limit as to rate or amount.

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## TEN LARGEST TAXPAYERS

<u>Taxpayer</u>	<u>Industry</u>	<u>Assessed Property Valuation</u>	<u>Total Assessed Property Valuation</u>
Metro Knoxville	Government	\$ 62,023,720	0.55%
Bell South	Telephone	57,971,024	0.52%
Verizon Wireless Communication	Telephone	32,699,211	0.29%
AT&T Mobility Inc	Telephone	29,611,896	0.26%
West Town Mall	Commercial	27,749,840	0.25%
Exedy America Corp	Manufacturing	16,889,854	0.15%
Tennessee Holding LLC	Real Estate	14,800,000	0.13%
Hart TC L-LI LLC	Commercial	14,578,840	0.13%
UPS, Inc.	Delivery	14,345,446	0.13%
Norfolk Southern	Railroad	<u>12,720,951</u>	<u>0.11%</u>
<b>FY 2016 Assessed Property Valuation for ten largest payers</b>		<b>\$ 283,390,782</b>	<b>2.52%</b>
Balance of Assessed Valuation		<u>10,920,082,170</u>	<u>97.48%</u>
<b>TOTAL ASSESSED VALUATION</b>		<b><u>\$11,203,472,952</u></b>	<b><u>100.00%</u></b>

Source: 2016 Knox County, Tennessee Comprehensive Annual Financial Report.

## GENERAL SALES TAX

The County's General (Local) Sales Tax is currently levied at a rate of 2.25%.

## FINANCIAL INFORMATION

### BUDGETING AND APPROPRIATIONS PROCEDURES

The County's financial plans are embodied in the annual capital improvement plan and operating budget. The budget reflects the projection of all revenues from and expenditures to all sources and present the level of governmental services and the method of distributing costs to the various segments of the County through the collection of taxes and fees.

The Commission has the final responsibility for establishing program and fiscal policies, approving the annual operating budget and the capital improvements plan, and setting the tax rate and fees for services. The administration is responsible for proposing programs and recommending funding levels to the Commission and for implementing service programs in accordance with the established goals and objectives.

Operating Budget - The annual operating budget is submitted to the Commission approximately 30 days prior to the end of the fiscal year. By the last day of the fiscal year, the Commission is expected to approve the operating budget. No later than the passage of the operating budget resolution, the Commission must enact such revenue measures required to balance the budget.

Capital Improvement Plan - The capital improvement plan is prepared annually to detail capital expenditures planned for each of the five ensuing fiscal years. The total cost of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The capital improvement plan is prepared and recommended by the County Mayor and transmitted to the Commission for adoption. The capital improvement plan authorizes in detail the capital expenditures to be made or incurred in the next five ensuing fiscal years and is adopted by the Commission concurrently with the operating budget.

Additional appropriations for each capital project in the capital improvement plan must precede the expenditures of the funds. Generally, the timetable for approval of the capital plan closely parallels that of the operating budget.

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**KNOX COUNTY, TENNESSEE**  
**Outstanding General Obligation Debt by Issues**

Purpose & Series	Interest Rate	Due Date	Outstanding Amounts			As of June 30, 2016
			Primary Government	Component Unit - School Board	Total Bonded Debt	
Series B-19-A Bonds (Women's Hall of Fame)	Fixed	6/1/2018	\$ 1,260,000	\$ -	1,260,000	
Series 2003A Refunding Bonds	Fixed	2/1/2017	1,815,167	4,134,834	5,950,000	
Series C-1-A Bonds	Synthetic Fixed <sup>3</sup>	6/1/2029	35,383,333	17,691,667	53,075,000	
Series VI-A-1 Bonds	Synthetic Fixed <sup>3</sup>	6/1/2029	25,500,000	34,000,000	59,500,000	
Series 2004 Refunding Bonds	Fixed	4/1/2020	8,509,173	12,005,827	20,515,000	
Series 2005A Refunding Bonds	Fixed	5/1/2021	16,821,875	10,093,125	26,915,000	
Series D-3-A Bonds	Synthetic Fixed <sup>3</sup>	6/1/1934	40,811,688	22,038,312	62,850,000	
Series VI-K-1 Bonds	Variable <sup>2</sup>	6/1/2034	50,450,000	18,550,000	69,000,000	
Series C-3-A Bonds	Variable <sup>2</sup>	6/1/2029	19,597,500	10,552,500	30,150,000	
General Obligation Bonds, Series 2010A (Federally Taxable Build America Bonds)	Fixed	6/1/2035	850,000	15,000,000	15,850,000	
General Obligation Refunding Bonds, Series 2010B	Fixed	4/1/2035	29,365,000	-	29,365,000	
General Obligation Bonds, Series 2010C	Fixed	4/1/2024	7,270,000	14,210,000	21,480,000	
Qualified School Construction Bond, Series 2010 Loan Agreement (Estimated)	Fixed	2027	-	20,418,643	20,418,643	
General Obligation Bonds, Series 2010D (Federally Taxable Build America Bonds)	Fixed	6/1/2035	16,825,000	-	16,825,000	
General Obligation Bonds, Series 2012	Fixed	4/1/2032	5,300,000	8,400,000	13,700,000	
EESI Loan, Series 2012	Fixed	7/1/2024	-	3,422,170	3,422,170	
Capital Lease, Series 2013	Fixed	2/1/2028	-	10,821,209	10,821,209	
General Obligation Bonds, Series 2013	Fixed	6/1/2035	19,500,000	17,910,000	37,410,000	
Capital Lease, Series 2014	Fixed	8/1/2030	-	14,362,230	14,362,230	
General Obligation Bonds, Series 2014A	Fixed	6/1/2036	14,755,000	14,510,000	29,265,000	
General Obligation Bonds, Series 2014B (Federally Taxable)	Fixed	6/1/2027	50,600,000	2,635,000	53,235,000	
General Obligation Refunding Bonds, Series 2015	Fixed	6/1/2019	4,745,000	7,580,000	12,325,000	
Qualified Energy Conservation Bond, Series 2015 (Solar)	Fixed	2/1/2036	9,239,123	3,140,942	12,380,065	
General Obligation Bonds, Series 2016	Fixed	6/1/2036	16,515,000	19,385,000	35,900,000	
<b>Total Long-Term Debt - Primary Government</b>			<b>\$ 375,112,859</b>	<b>\$ 280,861,458</b>	<b>\$ 655,974,317</b>	
<b>Current Issue</b>						
\$90,265,000 General Obligation Bonds, Series 2017	Fixed	6/1/2037	31,680,000	58,585,000	90,265,000	
			<b>\$ 406,792,859</b>	<b>\$ 339,446,458</b>	<b>\$ 746,239,317</b>	

**Notes:**

1. The above figures do not include short-term notes outstanding and leases, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein. .

2. Knox County budgets to account for interest rate risk.

3. The Series C-1-A, Series VI-A-1 & Series D-3-A Bonds have been swapped to a synthetic fixed rate. The County budgets to account for basis risk.

**KNOX COUNTY, TENNESSEE**  
Indebtedness and Debt Ratios

**INTRODUCTION**

The information set forth in the following table is based upon information derived in part from the GENERAL PURPOSE FINANCIAL STATEMENTS which are attached herein and the table should be read in conjunction with those statements. The table does not include future funding plans whether disclosed or not in this OFFICIAL STATEMENT.

	For the Fiscal Year Ended June 30					After Issuance
	2012	2013	2014	2015	2016	2017
Estimated Population <sup>2</sup>	441,132	444,622	448,644	451,324	451,324	451,324
Actual Property Valuation <sup>3</sup>	35,615,443,029	36,758,399,385	37,593,555,267	38,196,474,846	37,814,716,674	37,814,716,674
Assessed Valuation	10,433,469,553	10,577,310,914	10,893,393,846	11,037,858,459	11,203,472,952	11,203,472,952
Total Long-Term Debt	669,015,766	644,798,509	663,879,665	665,567,816	655,974,318	746,239,317
Less: Debt Service Fund	(22,273,747)	(24,601,896)	(25,668,971)	(23,711,404)	(24,270,960)	(24,270,960)
Net Long-Term Indebtedness	646,742,019	620,196,613	638,210,694	641,856,412	631,703,358	721,968,357
Total Overlapping Debt	178,390,000	168,895,000	159,435,000	180,795,000	170,945,000	170,945,000
Total Overlapping Debt & Net Bonded Indebtedness	825,132,019	789,091,613	797,645,694	822,651,412	802,648,358	892,913,357
Bonded Debt per Capita - Total Debt	1,517	1,450	1,480	1,475	1,453	1,653
Bonded Debt per Capita - Net Debt	1,466	1,395	1,423	1,422	1,400	1,600
Overlapping & Net Bonded Debt per Capita	1,870	1,775	1,778	1,823	1,778	1,978
<b>Debt Ratios</b>						
Bond Debt to Actual Valuation - Total Debt	1.88%	1.75%	1.77%	1.74%	1.73%	1.97%
Bonded Debt to Actual Valuation - Net Debt	1.82%	1.69%	1.70%	1.68%	1.67%	1.91%
Overlapping & Net Bonded Debt to Actual	2.32%	2.15%	2.12%	2.15%	2.12%	2.36%
Bonded Debt to Assessed Valuation - Total Debt	6.41%	6.10%	6.09%	6.03%	5.86%	6.66%
Bonded Debt to Assessed Valuation - Net Debt	6.20%	5.86%	5.86%	5.82%	5.64%	6.44%
Overlapping & Net Bonded Debt to Assessed	7.91%	7.46%	7.32%	7.45%	7.16%	7.97%

Source: Knox County, Tennessee Comprehensive Financial Reports and Tax Aggregate Reports of Tennessee Prepared by the State Board of Equalization.

<sup>1</sup> In fiscal year 2011, the County completed a reappraisal of real and personal property.

<sup>2</sup> Population figures are from the US Census Bureau.

<sup>3</sup> Does not include actual utility property.

**KNOX COUNTY, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS - General Obligation**

F.Y. Ended 6/30	Existing Debt - General Obligation (1) As of June 30, 2016					General Obligation Bonds, Series 2017					Total Bonded Debt Service Requirements				
	Principal	Interest (2)	Estimated Treasury Rebate (4)	Estimated Sequestration Reduction (4)	TOTAL	Principal	Interest (3)	TOTAL	% Principal Repaid (2016 Bonds)	Principal	Interest (2)	Estimated Treasury Rebate (4)	Estimated Sequestration Reduction (4)	TOTAL	% Principal Repaid (All Debt)
2017	\$ 44,835,266	\$ 26,240,690	\$ (1,040,551)	\$ 82,971	\$ 70,118,376	\$ -	\$ -	\$ -	-	\$ 44,835,266	\$ 26,240,690	\$ (1,040,551)	\$ 82,971	\$ 70,118,376	
2018	41,839,756	24,290,930	(1,030,259)	82,245	65,182,671	2,535,000	3,995,252	6,530,252		44,374,756	28,286,182	(1,030,259)	82,245	71,712,923	
2019	42,518,361	22,708,353	(1,015,532)	81,149	64,292,331	2,975,000	3,561,175	6,536,175		45,493,361	26,269,528	(1,015,532)	81,149	70,828,506	
2020	40,536,268	21,074,364	(999,376)	79,944	60,691,200	3,120,000	3,412,425	6,532,425	9.56%	43,656,268	24,486,789	(999,376)	79,944	67,223,625	23.90%
2021	38,443,663	19,452,901	(975,304)	78,067	56,999,327	3,275,000	3,256,425	6,531,425		41,718,663	22,709,326	(975,304)	78,067	63,530,752	
2022	32,570,710	18,108,512	(948,324)	75,956	49,806,853	3,440,000	3,092,675	6,532,675		36,010,710	21,201,187	(948,324)	75,956	56,339,528	
2023	33,672,624	17,031,229	(914,776)	73,291	49,862,369	3,615,000	2,920,675	6,535,675		37,287,624	19,951,904	(914,776)	73,291	56,398,044	
2024	33,859,584	15,907,757	(880,138)	70,552	48,957,755	3,790,000	2,739,925	6,529,925		37,649,584	18,647,682	(880,138)	70,552	55,487,680	
2025	32,325,514	14,746,464	(844,754)	67,768	46,294,992	3,985,000	2,550,425	6,535,425	29.62%	36,310,514	17,296,889	(844,754)	67,768	52,830,417	49.23%
2026	34,048,552	13,598,193	(808,965)	64,970	46,902,750	4,180,000	2,351,175	6,531,175		38,228,552	15,949,368	(808,965)	64,970	53,433,925	
2027	35,293,232	12,380,177	(758,025)	60,877	46,976,261	4,390,000	2,142,175	6,532,175		39,683,232	14,522,352	(758,025)	60,877	53,508,436	
2028	35,612,373	10,339,028	(710,913)	57,141	45,297,630	4,615,000	1,922,675	6,537,675		40,227,373	12,261,703	(710,913)	57,141	51,835,305	
2029	35,990,956	9,351,659	(661,451)	53,226	44,734,390	4,795,000	1,738,075	6,533,075		40,785,956	11,089,734	(661,451)	53,226	51,267,465	
2030	29,491,630	7,797,881	(609,571)	49,126	36,729,066	5,035,000	1,498,325	6,533,325	55.12%	34,526,630	9,296,206	(609,571)	49,126	43,262,391	75.15%
2031	29,979,070	6,500,875	(536,262)	43,189	35,986,872	5,285,000	1,246,575	6,531,575		35,264,070	7,747,450	(536,262)	43,189	42,518,447	
2032	30,492,779	5,182,618	(459,639)	36,993	35,252,751	5,445,000	1,088,025	6,533,025		35,937,779	6,270,643	(459,639)	36,993	41,785,776	
2033	30,753,786	3,806,705	(375,125)	30,141	34,215,507	5,610,000	924,675	6,534,675		36,563,786	4,731,380	(375,125)	30,141	40,750,182	
2034	32,167,257	2,395,586	(285,789)	22,900	34,299,955	5,775,000	756,375	6,531,375		37,942,257	3,151,961	(285,789)	22,900	40,831,330	
2035	15,808,306	916,273	(191,261)	15,242	16,548,560	5,950,000	583,125	6,533,125	86.21%	21,758,306	1,499,398	(191,261)	15,242	23,081,685	97.56%
2036	5,207,048	196,818	(44,348)	3,060	5,362,578	6,130,000	404,625	6,534,625	100.00%	11,337,048	601,443	(44,348)	3,060	11,897,203	
2037	527,581	11,976	(8,993)	620	531,185	6,320,000	205,400	6,525,400		6,847,581	217,376	(8,993)	620	7,056,585	100.00%
	<b>\$ 655,974,317</b>	<b>\$ 252,038,989</b>	<b>\$ (14,099,355)</b>	<b>\$ 1,129,428</b>	<b>\$ 895,043,379</b>	<b>\$ 90,265,000</b>	<b>\$ 40,390,202</b>	<b>\$ 130,655,202</b>		<b>\$ 746,239,317</b>	<b>\$ 292,429,191</b>	<b>\$ (14,099,355)</b>	<b>\$ 1,129,428</b>	<b>\$ 1,025,698,582</b>	

**NOTES:**

- (1) The above figures do not include short-term notes outstanding and leases, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein. Additionally, does not included a 2013 lease of \$5,962,500 for computers (the "2013 Lease") entered into by the County for the Knox County Board of Education. The 2013 Lease has a final payment in 2016 and had a balance at June 30, 2015 of \$2,981,290.
- (2) The County budgets to account for interest rate and/or basis risk.
- (3) Estimated Average Rate of 3.10%.
- (4) The original federal subsidy of 35.0% on the Federally Taxable Build America Bonds (General Obligation Bonds, Series 2010A and General Obligation Bonds, Series 2010D) and 75.088% of the interest on the Qualified Energy Conservation Bond, Series 2015 (Solar Lease) have been reduced by 6.9% for the federal fiscal year ending September 30, 2017 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2017, the sequestration rate will be subject to change.



**KNOX COUNTY, TENNESSEE**  
CAPITAL IMPROVEMENT PLAN - ADOPTED PROJECTS SUMMARY  
FY 2017 THROUGH FY 2021

DESCRIPTION	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
Countywide Projects	\$ 18,519,141	\$ 2,200,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 21,619,141
Public Libraries	151,759	-	-	-	-	151,759
Parks & Recreation	350,000	100,000	200,000	200,000	200,000	1,050,000
Building Improvements/Major Maintenance	1,104,100	900,000	1,000,000	1,000,000	1,000,000	5,004,100
Engineering and Public Works						
Highways	\$ 9,500,000	\$ 11,950,000	\$ 11,550,000	\$ 9,550,000	\$ 11,050,000	\$ 53,600,000
Solid Waste	100,000	-	-	-	-	100,000
Stormwater Management	645,000	625,000	625,000	635,000	635,000	3,165,000
Facility Improvements	300,000	230,000	105,000	55,000	155,000	845,000
Total Engineering and Public Works	\$ 10,545,000	\$ 12,805,000	\$ 12,280,000	\$ 10,240,000	\$ 11,840,000	\$ 57,710,000
Knox County Schools -- School Debt	\$ 63,750,000	\$ 10,000,000	\$ 12,400,000	\$ 7,400,000	\$ 7,400,000	\$ 100,950,000
Major Equipment	\$ 3,800,000	\$ -	\$ -	\$ -	\$ -	\$ 3,800,000
<b>TOTAL OF ALL PROJECTS</b>	<b>\$ 98,220,000</b>	<b>\$ 26,005,000</b>	<b>\$ 26,180,000</b>	<b>\$ 19,140,000</b>	<b>\$ 20,740,000</b>	<b>\$ 190,285,000</b>

**KNOX COUNTY, TENNESSEE**  
Five Year Summary of Revenues, Expenditures and  
Changes in Fund Balances - General Fund

	<b>Fiscal Year Ended June 30,</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Revenues:</b>					
Local Taxes	\$ 124,871,101	\$ 128,381,088	\$ 128,079,612	\$ 131,190,563	\$ 135,514,941
Licenses and Permits	3,586,182	3,701,844	3,827,598	4,214,130	4,415,268
Fines, Forfeitures and Penalties	1,904,656	2,710,496	2,246,055	2,307,617	2,716,773
Charges for Current Services	3,887,795	4,562,900	6,007,089	6,851,745	7,152,072
Other Local Revenues	3,894,081	8,749,400	7,088,972	4,744,620	4,827,617
State of Tennessee	11,291,662	11,229,915	9,757,201	12,381,044	13,883,964
Federal Government	667,926	734,813	1,297,509	1,169,552	1,208,814
Fees Received from County Officials	547,301	-	-	-	-
Other Governments & Citizen Groups	3,457,546	320,723	560,118	356,251	588,883
Payments from Component Unit	331,142	-	-	-	-
Increase in Equity Interest in Joint Venture	-	918,162	-	-	-
<b>Total Revenue</b>	<b>\$ 154,439,392</b>	<b>\$ 161,309,341</b>	<b>\$ 158,864,154</b>	<b>\$ 163,215,522</b>	<b>\$ 170,308,332</b>
<b>Expenditures:</b>					
General Government:					
Finance and Administration	\$ 26,454,382	\$ 28,476,535	\$ 29,291,740	\$ 30,028,212	\$ 34,090,640
Administration of Justice	15,327,858	15,719,185	16,229,625	16,639,890	17,389,378
Public Safety	68,423,646	69,976,568	72,151,783	75,421,424	79,519,315
Public Health and Welfare	19,159,669	19,659,334	20,698,855	20,037,786	20,408,909
Social and Cultural Services	4,158,762	4,287,559	4,527,355	4,769,053	5,123,600
Agricultural and Natural Resources	365,774	435,231	519,433	470,977	490,451
Other General Government	12,245,436	14,173,278	15,719,681	16,858,562	16,487,712
<b>Total Expenditures</b>	<b>\$ 146,135,527</b>	<b>\$ 152,727,690</b>	<b>\$ 159,138,472</b>	<b>\$ 164,225,904</b>	<b>\$ 173,510,005</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 8,303,865</b>	<b>\$ 8,581,651</b>	<b>\$ (274,318)</b>	<b>\$ (1,010,382)</b>	<b>\$ (3,201,673)</b>
Other Financing Sources (Uses)	\$ 452,933	\$ (1,606,594)	\$ 97,583	\$ 4,670,796	\$ 5,734,678
<b>Excess Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>\$ 8,756,798</b>	<b>\$ 6,975,057</b>	<b>\$ (176,735)</b>	<b>\$ 3,660,414</b>	<b>\$ 2,533,005</b>
Fund Balance, July 1	\$ 52,582,335	\$ 61,339,133	\$ 66,265,258	\$ 66,088,523	\$ 69,748,937
Prior Period Adjustment	-	(2,048,932)	-	-	-
<b>Fund Balance, June 30</b>	<b>\$ 61,339,133</b>	<b>\$ 66,265,258</b>	<b>\$ 66,088,523</b>	<b>\$ 69,748,937</b>	<b>\$ 72,281,942</b>

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

**KNOX COUNTY, TENNESSEE**  
Five Year Summary of Revenues, Expenditures and  
Changes in Fund Balances - Debt Service Fund

	Fiscal Year Ended June 30,				
	2012	2013	2014	2015	2016
<b>Revenues:</b>					
Local Taxes	\$ 32,380,337	\$ 32,886,294	\$ 33,375,647	\$ 52,224,314	\$ 52,316,064
Other Local Revenues	-	-	70,000	2,208,630	2,580,575
Other Governments/Citizens Groups	-	-	-	-	-
Payments from Component Units	30,770,645	32,601,668	31,929,023	10,000,000	13,022,088
Interest Earned	2,066,857	2,093,793	2,013,916	-	-
<b>Total Revenue</b>	<b>\$ 65,217,839</b>	<b>\$ 67,581,755</b>	<b>\$ 67,388,586</b>	<b>\$ 64,432,944</b>	<b>\$ 67,918,727</b>
<b>Expenditures:</b>					
Debt Service:					
Contracted Services	\$ 2,599,751	\$ 1,826,198	\$ 1,628,599	\$ 1,533,801	\$ 1,533,600
Trustee Commission	650,744	678,399	680,090	1,058,983	1,074,820
Principal	35,615,702	37,766,083	40,630,308	43,975,347	44,203,336
Interest	25,888,063	24,982,926	23,577,780	20,716,774	20,742,805
Debt Issuance Costs	149,005	-	-	395,053	-
<b>Total Expenditures</b>	<b>\$ 64,903,265</b>	<b>\$ 65,253,606</b>	<b>\$ 66,516,777</b>	<b>\$ 67,679,958</b>	<b>\$ 67,554,561</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 314,574</b>	<b>\$ 2,328,149</b>	<b>\$ 871,809</b>	<b>\$ (3,247,014)</b>	<b>\$ 364,166</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of Bonds	\$ 22,618,363	\$ -	\$ -	\$ 72,860,000	\$ -
Operating Transfers In - Other Funds	1,201,227	-	195,266	894,394	195,390
Operating Transfers to Other Funds	(943,818)	-	-	1,716,531	-
Payment to Refunded Bond Escrow Agent	(22,469,358)	-	-	(74,181,478)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 406,414</b>	<b>\$ -</b>	<b>\$ 195,266</b>	<b>\$ 1,289,447</b>	<b>\$ 195,390</b>
<b>Excess Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>\$ 720,988</b>	<b>\$ 2,328,149</b>	<b>\$ 1,067,075</b>	<b>\$ (1,957,567)</b>	<b>\$ 559,556</b>
Fund Balance, July 1	\$ 22,151,482	\$ 22,872,470	\$ 24,601,896	\$ 25,668,971	\$ 23,711,404
Prior Period Adjustment	-	(598,723)	-	-	-
<b>Fund Balance, June 30</b>	<b>\$ 22,872,470</b>	<b>\$ 24,601,896</b>	<b>\$ 25,668,971</b>	<b>\$ 23,711,404</b>	<b>\$ 24,270,960</b>

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

**KNOX COUNTY, TENNESSEE**  
Five Year Summary of Revenues, Expenditures and  
Changes in Fund Balances - Capital Projects Fund

	Fiscal Year Ended June 30,				
	2012	2013	2014	2015	2016
<b>Revenues:</b>					
Other Local Revenues	\$ 3,248,666	\$ 548,095	\$ 81,185	\$ 55,964	\$ 456,435
State of Tennessee	81,490	1,385,619	1,611,771	4,153,588	96,412
Federal Government	-	-	-	-	-
Other Governments and Citizens Groups	-	-	-	-	498,094
Payments from Component Unit	2,500,000	-	-	-	-
Interest Earned	27,266	105,943	(3,365)	(432)	1,609
<b>Total Revenue</b>	<b>\$ 5,857,422</b>	<b>\$ 2,039,657</b>	<b>\$ 1,689,591</b>	<b>\$ 4,209,120</b>	<b>\$ 1,052,550</b>
<b>Expenditures:</b>					
Debt Proceeds Paid to Component Unit	\$ 13,578,202	\$ 13,182,024	\$ 38,763,934	\$ 24,271,315	\$ 19,385,000
Other General Government	-	-	15,971	-	160,761
Debt Issuance Costs	106,387	13,295	745,863	209,442	196,957
Capital Projects	7,866,153	29,402,147	18,403,407	18,245,016	26,501,590
<b>Total Expenditures</b>	<b>\$ 21,550,742</b>	<b>\$ 42,597,466</b>	<b>\$ 57,929,175</b>	<b>\$ 42,725,773</b>	<b>\$ 46,244,308</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ (15,693,320)</b>	<b>\$ (40,557,809)</b>	<b>\$ (56,239,584)</b>	<b>\$ (38,516,653)</b>	<b>\$ (45,191,758)</b>
<b>Other Financing Sources (Uses):</b>					
Loan and Note Proceeds	\$ 5,000,000	\$ -	\$ 5,962,500	\$ -	\$ -
Capital Lease Proceeds	-	13,182,024	14,872,404	12,450,000	-
Bond Proceeds	14,400,000	-	39,075,000	30,040,000	35,900,000
Operating Transfers In - Other Funds	4,816,643	5,855,375	1,574,999	125,320	411,890
Operating Transfers Out - Other Funds	-	-	-	-	-
Premium on Debt Issuance	254,526	-	350,920	1,484,442	2,206,016
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 24,471,169</b>	<b>\$ 19,037,399</b>	<b>\$ 61,835,823</b>	<b>\$ 44,099,762</b>	<b>\$ 38,517,906</b>
<b>Excess Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>\$ 8,777,849</b>	<b>\$ (21,520,410)</b>	<b>\$ 5,596,239</b>	<b>\$ 5,583,109</b>	<b>\$ (6,673,852)</b>
Fund Balance, July 1	\$ 14,214,533	\$ 22,992,382	\$ 1,471,972	\$ 7,068,211	\$ 12,651,320
Prior Period Adjustment	-	-	-	-	-
<b>Fund Balance, June 30</b>	<b>\$ 22,992,382</b>	<b>\$ 1,471,972</b>	<b>\$ 7,068,211</b>	<b>\$ 12,651,320</b>	<b>\$ 5,977,468</b>

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

# KNOX COUNTY, TENNESSEE

## Five Year Summary of Revenues, Expenditures and Changes in Fund Balances - General Government and Board of Education Funds

	Fiscal Year Ended June 30,				
	2012	2013	2014	2015	2016
<b>Revenues by Source (A):</b>					
Local Taxes (B) (C)	\$ 426,266,094	\$ 431,370,426	\$ 434,761,441	\$ 447,818,976	\$ 462,731,610
Licenses and Permits	3,618,538	3,733,685	3,860,218	4,247,898	4,452,945
Fines and Forfeitures	2,814,573	3,635,407	2,949,034	3,209,888	3,530,766
Charges for Current Services	38,506,945	40,168,214	39,961,282	38,019,050	42,599,250
Other Local Revenues (D)	13,784,016	18,520,189	15,438,087	16,514,423	22,168,932
State of Tennessee (C)	187,336,085	196,818,513	198,333,974	207,027,060	212,426,869
Federal Government	75,588,613	66,803,134	64,010,618	66,813,623	67,859,354
Other Governments and Citizens Groups	4,173,386	6,142,056	7,602,563	6,358,603	5,338,221
Interest Earned (C)	744	133,824	30,575	25,092	29,928
Payment from Primary Govt (C)	1,182,000	4,052,000	42,815,934	28,323,315	26,437,000
Payments from Component Unit	39,370,065	35,243,542	35,077,018	12,162,546	13,974,070
Debt Proceeds Recvd from Primary Gvt (C)	13,578,202	13,182,024	-	-	-
Increase in Equity Interest in Jt Venture	331,142	2,214,606	-	-	-
Investment Revenue / Loss	2,111,750	918,162	2,023,800	15,686	18,121
<b>Total Revenues by Source</b>	<b>\$ 808,662,153</b>	<b>\$ 822,935,782</b>	<b>\$ 846,864,544</b>	<b>\$ 830,536,160</b>	<b>\$ 861,567,066</b>
<b>Expenditures by Function (A):</b>					
General Government (E)	\$ 220,473,608	\$ 225,399,408	\$ 259,959,253	\$ 253,158,478	\$ 259,765,725
Education	516,299,828	549,195,293	568,251,466	533,451,214	541,212,265
Debt Service (F)	64,903,265	65,266,901	66,516,777	67,679,958	67,554,561
Capital Projects	8,146,618	29,757,038	18,415,728	18,251,855	26,594,126
<b>Total Expenditures by Function</b>	<b>\$ 809,823,319</b>	<b>\$ 869,618,640</b>	<b>\$ 913,143,224</b>	<b>\$ 872,541,505</b>	<b>\$ 895,126,677</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ (1,161,166)</b>	<b>\$ (46,682,858)</b>	<b>\$ (66,278,680)</b>	<b>\$ (42,005,345)</b>	<b>\$ (33,559,611)</b>
<b>Other Financing Sources (Uses):</b>					
Bond/Note Proceeds and Transfers In	\$ 38,425,784	\$ 51,772,943	\$ 91,333,184	\$ 62,555,860	\$ 63,295,140
Transfers Out	(20,863,456)	(42,701,025)	(36,402,440)	(18,830,128)	(27,385,451)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 17,562,328</b>	<b>\$ 9,071,918</b>	<b>\$ 54,930,744</b>	<b>\$ 43,725,732</b>	<b>\$ 35,909,689</b>
<b>Excess Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>\$ 16,401,162</b>	<b>\$ (37,610,940)</b>	<b>\$ (11,347,936)</b>	<b>\$ 1,720,387</b>	<b>\$ 2,350,078</b>
Fund Balance, July 1	174,026,475	190,427,637	151,687,047	139,601,225	141,321,612
Prior Period Adjustment	-	(1,129,650)	(737,886)	-	-
<b>Fund Balance, June 30</b>	<b>\$ 190,427,637</b>	<b>\$ 151,687,047</b>	<b>\$ 139,601,225</b>	<b>\$ 141,321,612</b>	<b>\$ 143,671,690</b>

Source: Knox County, Tennessee Comprehensive Annual Financial Reports.

### Notes:

- (A) Includes the General, Special Revenue, Capital Projects, Debt Service and Other Funds for the County and the Total Governmental Funds for the Board.
- (B) Local taxes includes Real and Personal Property Taxes, Hotel/Motel Taxes and Local Option Sales Tax.
- (C) In fiscal year 1988, the Board acquired the City of Knoxville School System through a Countywide consolidation.
- (D) Includes interest income, other local revenues, and payments from Component Unit to Primary Government.
- (E) General government expenditures include administration, criminal justice, public safety, health, community services, recreation and public works.
- (F) Debt Service includes principal and interest expenditures for General Bonded Debt, Notes, and certain capital leases.

## **RETIREMENT SYSTEMS AND PLANS**

### **KNOX COUNTY AND BOARD OF EDUCATION**

County and Board employees are covered by a variety of retirement plans. These plans fall into two categories - defined contribution and defined benefit plans. The majority of County and Board employees participate in a *defined contribution plan*. Those not included in the defined contribution plan are: certificated teachers covered under the Board's Article 11 Defined Benefit Plan for former Knoxville City School teachers; all certificated County school teachers; certain non-certificated employees who elected not to transfer to the defined contribution plan; and sworn officers in the Sheriff's Office who elected to transfer to the Uniformed Officers Pension Plan (the "UOPP") as of July 1, 2007, plus the sworn officers who were hired between July 1, 2007 and December 31, 2013. The UOPP was closed to new members effective January 1, 2014. County certificated school teachers participate in the State Retirement Plan for Teachers as administered by the Tennessee Consolidated Retirement System (TCRS). Certain County Officials also participate in this plan.

The State of Tennessee provides benefits for participants in the TCRS, a multiple-employer Public Employee Retirement System (PERS). In a multiple-employer PERS, all risks and costs are shared proportionately among the participating employers. A single actuarial valuation is computed for the TCRS as a whole and all participating employer groups make payments to the TCRS based on a predetermined contribution rate. However, as the TCRS prepares a separate financial report on its multiple-employer defined benefit plan and since the County and the Board retain no investment risk associated with the County's defined contribution plan, the operations and activities of these plans are not included in the County's reporting entity, and are, therefore, not included in the accompanying financial statements.

The four defined contribution plans and the three single employer defined benefit plans are part of the County's financial reporting entity and are included in the accompanying financial statements. The operations of the closed Knox County Employee Benefit System and the UOPP (County DB Plans), the County's Asset Accumulation Plan, Voluntary 457 Plan, and the Sheriff's Total Accumulation Retirement Plan (County DC Plans) and the County's Medical Retirement Defined Contribution Plan (Medical Retirement DC Plan) are recorded as County pension trust funds. The operations of the Board's Certificated Teacher's Defined Plan (Teacher's DB Plan) are recorded in the Board's pension trust fund.

See the appropriate Notes to the financial statements in Appendix C-2 for a detailed description of the plans.

## **ECONOMICS**

### **THE ECONOMY**

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-third of the population of the United States. The City for many years has been known as one of the south's leading wholesale markets. Located within the County and City are approximately 995 wholesale and distribution houses, 1,615 retail establishments and 5,924 service industries.

Brookings Institution in 2016 ranked the Knoxville Metro Area 54<sup>th</sup> nationally in prosperity, based on growth in jobs, wages and population. Among other Tennessee metro areas, Knoxville was second only to Nashville (10<sup>th</sup> ranked). In 2015, Forbes magazine listed Knoxville as the second most affordable city in America based on housing prices, living costs and the consumer price index. In 2012, Knoxville was ranked tenth in economic-growth potential and eighth on the nation's fastest-growing cities in the Business Facilities publication.

Economic diversity characterizes Knoxville's landscape of commerce and industry, with companies like media giant Scripps Networks Interactive (HGTV, Food, Travel, DIY, Cooking, and GAC) and Sysco Corporation (largest food service marketer and distributor in North America) calling the area home. Also, there are national and global leaders Clayton Homes, Brunswick Corporation, Keurig Green Mountain, Bush Brothers, Pilot Flying J, and Ruby Tuesday.

The County has seven business parks and a Technology Corridor to meet a wide range of corporate facility needs. The Forks of The River Industrial Park has 1,615 acres. EastBridge Business Park has 800 acres. WestBridge Business Park has 250 acres. Pellissippi Corporate Center has about 150 acres. Hardin Business Park

is a light industrial park with the 95 acres. CenterPoint Business Park is a commercial park with 60 acres. The 44-acre I-275 Business Park was sold to Sysco Corp.

A proposed 275-acre business park off Midway Road was approved in 2016 by the Metropolitan Planning Commission and the Knox County Commission. It is expected to be several years before any development occurs, but when complete, it could add about 2,200 new jobs to the area.

The County had about 11,585 businesses and the MSA had 18,406 businesses operating in 2015. In 2015, 2,502 building permits totaled \$633,130 million. There were 614 industrial buildings totaling over 32.9 million in square feet in 2014. The vacancy rate for these buildings was 16.4%. The County had 405 manufacturing facilities in 2015 and the MSA had 784 for the same period.

Knoxville-Oak Ridge Innovation Valley Inc. is an investor-directed program for five counties designed to recruit, retain and expand business growth throughout the Innovation Valley region. The organization is focused on technology-led economic development, as well as education and workforce development. These two areas of focus represent key differentiators in this plan of work.

*Source: Knox News Sentinel and Knox County Metro Planning Commission 2016.*

## TRADE AREA

Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. Fifty-three percent (53%) of the United States population lives within 650 miles of the County and approximately one-third of the population of the United States (70 million people) live within one day's drive.

The area is the trade center for a 42-county area in East Tennessee, Kentucky, Virginia and North Carolina, which serves over 2 million persons. It is also the cultural, tourist and professional center for this area.

## RETAIL

Knox County is the major wholesale and retail center for eastern Tennessee, southeastern Kentucky, southwestern Virginia and western North Carolina. Four regional malls and 201 shopping centers and factory outlets comprise the retail landscape of the Knoxville area.

### RETAIL SALES

(In thousands)

<u>Year</u>	<u>Knox County</u>
2007	\$9,181,773
2008	8,693,886
2009	7,963,468
2010	8,057,407
2011	8,661,782
2012	8,926,164
2013	8,931,454
2014	8,815,294
2015	9,360,533

*Source: Knox County Metro Planning Commission 2016, the Tennessee Department of Revenue and the Tennessee Department of Economic and Community Development.*

## HOUSING AND CONSTRUCTION

### HOUSING UNITS

<u>Year</u>	<u>Total Units</u>	<u>Owner Units</u>	<u>Renter Units</u>	<u>Vacancy Rate</u>
1980	125,777	74,569	43,382	6.0%
1990	143,582	85,369	48,270	5.1%
2000	171,439	105,562	52,310	7.9%
2010	192,729	119,078	58,097	8.1%

*Source: U.S. Bureau of Census 1980, 1990, 2000, 2010.*

TOTAL BUILDING PERMITS  
IN THE KNOXVILLE & KNOX COUNTY

<b>FY Ending</b>		
<b><u>June 30</u></b>	<b><u>Number</u></b>	<b><u>Valuation</u></b>
2010	1,836	\$424,175,000
2011	1,066	383,118,000
2012	1,687	579,432,000
2013	1,982	566,337,000
2014	2,502	633,130,000
2015*	1,993	408,300,000

\* Residential Building Activity only

Source: 2016 Knox County Metropolitan Planning Commission.

## AGRIBUSINESS

In addition to being a manufacturing and distribution center, the County ranks second among the five metropolitan counties of Tennessee in agricultural production. The County's principal crops are barley, tobacco, corn, wheat, hay, vegetables and fruits. Cattle farming and dairying are also important farming activities. Meat packing and preparation of other food products have shown a steady increase in the County in the last several years.

## LEISURE BOAT MANUFACTURING

*Leisure Boat Manufacturing.* Due to the Tennessee Valley Authority (the "TVA") system of lakes and rivers, East Tennessee is an excellent place to test boats without worrying about hurricanes while being near the Interstate crossroads. Channelization of the Tennessee River to a 9-foot minimum navigable depth from its junction with the Ohio River at Paducah, Kentucky to the City gives the surrounding communities the benefits of year-round, low-cost water transportation and a port on the nation's 10,000-mile-inland waterway system. It takes a week to deliver the yachts too large for the interstate from the reservoir down the series of locks on the Tennessee River, along the Tennessee-Tombigbee Waterway, then on to the Gulf of Mexico and beyond. This system, formed largely by the Mississippi River and its tributaries, effectively links the River with the Great Lakes to the north and the Gulf of Mexico to the south.

Boat manufacturers in the area listed by county are below:

Knox County:	Bullet Boats, and Sailabration Houseboats
Monroe County:	Sea Ray Boats, Mastercraft Boats, Yamaha-TWI and Bryant Boats
Blount County:	Skier's Choice, Allison and Stroker Boats
Loudon County:	Malibu Boats and Christensen Shipyards
Cumberland County:	Leisure Kraft Pontoon
Campbell County:	Norris Craft Boat Company

*The Pavilion at Turkey Creek (the "Turkey Creek").* Turkey Creek is the largest single commercial development ever built in the metropolitan area of Knoxville. Designed for mixed use and beautifully landscaped, Turkey Creek boasts more than 300 acres of space zoned for retail shopping outlets, medical facilities, theaters, office space, banks, restaurants and hotels. The developers of Turkey Creek also created a 58-acre nature preserve and designed greenways throughout the site. Being only three miles from the junction of Interstate 75 and 40 to the west and 14 miles from downtown Knoxville makes the site a quick drive from the urban center, suburban Knoxville, and rural counties.

## SCIENCE AND ENERGY

### *History*

The City of Oak Ridge has a unique history. This area was selected by the United States government in 1942 as the location for its production plants for uranium 235, a component of the first atomic bomb. The original site was built during World War II to house and furnish necessary facilities for the employees of the uranium plants. This project (known as the "Manhattan Project") was transferred to the Atomic Energy Commission in 1947, and the community was operated by contractors under the control of the Atomic Energy Commission. In 1955, the Atomic



Energy Commission sold the homes and land to the residents. By 1959, the residents voted in favor of incorporation under a modified city manager-council form of government.

Since the 1940's, the nuclear industry has been the largest employer for the City of Oak Ridge and Roane and Anderson Counties when a weapons fabrication division was built by the U.S. Army Corps of Engineers. As part of the secret World War II "Manhattan Project", the early task of the plant was the separation of fissionable uranium-235 from the more stable uranium-238 by an electro magnetic process to be utilized in the world's first atomic bomb. Some 80,000 workers were hired for emergency construction of the laboratories and offices on the 56,000-acre site. At the peak of production during the war, 23,000 employees kept the separation units working at a cost of \$500 million for the entire project.

Today, the U.S. Department of Energy (the "DOE") occupies approximately 33,000 acres and almost 1,200 buildings within the Oak Ridge city limits, and employs over 13,000 in engineering, skilled and semi-skilled crafts, technical and administrative support. Since October 1999, DOE has contracted with the University of Tennessee and UT-Battelle, LLC to manage the Oak Ridge National Lab (the "ORNL"). UT-Battelle, LLC began management of the lab on June 1, 2000. Consolidated Nuclear Security, a Bechtel-led contractor team, took over management of the Y-12 nuclear weapons plant effective July 1, 2014 (BWXT, Inc. was the appointed contractor for the Y-12 Plant). DOE awarded its environmental cleanup contract to URS-CH2M Oak Ridge in 2011.

### *Research*

The extensive energy research and development conducted by private and public agencies make Oak Ridge one of the world's great research centers. The presence of UT the ORNL, Oak Ridge Associated Universities and the Tennessee Valley Authority (the "TVA") makes Oak Ridge a prime location for research facilities, as well as technology-based and conventional manufacturing industries. The facilities in Oak Ridge have attracted a large number of technical professionals and their families. The ORNL campus also houses visiting scientists and researchers that come to work at the world-class facility in an \$8.9 million Guest House (built in 2010) with 47 units. Oak Ridge is well prepared to accommodate families from abroad, and the school system is equipped to ease language and cultural differences.

BioEnergy Science Center (the "BESC"). BESC is one of only three sites in the country operated by one of DOE's new bioenergy research centers. It opened in ORNL in 2007. BESC works to accelerate research in the development of cellulosic ethanol and other biofuels and make biofuel production cost competitive on a national scale. The new site received \$135 million in federal funding. UTK serves as one of the academic partners, providing specialized instrumentation, plant breeding technologies and new microbe discovery. Energy crops like switchgrass, which can be grown on marginal crop land, can produce affordable, domestic renewable fuel without raising food or feed costs. BESC is dedicated to studying how to economically break down the cellulose in those sources to convert it into usable sugars for ethanol production.

Oak Ridge National Lab (the "ORNL"). ORNL is a multiprogram science and technology laboratory managed for DOE by UT-Battelle, LLC. Scientists and engineers at ORNL conduct basic and applied research and development to create scientific knowledge and technological solutions that strengthen the nation's leadership in key areas of science; increase the availability of clean, abundant energy; restore and protect the environment; and contribute to national security. ORNL also performs other work for DOE, including isotope production, information management, and technical program management, and provides research and technical assistance to other organizations. ORNL is a program of DOE's Oak Ridge Field Office.

ORNL also boasts having the Spallation Neutron Source accelerator project and several supercomputers for scientific purposes. These unique projects bring about 3,200 scientists to visit each year for varying periods of time. Numerous small industries have been spun off from the experiments and findings. Each job created is expected to have an impact on housing, retail banking, automobile and transportation, hotels, restaurants, hospitals, and business services.

The world's most powerful neutron science project is the *Spallation Neutron Source* (the "SNS") at ORNL. The giant research complex, which is spread across 75 acres on Chestnut Ridge near the main ORNL campus, is the world's top source of neutrons for experiments. The SNS is an accelerator-based neutron source built in Roane County by DOE. The SNS provides the most intense pulsed neutron beams in the world for scientific research and industrial development. At a total cost of \$1.4 billion, construction began in 1999 and was completed in 2006. In 2009, SNS reached full power when it set the world record in producing beam power three times more powerful than the previous world record. More neutrons are produced with a higher beam power.

Neutron-scattering research has a lot to do with everyday lives; for example, things like jets; credit cards; pocket calculators; compact discs, computer disks, and magnetic recording tapes; shatter-proof windshields; adjustable seats; and satellite weather information for forecasts have all been improved by neutron-scattering research. Neutron research also helps researchers improve materials used in high-temperature superconductors, powerful lightweight magnets, aluminum bridge decks, and stronger, lighter plastic products. The medical field is expected to be impacted with new drugs and medicines expected from experiments at the SNS.

The *High Flux Isotope Reactor* has undergone a series of upgrades. This ORNL facility is sometimes referred to as the lab's "other" billion-dollar machine. It is the world's most powerful research reactor, and it is used to perform experiments similar to - but different from - those performed at the Spallation Neutron Source.

ORNL's *Supercomputers* are housed in a 170,000-square-foot facility that includes 449 staff and 40,000 square feet of space for computer systems and data storage. The facility will house or has housed four supercomputers - the planned "Summit", the "Titan" (currently in the world's top five of fastest supercomputers), and the "Kraken". The machines will work on breakthrough discoveries in biology, fusion energy, climate prediction, nanoscience and many other fields that will fundamentally change both science and its impact across society.

DOE awarded IBM an estimated \$162 million contract to build the new "Summit" supercomputer (expected to be operational in 2018) at ORNL to be used for a wide range of scientific applications including combustion science, climate change, energy storage and nuclear power. "Summit" is expected to be five times faster than the "Titan" supercomputer already online at ORNL at 200-petaflops peak performance, which means it is capable of a peak performance of about 200,000 trillion (or 200 quadrillion) mathematical calculations per second.

The National Oceanic and Atmospheric Administration (the "NOAA") sponsored the supercomputer "Titan", which was funded with American Recovery and Reinvestment Act of 2009 resources. NOAA awarded Cray and ORNL a \$47 million contract to design and build "Titan" to work on climate research. "Titan" was placed online in late 2012 after several years of development and replaced the "Jaguar" supercomputer (which at one point was the world's fastest supercomputer) at ORNL. "Titan" was listed as the world's fastest computer in late 2012, marking the fourth time a computer from ORNL has achieved that distinction since 1953. "Titan's" purpose is to support research in energy, climate change, efficient engines and materials science. "Titan" has been credited as a 17.5-petaflops machine. The total cost of "Titan" was estimated to be about \$100 million, but about \$20 million was saved by reusing much of the "Jaguar" structure.

A dedicated effort by DOE to transfer technology to the private sector that was heretofore held as proprietary to the U.S. Government alone has led to an unparalleled growth in new business development in the area. Licenses have been granted to existing firms as well as start-up firms to manufacture for commercial use products using state-of-the-art technology in robotics, ceramics and nuclear medicine.

Through interagency agreements, DOE's Oak Ridge facilities have launched a highly successful "work for others" program. Local firms contract with numerous federal agencies to provide services and products. The value of these contracts have grown from approximately \$50 million in 1983 to \$270 million in recent years.

Tennessee Valley Authority (the "TVA"). TVA provides support, technology, expertise, and financial resources to existing businesses and industries in the area to help them grow and be more efficient and profitable. These resources include technical assistance, low-interest loans, and other tools needed by businesses for successful operation.

University of Tennessee, Knoxville (the "UT" or "UTK"). The University of Tennessee's flagship campus in Knoxville is home to a wide array of vigorous programs doing research on issues vital to the community, the state, the nation, and the world. UTK has collaborative relationships with public and private agencies including ORNL, Battelle Memorial Institute (forming UT-Battelle, LLC), St. Jude Children's Research Hospital, the Memphis Bioworks Foundation, and the Boston-Baskin Cancer group (forming UT Cancer Institute).

National Institute for Mathematical and Biological Synthesis (the "NIMBioS"). NIMBioS is a first-of-its-kind institute dedicated to combining mathematics and biology to solve problems in both scientific fields. The center is funded by a 2008 \$16 million award from the National Science Foundation and is located at UTK. A unique aspect of NIMBioS will be its partnership with the Great Smoky Mountains National Park. The park and its Twin Creeks Science Center play a key role in the institute's work, with the park serving as a testing ground for many of the ideas that come from NIMBioS. Partners in NIMBioS include the U.S. Department of Agriculture and the U.S.

Department of Homeland Security, IBM and ESRI, a developer of software and technology related to geographic information systems. It draws over 600 researchers each year to Knoxville.

*Source:* City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

### *Nuclear*

Integrated Facilities Disposition Program. DOE approved a massive \$18 billion Oak Ridge cleanup campaign. The cleanup program would demolish more than 400 contaminated building at ORNL and the Y-12 nuclear weapons plant. The program would also focus on mitigating polluted groundwater at the sites and other actions to reduce environmental damage. The work began in 2011 and could take up to 45 years to complete.

In 2015, \$424 million was set aside for the environmental cleanup activities in Oak Ridge. The American Recovery and Reinvestment Act of 2009 gave the DOE's Oak Ridge office \$1.9 billion for environmental cleanup projects. The \$1.2 billion of stimulus money sent directly for projects in Oak Ridge saved or created 3,863 jobs through subcontracting construction-type jobs, as well as technical and specialty positions associated with handling radioactive materials and evaluating environmental risks. The funds were divided among four sites: \$239 million to ORNL, \$292 million to Y-12, \$144 million to East Tennessee Technology Park and \$80 million to the Transuranic Waste Processing Center. At Y-12 alone, seven cleanup projects created 2,000 jobs, demolished about 150,000 square feet of old buildings and removed about 74,000 cubic meters of waste.

Y-12 National Security Complex (the "Y-12"). The Y-12 National Security Complex is another large federal plant in Oak Ridge. The ongoing functions of Y-12 are to support the DOE's weapons design labs, recover U-235 from spent nuclear weapons, and provide support to other government agencies.

Y-12 has been undergoing a major modernization program. Y-12 is a key facility in the U.S. Nuclear Weapons Complex and is responsible for ensuring the safety, reliability, and security of the nuclear weapons stockpile and serves as the nation's primary repository of highly enriched uranium. Y-12 houses the country's stockpile of bomb-grade uranium, builds uranium bomb parts and dismantles nuclear weapon systems as needed to support a much smaller nuclear arsenal. National Nuclear Security Administration (the "NNSA") is planning to transform the nuclear weapons complex to be smaller, more efficient and more cost effective. The goal is by 2020 to have only two facilities where there used to be 700 buildings.

In 2016 - two years ahead of schedule - the disposal of over 2,200 containers of stored radioactive and hazardous waste were removed from Y-12. Contractors have demolished dozens of World War II era buildings at Y-12 - about a million square feet since 2001 - in order to reduce the surveillance and maintenance costs and to support new programs. Some new office buildings have been built, including the Jack Case Center that holds about a third of the workforce, or around 1,500 employees. This \$58 million, 420,000-square-foot office building was completed in the summer of 2007. A 137,000-square-foot visitor's center and auditorium was also completed in 2007 at a cost of \$18 million.

A planned \$120 Million water treatment plant to capture Y-12 mercury runoff is expected to begin construction in 2017 and begin filtering 1,500 gallons a minute of water by 2020.

Highly Enriched Uranium Materials Facility. The \$549 million Highly Enriched Uranium Materials Facility at Y-12, a storage complex for weapons-grade uranium, was completed in late 2008. This storage facility replaced multiple aging facilities and allows for storage of its uranium stocks in one central location that represents maximized physical security with minimal vulnerabilities and operating costs. It is designed to protect the large cache of U-235 against any type of terrorist assault.

Uranium Processing Facility Project (the "UPF"). The Uranium Processing Facility Project, the cornerstone of Y-12's new modernization strategy, will replace current enriched uranium and other processing operations. It will replace Y-12's main production center and cost billions of dollars. The design phase began in 2006, construction began in 2009, and should be operational by 2025. Construction of the UPF will accelerate consolidation of aging facilities, bring production operations currently housed in multiple buildings together, reduce the size of the plant's highest security area by 90 percent, improve the overall security posture, make the plant more secure and save millions of dollars in annual operating costs.

*Source:* City of Oak Ridge, ORNL, Y-12 National Security Complex and the Knoxville News Sentinel.

### *Solar and Renewable Energy*

Tennessee was an early leader among southeastern states in developing its renewable energy resources. The southeastern region's first major wind farm, located on Buffalo Mountain near Oliver Springs, Tennessee, began

operating as a 2-megawatt facility in 2000. Its generating capacity has since been expanded to 29 megawatts. Two utility-scale solar photovoltaic facilities in McNairy County, Tennessee, are the largest in the state and have a combined capacity of 40 megawatts. The TVA operates eight solar power facilities in Tennessee, including a 97-kilowatt facility at Finley Stadium in Chattanooga, Tennessee. The TVA also uses methane gas from the Memphis wastewater treatment plant to boost generating capacity at one coal-fired power plant, increasing the plant's capacity by 8 megawatts. With many hydroelectric power plants located on the Tennessee and Cumberland River systems, Tennessee is one of the top three hydroelectric power producers east of the Rocky Mountains. Hydroelectric power, although variable, has been contributing about one-eighth of the state's net generation in recent years. Biomass, primarily from wood and wood waste, also contributes a small amount to the state's net generation.

Tennessee has seen unprecedented growth in the solar business with the introduction of state and federal incentives for solar power generation (the *Volunteer State Solar Initiative*) and an expansion of the TVA's buy-back program for the power generated by solar and other renewable technologies. The nationwide solar industry grew 69 percent during 2011. In 2015, Knox County installed 5 megawatts of solar photovoltaic systems on the rooftops of several county buildings to provide more than \$29 million in energy savings to the county over the next three decades. (See "RECENT DEVELOPMENTS" for more information.)

Tennessee Solar Institute. Located in Knoxville, the Tennessee Solar Institute is part of the new Volunteer State Solar Initiative with UTK and ORNL. The objective of the initiative will be to find ways of reducing the cost of producing solar energy and ways to store energy until needed. Among other purposes, it brings together scientists, engineers and technical experts with business leaders, policy makers and industry workers to help speed the deployment of solar photovoltaic technology. It is designed to be a home for regional and state initiatives that foster the creation of new businesses.

Tennessee has attracted a several large solar manufactures to the state. A report by the Tennessee Solar Institute identified more than 200 organizations making up the state's solar industry, including 174 for-profit and 62 nonprofit businesses. There are also several more multi-megawatt solar farms either completed or under construction in the state.

Solar Manufacturing Plants. East Tennessee has several manufacturing plants. In East Knoxville Efficient Energy built a 1.2 megawatt solar panel site with Natural Energy Group to be used for local research and education (see "RECENT DEVELOPMENTS"). In Roane County near the ORNL, a smaller array of 200-kilowatts was online in 2012 with plans to expand into the Brightfield One Project. In Bradley County, the \$2.5 billion Wacker Polysilicon plant created 650 jobs to produce silicon used for the solar energy industry. The plant was operational in early 2016. Also in Bradley County, a new \$30 million, 9.5-megawatts solar park is providing power to the Volkswagen Plant in Chattanooga.

In West Tennessee Sharp Electronics in Shelby County (Memphis) has a large array consisting of nearly 4,160 solar panels for \$4.3 million that cover the plant's roof to generate about 200 kilowatts of power. Sharp Electronics also has produced over 2 million solar panels since 2003 and has over 480 employees. The West Tennessee Solar Farm in Haywood County has two solar arrays that came online in 2012: a \$31 million, five megawatt generating facility uses more than 21,000 panels, and another solar array that generates 1 megawatts of energy.

*Efficient Energy of Tennessee.* Efficient Energy, in partnership with Natural Energy Group, built a solar panel site in East Knoxville in 2010. The site has more than one megawatt worth of solar panels on a five-acre lot. The 4,608 solar panels can produce nearly 1.2 megawatts of electricity, enough to power about 125 homes. The site will also be a resource for local research and educational organizations, such as the Oak Ridge National Lab, Cleveland State Community College and Pellissippi State Community College.

*Source:* U.S. Department of Energy (Energy Information Administration), Memphis Commercial Appeal, the News Sentinel and the University of Tennessee.

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## EMPLOYMENT

For the month of November 2016, the unemployment rate for Knoxville stood at 4.3% with 92,400 persons employed out of a labor force of 96,590. For the month of November 2016, the unemployment rate for Knox County stood at 3.9% with 228,300 persons employed out of a labor force of 237,670.

The Knoxville MSA's unemployment for November 2016 was at 4.4% with 402,290 persons employed out of a labor force of 420,630. As of November 2016, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 4.4%, representing 514,250 persons employed out of a workforce of 538,060.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
<b>Knoxville</b>	<b>8.3%</b>	<b>7.4%</b>	<b>7.8%</b>	<b>6.1%</b>	<b>5.4%</b>
Index vs. National	93	91	105	98	102
Index vs. State	90	92	95	91	93
<b>Knox County</b>	<b>6.9%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>5.5%</b>	<b>4.8%</b>
Index vs. National	77	78	89	89	102
Index vs. State	75	79	80	82	83
<b>Knoxville MSA</b>	<b>7.3%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>5.4%</b>
Index vs. National	82	82	93	100	102
Index vs. State	79	83	84	93	93
<b>Knoxville-Sevierville- Harriman CSA</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>6.5%</b>
Index vs. National	93	93	104	105	123
Index vs. State	90	94	94	97	112

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

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## TEN LARGEST EMPLOYERS

The major areas of employment in Knox County are the services, retail trade and government. Comparatively, both the state and the nation show a heavier concentration in manufacturing than does Knox County.

The following is a list of the major sources of employment in the Knoxville MSA:

### Ten Largest Employers in the County

<u>Name</u>	<u>County</u>	<u>Industry</u>	<u>Employment</u>
Covenant Health Alliance <sup>1</sup>	Knox	Health Care	10,119
Knox County Public Schools	Knox	Education	8,146
The University of TN, Knoxville	Knox	Education	6,646
University Health System	Knox	Health Care	5,144
Tennova Health System <sup>2</sup>	Knox	Health Care	4,033
K-VA-T Food Stores (Food City)	Knox	Retail	3,393
State of Tennessee	Knox	Regional Government	3,187
Knox County	Knox	Government	3,169
Team Health Inc.	Knox	Healthcare	2,523
City of Knoxville	Knox	Government	2,459

<sup>1</sup> Includes Ft. Sanders Reg Med Center, Parkwest, Methodist Med Center & all other Covenant Hospitals in the area.

<sup>2</sup> Includes all Tennova Health System hospitals in the area.

Source: Greater Knoxville Chamber of Commerce and the News Sentinel – 2017.

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## EMPLOYMENT BY MAJOR INDUSTRY

A diversified economy is credited for the stability of local employment and wages. Non-Farm Employment by industry (excluding self-employed) for the Knoxville MSA in 2016:

<u>Industry</u>	<u>Employment Number</u>
<b>Total Non-Farm Employment</b>	<b>391,700</b>
Total Private	330,900
Total Public	60,800
<b>Goods Producing</b>	<b>55,500</b>
Mining, Logging, Construction	18,500
Manufacturing:	37,000
Durable Goods Manufacturing	27,200
Nondurable Goods Manufacturing	9,800
<b>Service-Providing</b>	<b>336,200</b>
Trade, Transportation, Utilities:	79,600
Wholesale Trade	16,700
Retail Trade	47,800
Transportation, Warehousing, Utilities	15,100
Information	5,800
Financial Activities	18,900
Professional and Business Services	63,300
Educational and Health Services	51,900
Leisure and Hospitality	41,300
Other Services	14,600
Government:	60,800
Federal	5,300
State	20,500
Local	35,000

Source: Knoxville-Knox County Metropolitan Planning Commission.

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## DEMOGRAPHICS

### POPULATION

Between 2000 and 2010 the population of the nation is estimated to have increased by approximately 9.7%, the state of Tennessee by 11.5% and Knox County by 13.1%.

	Population (In Thousands)			Percent Change	
	<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>2000-2010</u>	<u>1990-2000</u>
Knox County	432	382	336	13.1%	13.79%
Tennessee	6,346	5,689	4,877	11.5%	16.65%
United States	308,745	281,422	248,710	9.7%	13.15%

Source: U.S. Bureau of the Census

The median age of the County's population is 37.0 years. The breakdown of population by age and sex based on the 2010 census for the Knoxville MSA is shown below.

2010 U.S. Census Population by Age		
<u>Age</u>	<u>Total</u>	<u>Percent of Total</u>
<20	108,133	25.1%
20-29	67,602	15.7%
30-39	56,906	13.1%
40-49	60,026	13.8%
50-64	83,068	19.2%
>65	<u>56,491</u>	<u>13.1%</u>
<b>Total</b>	<b>432,226</b>	<b>100.0%</b>

Source: Bureau of the Census, U.S. Department of Commerce.

### PER CAPITA PERSONAL INCOME COMPARISONS

Historically, due to the County's predominantly commercial economic base, the County's level of per capita income has exceeded the State level each year. The following chart shows the per capital personal income for the County, the MSA and the CSA of the area.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	\$42,453	\$44,267	\$44,462	\$46,414	\$48,112
Tennessee	\$37,452	\$38,771	\$38,806	\$40,233	\$42,094
<b>Knox County</b>	<b>\$39,455</b>	<b>\$41,655</b>	<b>\$41,158</b>	<b>\$42,981</b>	<b>\$44,849</b>
Index vs. National	93	94	93	93	93
Index vs. State	105	107	106	107	107
<b>Knoxville MSA</b>	<b>\$36,331</b>	<b>\$37,981</b>	<b>\$37,764</b>	<b>\$39,188</b>	<b>\$40,870</b>
Index vs. National	86	86	85	84	85
Index vs. State	97	98	97	97	97
<b>Knoxville-Sevierville- Harriman CSA</b>	<b>\$34,882</b>	<b>\$36,329</b>	<b>\$36,275</b>	<b>\$37,595</b>	<b>\$39,187</b>
Index vs. National	82	82	82	81	81
Index vs. State	93	94	93	93	93

Source: U.S. Department of Commerce, Bureau of Economic Analysis.



**NUMBER OF FAMILIES BY INCOME RANGE  
In Knox County**

	<b>Number of Families</b>			<b>Percentage of Families</b>		
	<b><u>2010</u></b>	<b><u>2000</u></b>	<b><u>1990</u></b>	<b><u>2010</u></b>	<b><u>2000</u></b>	<b><u>1990</u></b>
Under \$10,000	15,739	5,983	9,735	8.7%	6%	10%
\$10,000 - \$14,999	9,724	4,370	7,705	5.4%	5%	8%
\$15,000 - \$24,999	25,141	11,424	16,094	13.9%	11%	18%
\$25,000 - \$49,999	50,339	29,507	33,171	27.9%	29%	37%
\$50,000 and over	<u>79,768</u>	<u>49,625</u>	<u>24,652</u>	<u>44.1%</u>	<u>49%</u>	<u>27%</u>
<b>Total</b>	<b>180,711</b>	<b>100,909</b>	<b>91,357</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Median Income	\$45,380	\$49,182	\$32,614			

## TRANSPORTATION

The area has excellent transportation facilities by rail, air, river and highway. Both the Norfolk Southern and CSX Railroads have terminals and stops in the County, with lines radiating in nine directions. Pellissippi Parkway (I-140) provides a direct link to Oak Ridge from I-40 and I-75 in Knox County. Major highways serving the County include U.S. Highway 44, 129, 321, 411 and 441 as well as State Routes 33, 75 and 95.

*McGhee Tyson Airport.* The McGhee Tyson Airport is the principal commercial airport in East Tennessee, serving the commercial airline industry, air cargo, military aviation and general aviation. With parallel 9,000 feet runways, McGhee Tyson Airport can accommodate any size aircraft. The Airport is located within the city limits of Alcoa 12 miles south of downtown Knoxville. The airport occupies more than 2,000 acres of land with space for additional air cargo facilities or economic development. This facility is owned and managed by the Metropolitan Knoxville Airport Authority. About 2,700 people work at the airport.

According to a 2012 study by the University of Tennessee's Center for Transportation Research, the airport contributes over \$616 million to the local economy (including Anderson, Blount, Knox, Loudon and Sevier Counties) every year. The report examined the employment, business and tax impacts of the airport, including the Downtown Island Airport.

The Metropolitan Knoxville Airport Authority (MKAA) was established in 1978 as an independent nonprofit agency to own and operate McGhee Tyson Airport and Downtown Island Airport. The Authority's nine-member Board of Commissioners is appointed by the Mayor of Knoxville and confirmed by City Council. This board determines the policies for the current Airport Authority staff of 150 employees in six departments. The board appoints a President who serves as the chief administrator and executive officer. All of the revenues are generated by user fees and rental income so no taxpayer dollars are used to support airport operations.

Five air cargo services provide daily service. In addition, six passenger airlines carry air cargo on most flights. More than 80,000,000 pounds of airfreight annually pass through its cargo facilities. Federal Express, United Parcel Service and DHL are the main couriers.

McGhee Tyson Airport has several major airlines serving 20 non-stop destinations including Atlanta, Chicago, Dallas/Ft. Worth, Denver, Houston, Myrtle Beach, New York, Orlando, Philadelphia and Washington D.C. With more than 120 arrivals and departures each day and more than 4,000 seats available, McGhee Tyson Airport is one of the most convenient and accessible regional airports in the nation.

The airport is served by several low fare carriers: Allegiant Air and Frontier Airlines. Allegiant Travel Company is focused on linking travelers in small cities to world-class leisure destinations such as Destin/Ft. Walton Beach, Fla., Ft. Lauderdale, Fla., Las Vegas, NV, Myrtle Beach, NC, Orlando, Fla., Sarasota/Fort Meyers, Fla., Tampa/St. Petersburg, Fla. and Washington, D.C. Through its subsidiary, Allegiant Air, the Company operates a low-cost, high-efficiency, all-jet passenger airline offering air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Frontier Airlines started flight in the summer of 2011 from Knoxville to its hub in Denver, Colorado and to Chicago, Illinois, Provo, Utah and Sioux Falls, South Dakota.

McGhee Tyson is served by major and regional carriers including:

**Major Airlines:**

Allegiant Air  
Delta Airlines

Frontier Airlines

**Regional Carriers:**

American Eagle

United Express

*Source:* Metropolitan Knoxville Airport Authority.

These airlines connect passengers with service to several hub airports across the nation on more than 120 flights daily.

**McGhee Tyson Airport**

<b><u>Total Year</u></b>	<b><u>Commercial Passengers</u></b>	<b><u>Total Air Cargo in Pounds</u></b>
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942
2014	1,738,133	74,115,672
2015	1,747,472	77,395,631
2016	1,827,989	84,831,987

*Source:* Metropolitan Knoxville Airport Authority.

McGhee Tyson Airport has undergone many improvements in the past few years:

- 2008 West Aviation Area \$50.7 million
- 2008 Airport Rescue and Fire Fighting Facility \$11.3 million
- 2009 New Food Court in Terminal \$615,000
- 2014 Runway and Taxiway System Upgrade \$108 million

*Source:* Metropolitan Knoxville Airport Authority.

TACAir is McGhee Tyson Airport's general aviation services provider. In addition to providing fuel and services to commercial carriers, they also accommodate the general aviation industry, which includes corporate aviation, charter flights, flight schools and people who fly as a hobby.

The Tennessee Air National Guard's 134th Air Refueling Group operates 10 aircraft at McGhee Tyson Airport. The Guard's KC-135E tankers provide refueling to the country's military aircraft. In addition, the Army Aviation Support Facility, the 110th and 119th Tactical Control Squadrons and the 228th Combat Communications Squadron operate on the base.

The direct and indirect economic impact of McGhee Tyson Airport, including payroll, local spending, transportation cost savings, capital spending and induced benefits is estimated at \$1 billion annually. The jobs formed by the aviation industry are perhaps the most important direct benefit that McGhee Tyson Airport offers East Tennessee. Approximately 2,700 people are now employed at McGhee Tyson Airport.

*Downtown Island Home Airport.* Knoxville's Downtown Island Home Airport, located five minutes from downtown, serves as another home base for smaller and privately owned airplanes. The Island Home Airport is a 150-acre general aviation facility with a 3,500-foot runway. It is home to nearly 140 private and corporate aircraft, with 24 hours a day service available.

*Waterways.* Fifteen miles away is the head of the Tennessee River navigation channel in Knoxville. This river is part of the Interconnected Inland Water System that links Knoxville with 21 states, the Mississippi River and the Great Lakes. Linkages may be made to the entire inland waterway system, allowing shipments to be made by water to Houston, Tampa, Pittsburgh, Minneapolis and Little Rock.

Six active river terminals handle barge shipments throughout the area. The Tennessee-Tombigbee Waterway links East Tennessee with 13 other states and the Gulf of Mexico. This 234-mile canal connects 16,000 miles of waterways throughout Tennessee, Mississippi and Alabama leading to the Port of Mobile and the Gulf of Mexico. This Waterway shortens the shipping between Tennessee and the Gulf of Mexico by 882 miles and enables East Tennessee products to arrive at their Gulf destination from eight to nine days earlier. The development of the Tennessee-Tombigbee Waterway has been a catalyst for the development of industry and agriculture throughout the area. Barge shipping has always been a popular alternative to rail in East Tennessee because of the existence of the Inland Water System.

Knoxville has a Foreign Trade Zone and is an inland Port of Entry with a U.S. Customs Office. In 1988, Knoxville was given its Foreign Trade Zone designation by the U.S. Department of Commerce. This designation allows manufacturers to ship foreign raw materials and components to parts of Knoxville and store them duty free in Knoxville until used. In May 1991, the Foreign Trade Zone was activated.

## EDUCATION

*Knox County School System.* The County operates 91 schools: 48 elementary (including primary and intermediate), 13 middle, 15 high schools, and several non-traditional/adult education centers. Included are five magnet schools offering enhanced arts and science curriculum and a new Science, Technology, Engineering, and Mathematics (STEM) Academy. In fall 2016, total public school enrollment was 59,516, while the system employed 3,927 teachers. In addition to public education, there are 50 private and parochial schools offering elementary and secondary instruction in Knox County.

*Source:* Tennessee Department of Education and Knox Metropolitan Planning Commission.

Post-secondary education is available at 10 public and private four-year institutions in Knox County and the surrounding area. The University of Tennessee's main campus is in Knoxville. Pellissippi State Technical Community College and Roane State Community College offer two-year programs for technical and associate degrees along with four other vocational/technical institutions. There are four business colleges located in the area.

*University of Tennessee, Knoxville (the "UT" or "UTK").* UTK is one of the oldest land-grant universities in the nation. There are over 230 buildings on a 600-acre campus. Blount College, UTK's forerunner, was established in Knoxville in 1794, two years before Tennessee became a state. With a fall 2016 enrollment of 28,052 students, UTK is the largest campus in the University of Tennessee System (the "System"). According to the U.S. News and World Report, UTK ranked 47<sup>th</sup> among the nation's best public universities in 2016.

The System is a statewide institution governed by a 26-member Board of Trustees appointed by the governor of Tennessee. Institutions of the System are UTK, UT Health Science Center in Memphis, UT Chattanooga, UT Martin, UT Space Institute in Tullahoma, and UT Institute for Public Service in Knoxville. In addition to the primary campus, the Agricultural Campus houses the UT Institute of Agriculture, a statewide administrative unit that includes the College of Veterinary Medicine, the College of Agricultural Sciences and Natural Resources, the Agricultural Extension Service and the Agricultural Experiment Stations.

UTK is a major research institution, attracting more than \$130 million in externally sponsored programs annually. The Division of Aeromedical Services is one of the country's most respected and comprehensive aeromedical programs. UTK is a co-manager with UT-Battelle, LLC of the nearby Oak Ridge National Lab (the "ORNL"). UT-Battelle, LLC was established in 2000 as a private not-for-profit company for the sole purpose of managing and operating the ORNL for the U.S. Department of Energy (the "DOE"). Formed as a 50-50 limited liability partnership between the UTK and Battelle Memorial Institute, UT-Battelle, LLC is the legal entity responsible for delivering the DOE's research mission at ORNL. Faculty and students experience unparalleled research and learning opportunities at the DOE's largest science and energy lab.

UTK conducts externally-funded research totaling more than \$300 million annually, including some \$17 million annually in research sponsored by ORNL. Areas of joint research with ORNL include the Bioenergy Science Center's work on cellulosic ethanol; the Center for Computational Sciences' partnership with the National Science Foundation; and the Science Alliance, with divisions in biological, chemical, physical, and mathematical/computer science. UT/ORNL Joint Institutes and Centers include Biological Sciences, Computational Sciences, Neutron Sciences, Heavy Ion Research and the National Transportation Center.

To meet the growing demand for pharmacists, a second UT College of Pharmacy building opened on the Knoxville campus in fall 2007 and enrolled an additional 225 students. The three-story building is adjacent to the

Health Science Center's Graduate School of Medicine. The UT College of Pharmacy will extend its reach across the state by adding Clinical Education Centers in Chattanooga, Jackson, Kingsport and Nashville.

The System and its statewide campuses bring in over \$2 billion in annual income to the State and support more than 50,000 jobs. UTK also generates an estimated \$237.6 million in state and local tax revenue per year. Students and visitors attending athletic events at each campus spent approximately \$348 million, accounting for \$147.3 million in income and 4,879 jobs.

*Source:* University of Tennessee, UT-Battelle and the News Sentinel.

*Johnson University – Tennessee.* Johnson University-Tennessee is a private, coeducational institution of higher learning offering associate, bachelor's and master's degrees about 12 miles from Knoxville. Founded in 1893, Johnson University-Tennessee is the second oldest continuing university in America. The purpose of the University is to educate students for specialized Christian ministries with emphasis on the preaching ministry. In the fall of 2016, total enrollment was 776 for the 350-acre campus.

*Source:* Johnson University.

*Oak Ridge Associated Universities (the "ORAU").* ORAU is a consortium of 121 universities and a contractor for the DOE located in Oak Ridge, Tennessee. Founded in 1946, ORAU works with its member institutions that include UTK and its satellite campuses. The purposes are to help their students and faculty gain access to federal research facilities throughout the country; to keep its members informed about opportunities for fellowship, scholarship, and research appointments; and to organize research alliances among its members. Through the Oak Ridge Institute for Science and Education (the "ORISE"), the DOE facility that ORAU operates, undergraduates, graduates, postgraduates, and faculty enjoy access to a multitude of opportunities for study and research. A pioneer in technology transfer with historic contributions in nuclear medicine and health physics, ORAU today conducts specialized training in nuclear related areas of energy, health and the environment.

*Source:* Oak Ridge Associated Universities.

*Pellissippi State Community College (the "PSCC").* Since its founding in 1974 as State Technical Institute at Knoxville, PSCC has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2016 was listed as 10,244. PSCC continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing education opportunities for the citizens of Knox, Blount, and surrounding counties. PSCC has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. PSCC has released a 2015 report showing the school has pumped more than \$339 million annually into the Knoxville-area economy over the last 5 years.

Five campuses make up PSCC. The main campus is the Hardin Valley Campus in west Knoxville. The Division Street Campus and the Magnolia Avenue Campus, which opened in 2000, are also in Knoxville. A \$22 million campus was completed in late 2010 in Blount County. The Strawberry Plains campus began offering coursework in August 2012.

*Source:* Pellissippi State Community College and TN Higher Education Commission.

*Roane State Community College (the "RSCC").* RSCC, which began operation in 1971 in Harriman, Tennessee, is a two-year higher education institution which serves a fifteen county area. Fall 2016 enrollment was 5,636 students. Designed for students who plan to transfer to senior institutions, RSCC academic transfer curricula include two years of instruction in the humanities, mathematics, natural sciences, and social sciences.

RSCC's 138-acre main campus is centrally located in Roane County where a wide variety of programs are offered. RSCC has nine locations across East Tennessee – the Roane County flagship campus; an Oak Ridge campus; campuses in Campbell, Cumberland, Fentress, Loudon, Morgan and Scott Counties; and a center for health science education in west Knoxville.

*Source:* Roane State Community College.

*South College.* South College, is a private institution that has been a part of Knoxville since 1882. The main campus facility is located on Lonas Drive. In 2011, South College moved its Learning Site to the old Goody's headquarters in Parkside Centre. In 2015, South College-Ashville in North Carolina was merged into South College as a second Learning Site. It has a total enrollment of about 650 students. Throughout its history South College has endeavored to meet the demands of the East Tennessee business community. South College offers a Master's of

Health Science in Physician Assistant Studies and baccalaureate degree programs including Pharmaceutical Science (Pre-Pharmacy), Nursing, Health Science (Radiography/Nuclear Medicine), Elementary Education, Business Administration, and Legal Studies. Current associate degree programs include Radiography, Physical Therapist Assistant, Paralegal Studies, Business Administration, Accounting, and Medical Assisting. Nuclear Medicine and Post-Baccalaureate Program (Elementary Education K-6) are the certificate programs offered.

*Source:* South College.

*Tennessee College of Applied Technology-Knoxville (the “TCAT-Knoxville”).* TCAT-Knoxville is part of a statewide system of 27 vocational-technical schools. TCAT-Knoxville meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. TCAT-Knoxville’s primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. TCAT-Knoxville serves the central east region of the state including Knox and Blount Counties. TCAT-Knoxville began operations in 1966, and the main campus is located in Knox County. Fall 2016 enrollment was 1,381 students.

*Source:* Tennessee College of Applied Technology-Knoxville.

*Tusculum College Graduate and Professional Studies Program (the “Tusculum”).* Tusculum maintains offices in Knoxville for its Graduate and Professional Studies Program, in addition to other class sites across East Tennessee. Located in Greeneville, Tusculum is a private college affiliated with the Presbyterian Church. Tusculum was founded in 1794, making it the oldest college in Tennessee and the twenty-eighth oldest college in the nation. Fall 2016 enrollment was 885. The wooded 140-acre Tusculum campus has eight buildings and the Tusculum Arch that are listed on the National Register of Historic Places. Tusculum is one of three colleges in the country to operate on a focused calendar, in which courses are scheduled one at a time.

*Source:* Tusculum College.

## **MEDICAL FACILITIES**

Knoxville serves as a regional medical center for 27-counties in East Tennessee and Kentucky. The available technology, the specialized institutions, and a reputation for quality health care bring people into Knoxville from a 200-mile radius. There are 2,374 beds in nine acute care hospitals in the County, including three healthcare systems (Covenant Health Care, Tennova Health System and University of Tennessee).

*Source:* Knox Metropolitan Planning Commission and the News Sentinel.

### *Covenant Health*

Covenant Health is a comprehensive health system established in 1996 by the consolidation of Fort Sanders Health System, Knoxville, Tennessee, and MMC HealthCare System, parent company of Methodist Medical Center of Oak Ridge, Tennessee. With headquarters located in Knoxville, Covenant Health provides comprehensive services throughout East Tennessee. It is also the largest employer in the area. The organization is governed by a voluntary board of directors composed of community leaders and medical professionals.

Covenant Health includes 30 member organizations, nine of which are acute care hospitals in East Tennessee: Fort Sanders Regional Medical Center and Parkwest Medical Center in Knoxville, Methodist Medical Center of Oak Ridge, Fort Loudon Medical Center in Lenoir City, LeConte Medical Center in Sevierville, Roane Medical Center in Harriman, Morristown-Hamblen Healthcare System in Morristown, Cumberland Medical Center in Crossville and Claiborne Medical Center in Tazewell. It also includes Peninsula Hospital, a psychiatric hospital in East Tennessee's Blount County. Covenant Health also operates numerous other healthcare facilities for outpatient clinics, cancer centers, breast centers, behavioral health, rehabilitation, home health and weight management to name a few.

Over the last few years, the largest hospital operator in the area has built new or expanded facilities in Sevier, Loudon, Anderson, Cumberland and Knox counties. It recently finished construction for a \$150 million expansion project at Fort Sanders Regional Medical Center in Knoxville as well as for a new \$50 million hospital in Roane County.

*Fort Sanders Regional Medical Center (the “Fort Sanders”).* Part of Covenant Health, Fort Sanders is a 541-bed full-service acute care hospital with about 589 doctors located in the Fort Sanders community of downtown Knoxville. The hospital was built in 1919 and has about 1,704 employees, and had 20,050 admissions in 2015. In 2013 Fort Sanders received national recognition as a comprehensive stroke center, the second Tennessee hospital to

receive this award. This certification from the Joint Commission on Accreditation of Healthcare Organizations means that the medical center is recognized as having the infrastructure, staff and training to receive and treat complex cases. Fort Sanders is a regional referral center for neurosurgery, neurological disorders, orthopedics, oncology, cardiology, obstetrics and rehabilitation medicine. Fort Sanders offers a variety of specialized services such as a 24-hour Chest Pain Center, one-day surgery, electrodiagnostics, a Sleep Disorders Center, a Diabetes Center, prenatal education, and sports medicine. A new \$150 million expansion was completed for the facility in 2010.

*Parkwest Medical Center (the “Parkwest”).* Part of Covenant Health, Parkwest is the region's only Top 100 Heart Hospital (which the hospital has been named eight times). Parkwest has 462 beds with over 600 doctors on staff. The total employment is about 1,968, and there were 23,158 admissions in 2015. The campus includes one of the area's first all-digital catheterization laboratories and a comprehensive breast center with a multidisciplinary approach to women's health. Peninsula Behavioral Health is a division of Parkwest Medical.

#### *Tennova Healthcare*

Tennova Healthcare is a for-profit healthcare system and has seven acute care hospitals in Knoxville and the surrounding area. Florida-based Health Management Associates Inc. bought Mercy Health Partners in 2011 and changed the name to Tennova Healthcare. Tennova Healthcare and Health Management Associates were acquired by Community Health System based in Nashville, TN. Tennova Healthcare is now part of one of the largest for-profit hospital companies in the country.

Tennova Healthcare facilities include the following: Physicians Regional Medical Center (Knox County), Turkey Creek Medical Center (Knox County), North Knoxville Medical Center (Knox County), Jefferson Memorial Hospital (Jefferson County), Newport Medical Center (Cocke County), LaFollette Medical Center (Campbell County), and Lakeway Regional Hospital (Hamblen County). Dyersburg Regional Medical Center (Dyer County), Regional Hospital of Jackson (Madison County), Volunteer Community Hospital (Weakley County) and McNairy Regional Hospital (McNairy County) were all acquired by Tennova Healthcare in September 2015.

*Physicians Regional Medical Center (the “Physicians Regional”).* Part of Tennova Healthcare, Physicians Regional is a 401-bed facility with 811 physicians on staff near downtown Knoxville. With a total of 1,877 employees, Physicians Regional had 13,875 admissions in 2015. Built in 1930, Physicians Regional has five areas of special expertise: Women’s Services, Cancer Care, Orthopedics, Cardiac Care and Neurosciences.

*North Knoxville Medical Center.* Part of Tennova Healthcare, North Knoxville Medical Center opened in the fall of 2007 in north Knox County. The full service facility has 108 beds with 811 physicians on staff. A total of 478 people are employed at the Center, and in 2015 there were 4,030 admissions.

*Turkey Creek Medical Center (the “Turkey Creek”).* Part of Tennova Healthcare, Turkey Creek Medical Center has 101 beds with 811 physicians on staff in west Knoxville. There are 523 people employed at the hospital, and in 2015 there were 4,199 admissions. Turkey Creek has a 24-hour, full-service, all-digital campus, with a completely staffed emergency department that cares for men, women and children of all ages. Every patient room is a private room. An intensive care unit, state-of-the-art surgical suites, imaging services, rehabilitation services and specialized staff and physicians bring groundbreaking, comprehensive treatment. Turkey Creek had merged with the neighboring Baptist Hospital for Women. The merged hospital offers labor, delivery, recovery and postpartum suites, backed up by the latest technology. Surgery, mammography, wellness and general care services are all focused on a woman's needs. In the summer of 2008, the open-heart program from Baptist Hospital of East Tennessee moved to Turkey Creek. The hospital is also home to the Stokely Heart Pavilion and the Baptist Regional Cancer Center. The hospital opened in the summer of 2003.

#### *East Tennessee Children’s Hospital (the “Children’s”)*

Located in Knoxville, Children’s is a private, independent, not-for-profit pediatric medical center. There are 152 beds with 428 doctors on staff, of which more than 90 are pediatric subspecialists. A total of 2,358 people are employed at the hospital, and there were 5,983 admissions in 2015. Children’s originally opened in 1937 and is the only Comprehensive Regional Pediatric Center in East Tennessee certified by the state. Pediatric services offered include ICUs, emergency services, outpatient clinics for oncology, hematology, diabetes, cystic fibrosis and a rehabilitation center. (See “RECENT DEVELOPMENTS” for more information.)

### *University Health System, Inc. (the “UHS”)*

UHS is a regional health system that comprises the UT Medical Center, the UT Heart Hospital, UT Health Network and various partnerships and joint ventures with physicians and healthcare companies. UHS is affiliated with the University of Tennessee Graduate School of Medicine and numerous regional hospitals and physician organizations. UHS supports and collaborates with the UT Graduate School of Medicine and other academic endeavors as part of its commitment to excellence in education and research.

*University of Tennessee Medical Center (the “UT Medical Center”)*. The UT Medical Center in Knoxville is an acute care teaching hospital with 609 beds and more than 550 doctors. The UT Medical Center employs 5,144 people and had 30,279 admissions for 2015. Designated as the region’s Level I adult and pediatric Trauma Center by the State of Tennessee, UT Medical Center provides the highest level of programs and emergency services. Critically ill patients are transported to UT Medical Center via one of LIFESTAR’S two helicopters.

Special care units such as cardiac care, open heart, medical intensive care, neuro-respiratory, and trauma surgical intensive care are available for patients who require maximum medical attention. A Level IV Intensive Care Nursery, a Pediatric Intensive Care Unit, a newborn nursery and many other programs comprising Children’s Health Services enable UT Medical Center to provide the region’s most comprehensive medical services for infants and children. UT Medical Center also serves as the Regional Perinatal Center. The UT Heart Hospital was opened in 2010. The Cancer Institute finished construction in 2012.

*Source:* Covenant Health, Tennova Healthcare, East TN Children’s Hospital, University Health System and the News Sentinel.

### KNOXVILLE AREA HOSPITALS

<u>Hospital</u>	<u>Beds</u>	<u>Employees</u>	<u>Type</u>	<u>Service</u>
East Tennessee Children’s	152	2,358	Non-Govt/Non-profit	Child Care
Fort Sanders Parkwest Medical Center	462	1,968	Non-Govt/Non-profit	Gen. Med/Surg.
Fort Sanders Regional Medical Center	541	1,704	Non-Govt/Non-profit	Gen. Med/Surg.
North Knoxville Medical Center (Mercy Medical Center, North)	108	497	Non-Govt/Non-profit	Gen. Med/Surg.
Physicians Regional Medical Center (Mercy Medical Center)	401	1,189	Non-Govt/Non-profit	Gen. Med/Surg.
Turkey Creek Medical Center (Mercy Medical Center, West)	101	526	Non-Govt/Non-profit	Gen. Med/Surg.
University of Tennessee Medical Center	<u>609</u>	<u>5,144</u>	Non-Govt/Non-profit	Gen. Med/Surg.
<b>Total</b>	<b>2,374</b>	<b>13,386</b>		

*Source:* Tennessee Hospital Association.

### UTILITIES

Electricity. In Knoxville, the most used energy sources are electricity and natural gas. The Knoxville Utilities Board (KUB) distributes electrical power generated by the Tennessee Valley Authority (TVA).

TVA was created by an act of Congress in 1933 to control floods and to produce electrical power along the Tennessee River and its tributaries.

TVA’s install generating capacity of 32.2 million kilowatts consists of 55% coal-fired, 18% nuclear, 14% hydroelectric, 8% gas combustion turbines, and 5% hydroelectric pumped storage. Additional nuclear capacity of approximately 5 million kilowatts is in various stages of completion for meeting future needs.

Electrical power is available with few restrictions to suit the customer’s needs. The region enjoys an abundance of power at competitive rates. The electrical power supply is very reliable. Occurrences of small area outages are rare and most are caused by severe thunderstorms.

Natural Gas. Knoxville Utilities Board provides natural gas to Knoxville and Knox County. KUB distributes natural gas supplied by East Tennessee Natural Gas.

Water. Water service within the City of Knoxville is provided by KUB from Fort Loudon Lake, which is fed by two major rivers and is an unlimited source for the area's treated water supply. KUB has rated treatment capacity of 60 million gallons per day. Sewer service within the City limits is provided by the Knoxville Utilities Board, Bureau of Water/Waste Water. Currently sewer service operates with a full treatment capacity of 60 million gallons per day. In Knox County, outside the City of Knoxville limits, water service is supplied by six utility districts.

## **LIBRARIES**

Knox County Public Library System. The System operates the main branch, Lawson-McGhee Library, in downtown Knoxville, as well as 18 other branches. The size of the collection is 1,541,625.

Other libraries in the area are the Calvin Morgan McClung Historical Collection, the Knox County Archives, University of Tennessee Libraries and TVA Library. Medical libraries and nearby libraries of Oak Ridge, Maryville and special libraries of federal agencies, and Oak Ridge National Laboratories all combine to make Knoxville a major learning center with information easily accessible to everyone.

## **COMMUNICATIONS**

Knoxville has one daily newspaper, *The Knoxville News-Sentinel* that is published every morning. In 2016 the Daily Circulation was more than 60,000 readers and Sunday Circulation was 79,000 readers throughout a 27-county area. *USA Today*, the *New York Times*, and the *Wall Street Journal* are among the many nationwide newspapers available on Knoxville's newsstands and by same-day subscription service.

Knoxville is served by nine television stations including four national television networks, one public broadcasting service and one independent station.

There are 26 radio stations serving Knoxville.

Bell South and three additional operating telephone companies provide local telephone service. AT&T and five other private companies offer long distance service.

Digital cable and high speed Internet access are provided by Comcast, Knology, and Charter. BellSouth provides a high capacity fiber optic network.

The U.S. Postal Service operates a main office in West Knoxville and nine branch stations throughout the community. It offers overnight service along with 12 other courier services.

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## FINANCIAL INSTITUTIONS

There are several banks and credit unions with offices in Knox County. The following table provides a listing of the banks operating in Knox County as presented in the Bank Directory of Tennessee:

### KNOX COUNTY BANKS

as of February 2017

American Trust Bank	FSG Bank
B B & T Bank	Home Bank of Tennessee
Bank East	Home Federal Bank of Tennessee
Bank of America	Knox County Credit Union
Bank of Tennessee	Knoxville Credit Union
Bank Untied	National Bank of Commerce
Branch Banking & Trust	New South Credit Union
CBBC	ORNL Credit Union
Chase	Pinnacle National Bank
Citizens Bank	Regions Bank
Citizens National Bank	Simmons Bank
Citizens Savings & Loan	Smart Bank
Civis Capital	Sterling National
Clayton Bank & Trust	SunTrust Bank
Community South Bank	Teacher's Credit Union
Fidelity Bank	Tennessee Credit Union
Fifth Third Bank	Tennessee State Bank
First Century Bank	The Trust Company
First Citizens Bank	TVA Credit Union
First Commercial Bank	Union Bank
First National Bank	US Bank
First People's Bank	UT Federal Credit Union
First Tennessee Bank	Wells Fargo Bank
First Volunteer Bank	

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## TOURISM

### RECREATION AND CULTURAL ACTIVITIES

Although industry is frequently considered the core of an economic base, secondary and tertiary activities also make important contributions to economic development. The convention and tourist business contribute to the City's economic base in the sense that income is drawn into the region resulting in employment and investment opportunities in tourist-related facilities.

This influx in tourist-related income provides stimulus to economic development in the area. In recognition of the important role tourism plays in the economy of the County, local authorities created Visit Knoxville. The organization's purpose is to encourage tourism and tourist-related activity.

*Sports.* Knox County has over 6,200 acres of park and recreation space, including 25 recreation centers, seven senior citizen centers, three skateparks, ten public golf courses, and approximately 177 miles of greenway and walking trails. Just three miles from downtown is 1,000 forested acres and 50 miles of multiuse trails known as Knoxville Urban Wilderness.

The Tennessee Smokies provide AA minor league baseball in neighboring Sevier County. The Knoxville Ice Bears provide professional hockey at the Coliseum October through March. National championship UTK sports teams, including the 2007 and 2008 NCAA National Champions Lady Vols, draw thousands of enthusiasts to games each year. The City is also home to the Women's Basketball Hall of Fame.

*State and National Parks.* The County is the principal gateway area to the Great Smoky Mountains National Park (the "GSMNP"), located 40 miles to the southeast. The beauty of the Great Smoky Mountains has always attracted visitors to this region. There are over 500,000 acres that make up the nation's most visited National Park, extending over the states of Tennessee and North Carolina. The GSMNP received 10.7 million visitors in 2015, more than twice the number of any other national park in the country. Major attractions in the Smokies are Gatlinburg (40 miles southeast of the City), a tourist town in the mountains with overnight accommodations for 60,000 people, and Pigeon Forge (20 miles southeast of the City), a tourist town at the foothills of the mountain with overnight accommodations for 40,000 people. Numerous restaurants, gift and craft shops, along with ski lodge, ski lifts and tramway, make Gatlinburg a year-round resort town. Pigeon Forge is known for being home to hundreds of retail outlets and Dollywood, a theme park named for the country music singer, Dolly Parton.

Other parks and recreational areas in the Greater Knoxville area include: Big South Fork National River and Recreational Area 100,000 acres; Frozen Head State Natural Area 11,562 acres; Norris Dam State Resort Park 4,000 acres; Big Ridge State Park 3,687 acres; Cumberland Mountain State Park 1,720 acres; Panther Creek State Park 1,400 acres; Cove Lake State Recreational Area 667 acres; Roan Mountain State Resort Park 600 acres; Fort Loudon State Historical Area 500 acres; Indian Mountain State Park 213 acres; Warriors' Path State Recreational Park 500 acres; Trail of the Lonesome Pine: State Scenic Trail 35 miles; and Cumberland Trail: Section II: Tennessee Scenic Trails System Act 31 miles.

*Lakes and Wildlife.* Seven TVA lakes surround Knoxville and provide year-round fishing and boating. There are no closed seasons on TVA waterways. Area lakes provide over 3,425 miles of shoreline and 266 square miles of water surface.

*Alpine Skiing.* Ober Gatlinburg Ski Resort in Sevier County and Cumberland Gardens Resort in nearby Cumberland County offer convenient facilities for winter skiing.

*Conventions, Events and Festivals.* Special seasonal events include the Dogwood Arts Festival in the spring and December's celebration, Christmas in the City. Knoxville supports an active tourism and convention trade with a 500,000-square-foot convention center located downtown at World's Fair Park. Other local facilities are a large civic coliseum/auditorium, two exhibition halls, and UTK's 22,000-seat Thompson Boling Arena.

*Cultural Activities.* The General James White Memorial Civic Auditorium and Coliseum Complex, the historic Tennessee Theatre and the Bijou Theater host a variety of performances, including the Knoxville Symphony Orchestra, touring Broadway productions, ice shows, circuses, concerts of all types and the professional hockey team, The Knoxville Ice Bears. Local radio station WDVX hosts a live radio broadcast weekdays downtown called "The Blue Plate Special" where nationally known artists and area performers appear free of charge.

The University of Tennessee Theaters continue to provide a wealth of entertainment and culture to Knoxville. The Clarence Brown Theater, UTK's premier performance space, seats 600 in a proscenium theater. The Clarence Brown Theater Company is dedicated to the classics of the stage and produces three full scale and one or two touring productions each season. The Carousel Theater is UTK's smaller theater which holds 250-300 people.

The Knoxville Museum of Art and the Emporium Center for Arts and Culture feature changing exhibits throughout the year, while the area's libraries, historic sites, and museums, such as East Tennessee History Center, McClung Museum of Natural History and Culture, Museum of Appalachia, and Beck Cultural Center, celebrate regional heritage.

Other popular events in Knoxville are presented by the Knoxville Symphony Orchestra, Knoxville Opera, the Appalachian Ballet Company, Circle Modern Dance Company, Carpet Bag Theatre, Tennessee Stage Company, Tennessee Valley Players, Knoxville Choral Society, and the Tennessee Children's Dance Ensemble, the only professional dance troupe for children in the country.

*Ijams Nature Center.* Ijams Nature Center is a nonprofit environmental education and resource center located on 300 acres on the banks of the Tennessee River in South Knoxville. The area encompasses woods, meadows, sinkholes, a spring-fed pond, and informal perennial gardens connected by a series of trails. The park has been developed to display East Tennessee's ecological systems at work and provide a conservation area for wildlife indigenous to the park. A number of high-quality programs, events, and environmental information are available to schools, the media and the general public.

*Knoxville Zoological Gardens (the "Zoo Knoxville").* Zoo Knoxville is recognized as one of the top 20 zoos in America. It is located on 80 acres and has more than 1,000 species of animals. Zoo Knoxville has the largest "big cat" collection in the United States and is home to the first African Elephant birth in the United States. Zoo Knoxville is also home to the newly developed Gorilla Valley, where three baby gorillas were born during 2015 and 2016. The gorillas are the first of the endangered species to be born at the park and the first born in Tennessee in 30 years. Zoo Knoxville has a collection of red pandas and is the world leader in captive breeding of this rare breed. In addition, a critically endangered red wolf pup was born at the zoo in April 2016; the male pup is the first red wolf born at the zoo in 23 years.

*Source:* Knoxville News Sentinel and the Knox County Metro Planning Commission.

## **RECENT DEVELOPMENTS**

Following are some recent developments within the boundaries of the City and County and the Knoxville MSA that have had a direct economic impact on the area. The source for statistical information below is the Knoxville Area Chamber Partnership, the City of Knoxville, the Knoxville-Knox County Metropolitan Planning Commission, the Knoxville News Sentinel and The Daily Times.

### **EAST KNOX COUNTY**

*Fresenius Medical Care.* The German company Fresenius Medical Care located its East Coast manufacturing facility in Knoxville in 2016. The company is a renal services provider. The \$140 million project brings a dialysis production plant to the city's old Panasonic building and creates about 665 jobs.

*Keurig Green Mountain.* The company started production in late 2008 at a new 334,000-square-foot facility in Forks of the River Industrial Park. The company invested about \$55 million dollars on the plant and had a staff of about 25. In 2009, an \$8 million investment in the plant added coffee processing equipment and coffee silos. In 2014, Keurig Green Mountain built a \$4 million expansion of its Knox County operation to boost efficiency, without many jobs created. Keurig Green Mountain's Knoxville operation employs about 950 people in 2015. In early 2016, a group of investors led by JAB Holding Company acquired Keurig Green Mountain. Keurig Green Mountain is a privately held company and remains an independent entity run by its existing management team.

*Knox County Detention Center.* The Detention Center in east Knoxville installed in 2015 over 300 solar panels, five solar storage tanks, 65 concrete pads and more than 6,000 feet of copper piping to make it one of the largest solar thermal systems for domestic use in the nation. Trane, Knox County and FLS Energy partnered to save Knox County \$60,000 annually in switching from natural gas to solar power as the primary way to heat water for the detention center's 1,036 inmates. The project was funded by a \$1.88 million grant from the U.S. Department of Energy. The County also renovated and upgraded 40 facilities, 24 parks and 37 traffic intersections with the grant money. The total project is expected to save the County about \$6 million annually.

*Leisure Pools.* Leisure Pools, which makes composite swimming pools, announced in 2013 that it was moving its headquarters to Knox County and creating about 240 jobs. The company acquired the old Sea Ray facility in the Forks of the River Industrial Park for about \$4.5 million. Many of the laid-off Sea Ray employees have transitioned to the new company since much of the same equipment and systems used by the boat company will be used by Leisure Pools.

*Lifetime Products.* The Utah-based plastics company broke ground in May 2016 on a new \$115 million, 720,000-square-foot manufacturing facility at the Forks of the River Industrial Park. The new plant is expected to generate 500 new jobs. This new facility will produce the company's line of water sport products including kayaks and paddleboards, as well as their outdoor Play System line of products.

*Melaleuca.* Located in the Forks of the River Industrial Park, Melaleuca is expanding its operations and will hire up to 500 more workers in the next 10 years. A new 222,000-square-foot distribution center was opened in mid-2010. Melaleuca produces nutritional supplements, cleaning supplies, personal care and other products and sells these through workers who operate as direct marketers. The company has been operating in Knoxville since 1993.

#### WEST KNOX COUNTY

*ADT Corporation.* An expansion to ADT's facilities and work force in 2013 resulted in the addition of about 300 more workers to its workforce. ADT provides electronic security for residential and small business customers in the U.S. and Canada. Its Knoxville center has about 300 workers and following a recent upgrade, the facility is now ADT's IT Disaster Recovery Center.

*Cellular Sales Verizon Wireless.* Cellular Sales Verizon Wireless is a Knoxville-based company that operates authorized Verizon Wireless stores nationwide. In 2014, the company expanded its facility in West Knoxville, resulting in 250 new jobs. The company operates nearly 500 stores across the country. The Knoxville-based company is the nation's largest premium Verizon retailer.

*Comcast.* Comcast's call center began hiring 250 new employees, part of the mass media company's move to enhance nationwide customer care. The jobs will be filled before the end of 2017. The move will allow Comcast to answer more calls in an efficient and timely manner. The expansion is part of a national Comcast hiring wave, with a projected 5,500 new jobs to be created across America within the next three years. The changes have greatly affected the Knoxville branch, a 96,000-square-foot facility that underwent a \$7 million dollar facelift in 2015.

*East Tennessee Healthcare Center.* Construction was completed in 2014 on a \$119 million proton therapy center in the East Tennessee Healthcare Center. ProNova, a division of Provision Health Alliance, installed three cyclotron parts for its compact proton therapy system. The two-room ProNova SC360 system uses patent-pending superconducting magnet technology to treat cancer patients. It will be the first in the world to treat patients in this manner. The system is smaller and more cost effective than traditional proton therapy systems. The system came online in December of 2014, has gained FDA Clearance, and should begin treating patients in 2017.

The development is situated on 120 acres in the 90,000-square-foot Dowell Springs Business Park, a central location to physicians, hospitals, and area residences. The project has an estimated \$1.5 million annual economic impact that will create 1,250 construction jobs and 100 full time employees. Proton therapy is a noninvasive and painless form of precision radiation treatment that has minimal to no side effects. It is expected to treat up to 1,500 patients per year. There are about 10 proton therapy centers operating in the country.

Initial construction of Dowell Springs Business Park was completed in 2009 and includes a \$35 million medical office development, consisting of two buildings which offer 175,000 square feet of clinical and office space. The Knoxville Comprehensive Breast Center and Tennessee Cancer Specialists are the anchor tenants of the office space. Plans for the grounds support the East Tennessee Healthcare Center's holistic approach to wellness and healthy living with "walking paths, waterfalls and beautiful mountain views."

*Scripps Networks.* The Travel Channel (part of the Scripps Networks) moved its headquarters from Maryland to Knoxville in 2016. About 100 employees moved with the company. Scripps Network relocated its corporate headquarters in 2010 to the City from Cincinnati. The company's technical center - which includes satellite uplink operations, a control center for all its television networks and a wide range of other administrative, business and creative functions - is also based in the City. Scripps Network is the home of Home and Garden TV network and had revenues totaling \$3 billion in 2015.

*TeamHealth.* In 2016, Physician services company TeamHealth announced an expansion of its Knoxville headquarters due to anticipated growth over the next three to five years. The company will invest \$6.7 million to construct additional office space adjacent to its current headquarters in west Knoxville. The company also plans to add 250 jobs in Knox County.

*Tennova Healthcare.* Tennova has begun construction on a new \$303.5 million hospital in west Knoxville. The 272-bed, five-story facility will replace Physicians Regional Medical Center, formerly called St. Mary's. The new facility is scheduled to open in 2018.

#### **NORTH KNOX COUNTY**

*WS Packaging Group, Inc.* WS Packaging opened a new \$43 million expansion in 2014 of its current operations by opening a new location in the PBR building in northwest Knox County. The expansion increased operations and consolidated its Knoxville facilities. The expansion brought 231 new jobs.

#### **SOUTH KNOX COUNTY**

*Baptist Hospital Site.* Demolition of the former Baptist Hospital site was completed in 2015; a \$125 million to \$150 million redevelopment is currently underway that will include a hotel, apartments, student housing, restaurants and retail. Located on the other side of Fort Loudoun Lake from downtown Knoxville, the former hospital has been mostly vacant for years.

*Cityview at Riverwalk.* A 122-unit waterfront condominium on the site of Knoxville Glove Co. at the South Knoxville waterfront broke ground in spring of 2006 and went into receivership in May 2009. The developers were in default of a \$23 million construction loan. The site was sold to developers for about \$15 million. The development consists of one-, two- and three-bedroom units, ranging in price from \$165,000 to more than \$300,000. The total cost of the residential development is about \$30.5 million and was completed in 2010. Cityview amenities include a fitness center, covered secured parking and a marina. The 96-slip marina has been approved by TVA, and some slips are to be sold to the public.

*Regal Entertainment Group.* Currently headquartered in North Knox County, Regal Entertainment Group intends to move its corporate headquarters to a nine-story office building on the former Baptist Hospital site on Knoxville's south waterfront. The move will add 70 additional jobs. Regal Cinemas opened four new IMAX locations across the country in 2010. Regal has an agreement with IMAX Corporation. Regal Cinema's Pinnacle 18 opened an \$18 million megaplex in 2005 in Turkey Creek. The 18-screen theater encompasses over 82,000 square feet. Regal Cinemas is one of the nation's fastest growing theater companies.

#### **DOWNTOWN BUSINESS DISTRICT**

*Community Health Alliance.* The nonprofit insurer, Community Health Alliance, announced in November 2015 that it would cease offering insurance coverage in 2016, resulting in 148 lay offs at the end of 2015.

*Converted Apartments.* Several notable downtown buildings have been converted into apartment spaces. A former office property, the Medical Arts Building, was converted to 49 apartments with some retail spaces in 2014. It is located close to the courthouses and has an attached parking garage. The Tailor Lofts building on Gay Street was also converted into nine apartments plus a ground-floor restaurant.

*East Tennessee Children's Hospital.* The non-profit Children's Hospital completed a \$75 million expansion in November 2016. The expansion offers over 245,000 square feet of new space, including a 44-bed, private room Neonatal Intensive Care Unit, a new perioperative surgery center, two levels of parking and enhanced family areas, such as roof-top gardens. Additional renovations to 71,900 square feet of the original building has an expected completion date of Fall 2017.

*Farragut Hotel.* Dover Development Corporation received an incentive package from the Knoxville Industrial Development Board in 2015 to freeze the property taxes at their current rate before the property is redeveloped. Demolition began in late 2015 and plans call for four storefronts. Hyatt Place will open a hotel in the historic building in Spring 2017.

*Fort Sanders Apartments.* A Georgia firm bought up property near the Fort Sanders Hospital for \$6.3 million to build 240 student apartments. Construction began in 2015 and is expected to be completed in early 2017.

*Gulf & Ohio Railways.* The Knoxville Locomotive Works operation of the Gulf & Ohio Railways, a Knoxville-based short line railroad, renovated its existing facility to begin producing locomotives based on its fuel-

efficient prototype. This \$6 million expansion created 203 jobs for the company and was operational in 2014.

*Local Motors.* Local Motors will produce its newest car, the LM3D Swim, at a Knoxville factory slated to open in early 2017. The Knoxville site is the company's first digitally enabled microfactory, meaning it can 3-D print finished pieces directly from digital designs with no tooling or casting. The LM3D Swim will be manufactured mostly through 3-D printing with some traditionally made automotive components. The Knoxville factory will launch with four or five 3-D printers and have the capacity to produce about 2,400 vehicles a year. The factory will also serve as a retail showroom, along with the company's Market Square storefront. The car is expected to cost about \$53,000, depending on customization choices.

*Marble Alley Lofts.* Just off Gay Street, a developer began construction in 2014 on a 238-unit apartment complex. The project was in development since 2009. The first phase of construction, completed in February 2016, includes an internal parking garage with the apartment building foundations built surrounding the garage. Additional retail and commercial space is planned for the second phase.

*Solar Arrays on County-Owned Buildings.* In 2015, the County installed 5 megawatts of solar photovoltaic systems on the rooftops of several County buildings. The \$12.5 million project is expected to provide more than \$29 million in energy savings to the county over the next three decades. Along with the Knox County Central building, a total of 11 schools and three other public buildings have solar panels. The solar array at the L&N Stem Academy is connected to a kiosk so that students can participate in monitoring the system.

*Tennessee Valley Authority (the "TVA").* TVA was established as a wholly-owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933 (the "TVA Act"), as amended. The TVA Act's objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. TVA, a corporation owned by the U.S. government, provides electricity for utility and business customers in most of Tennessee and parts of Alabama, Mississippi, Kentucky, Georgia, North Carolina and Virginia — an area of 80,000 square miles with a population of 9 million. The utility operates 29 hydroelectric dams, 8 coal-fired power plants, three nuclear plants, 16 natural gas-fired power facilities, 14 solar energy sites, and one wind energy site and supplied 158 billion kilowatt-hours of electricity in fiscal year 2015.

In 2014, 750 employees voluntarily retired or resigned from TVA. Another 1,000 vacant positions were eliminated to result in the largest staff reduction that the federal utility has undergone in more than 20 years. The goal was to reduce \$500 million in annual expenses in 2015.

In April of 2011, TVA announced plans to retire 18 coal-fired units at three of its older fossil plants, effectively closing one of the plants. This action is in an unprecedented agreement with the Environmental Protection Agency, four states and three environmental groups to settle complaints that the federal utility violated the Clean Air Act. TVA's board of directors approved the shutdown of two units at the John Sevier plant near Rogersville, TN, six at Widows Creek in North Alabama and all 10 units at the Johnsonville plant in Middle Tennessee. The permanent shutdowns, called retirements, will take place in phases through 2017 and will affect 300 to 400 workers. The combined idled and retired units will reduce TVA's coal-fired capacity by 2,700 megawatts out of the total 17,000 megawatts generated by the country's largest public utility. The utility also has to invest \$3 billion to \$5 billion on pollution controls and \$350 million on clean energy projects. Penalties include a \$1 million to the National Park Service and the National Forest Service and a civil penalty of \$10 million to various entities, including the states of Alabama, Kentucky and Tennessee.

In 2007, TVA restarted a nuclear reactor at Browns Ferry in North Alabama. It was the first time the reactor had been at full power in 22 years. TVA spent five years and about \$2 billion revamping the reactor. It was the first increase in the United States' nuclear generating capacity since 1996.

The Unit 2 reactor at Watts Bar Nuclear Plant in Rhea County, TN was granted an operating license in October of 2015, nearly 43 years after the original construction permit was awarded. The license allows TVA to load nuclear fuel into the new unit and begin testing of the equipment. Total estimated project cost reached \$4.7 billion, and the reactor began producing power for commercial consumption in 2016.

## UNIVERSITY OF TENNESSEE

The University of Tennessee Knoxville Campus is undergoing a record \$1 billion makeover to transform the look and feel of the campus to improve facilities and infrastructure to become a Top 25 public research institution.

*Cherokee Campus.* The Cherokee Farm concept came into being in 2001 as a way to further research by UT and ORNL in computational sciences, climate and environment, advanced materials, biomedical sciences, and renewable energy. UT and ORNL started development of the campus with \$87 million in capital investments and incentives. This is part of a UT goal to join the ranks of the nation's top 25 public research universities. The former site of UT's 188-acre dairy operation was chosen and development of 77 acres of the property began in 2010. The farm is less than a mile from the Knoxville campus.

The first building, the \$47 million, 142,000-square-foot Joint Institute for Advanced Materials facility, opened in early 2016. The rest of the campus will include 16 building sites. These sites, ranging up to 2 acres, should allow a total of 1.6 million square feet of development. Moving research to the Cherokee campus would free up buildings on the main campus, which could be renovated and used for additional administration and instructional space.

The Joint Institute for Advanced Materials building will house seven high-powered microscopes that researchers from UT, ORNL and elsewhere will use in screening and analyzing materials. The work is oriented toward producing strong, lightweight materials for the automotive and aerospace industries. Researchers will also be able to make use of supercomputers "Kraken" at UTK and "Titan" at ORNL.

The first private tenant at Cherokee Farm was announced in May 2016. Civil and Environmental Consultants, Inc. (CEC) is recognized for providing innovative design solutions and integrated expertise in the primary practice areas of civil engineering, ecological sciences, environmental engineering and sciences, survey, waste management and water resources.

*Classroom and Science Laboratory Facility.* A new 22,000-square-foot, \$5 million building will house a classroom and science laboratory facility. It is expected to be completed in 2018. It will house research laboratories, a vivarium, classrooms, and faculty offices. It will be between the Jessie Harris Building and the Hoskins Library.

*Ken and Blaire Mossman Building.* Situated on the former site of three historic houses in the Fort Sanders area, the building will house portions of microbiology, biochemistry, cellular and molecular biology, psychology and nutrition. The \$96 million project is expected to be completed Fall 2018.

*Science Laboratory Facility.* In early 2015, construction began on the new Science Laboratory Facility, a \$114 million nine-story modern science class and laboratory facility at the Strong Hall dormitory site. It will feature 500-seat and 250-seat lecture halls, general purpose classrooms and house the Anthropology and Earth and Planetary Sciences departments. It is expected to be completed in Spring 2017.

*Steam Plant Conversion.* The coal-fired boilers have been removed and replaced with natural gas boilers at the steam plant on campus. The large smokestacks were removed. The conversion cost \$25 million and was completed in Summer 2016.

*Stokely Athletic Center and Dorm Gibbs Hall.* In 2014, demolition was completed on the closed and outdated buildings that were Stokely Athletic Center and Gibbs Hall. The Stokely Athletic Center, the home of the basketball team before the move to the Thompson-Boling Arena, was built in 1958 and was closed in 2012. The Dorm Gibbs Hall was built in 1963 with only the dining services remaining operational in recent years. First, a 1,000-space parking garage was built along Volunteer Boulevard, costing \$38 million. Second, UTK built a 600 bed co-ed resident hall with added services like dining. At a cost of \$94.3 million, construction was completed in January 2017. And third, an extension to the current Haslam football practice field is planned. According to UTK, a sole private donation will fund the \$10 million project. That is expected to start in 2017.

*Student Union.* The new 391,000-square-foot, six-story, \$167 million Student Union project began construction in 2014 and will be completed in Spring 2018. It will replace the outdated University Center that was originally built in 1952. It will hold a 50,000-square-foot bookstore, ten dining establishments, a 10,000-square-foot auditorium and a 12,000-square-foot ballroom.

*Support Services Complex.* Completed in Spring 2016, the new Support Services Complex is a \$18.7 million complex that reuses a former industrial facility to house the 91,000-square-foot Department of Facilities headquarters and other units. It will feature offices, warehouses, workshops, labs and fleet parking.

*Torchbearer Plaza / Circle Park.* The \$1.2 million renovation project on the Torchbearer statue at Circle Park was completed in September 2015. The project rebuilt and enlarged the plaza area while renovating the landscaping and lighting.

*West Housing Redevelopment.* The West Housing Redevelopment project is a multiphase, \$234 million project to replace the dining facilities and six residence halls (North Carrick, South Carrick, Reese, Humes, Morrill, and Andy Holt Apartments) with seven new halls and a community dining facility on the Presidential Court Complex. The first new residence hall to be built in 43 years, Fred Brown Residence Hall, opened for the 2014-2015 semester. The others are scheduled to be finished by 2019.

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**APPENDIX C**

**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**OF**  
**KNOX COUNTY, TENNESSEE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2016**

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Knox County for the fiscal year ended June 30, 2016 which is available upon request from the County.





For The Year Ended June 30, 2016

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Tim Burchett, County Mayor



# KNOX COUNTY TENNESSEE

[knoxcounty.org](http://knoxcounty.org)



**Knox County  
Health Department**  
Every Person. A Healthy Person

<p style="text-align: center;"><b>KNOX COUNTY, TENNESSEE</b>  <b>Comprehensive Annual Financial Report</b>  <b>For The Fiscal Year Ended June 30, 2016</b>  <i>Table of Contents</i></p>
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# Introductory Section





## OFFICE OF COUNTY MAYOR TIM BURCHETT

Department of Finance • 400 Main Street, Suite 630, Knoxville, TN 37902

December 22, 2016

To the Board of Knox County Commissioners and the Citizens of Knox County, Tennessee:

The Comprehensive Annual Financial Report (CAFR) of Knox County, Tennessee (the County) for the fiscal year ended June 30, 2016, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentations, including all disclosures, rests with the County. County management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that has been established for that purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in financial position of the various funds of the County and its component units. All disclosures necessary to enable the reader to gain an understanding of the County's activities have been included.

The introductory section includes this transmittal letter, the County's organization chart, and a list of principal officials. The financial section includes Management's Discussion & Analysis (MD&A), the basic government-wide and fund financial statements, and notes to the financial statements. The Financial Section also includes Required Supplementary Information and other supplemental information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The reader is directed to the MD&A for a narrative introduction, overview and analysis of the financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Knox County's MD&A can be found immediately following the report of the independent auditors.

State law requires that the County obtain an annual audit of its books and records. The independent audit performed by Pugh & Company, P. C., Certified Public Accountants, has been obtained to fulfill that requirement. The auditors have issued an unqualified ("clean") opinion on the County's financial statements for the year ended June 30, 2016. The independent auditors' report is located at the front of the financial section of this report. The County is also required to undergo an annual single audit in conformity with the provisions of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Information related to this single audit, including schedules of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, is included in a separately issued report.

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the County) as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. Component units are discretely presented in separate columns in the government-wide financial statements to emphasize they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The Knox County Board of Education (the Board), Knox County Emergency Communications District (the District), The Development Corporation of Knox County (the Corporation), and the Knox County Railroad Authority (KCRA) are reported as discretely presented component units. The County and its component units provide a full range of services including, but not limited to, the construction and maintenance of highways, streets and infrastructure, public health and welfare, police protection, emergency telephone services, elementary and secondary education, community services, sanitation services, and recreational and cultural events. Because of the close relationship between the County and the Board and the fact that the Board does not issue financial statements separate from those of the County, several of the supplemental schedules and other financial information have been consolidated to more properly reflect the joint activities of the County and the Board.

### ***GOVERNMENTAL STRUCTURE***

The County has operated under a County Mayor/County Commission form of government since September 1, 1980, and has been under a Home Rule Charter (Charter) since September 1, 1990. Policymaking and legislative authority are vested in the County Mayor (the executive branch of the County) and the County Commission (the legislative branch of the County). The County Commission is responsible for, among other things, passing ordinances, adopting the budget and appointing committees. The County Mayor, elected at-large for a four-year term, is responsible for carrying out the policies and ordinances of the County Commission, overseeing the day-to-day operations of the government and appointing the heads of many of the County's departments.

### ***OFFICE OF THE COUNTY MAYOR***

Knox County Mayor Tim Burchett took office on Sept. 1, 2010, shortly after the start of the 2010-2011 fiscal year. Since taking office, Mayor Burchett continues to focus on providing high-quality, efficient service to our citizens at a savings to taxpayers. Some of the achievements of Mayor Burchett's tenure to date include:

- General Fund balance has increased by over \$20 million from the beginning of FY 2011 to the FY 2016 end of year.
- Restored 177 hours of operation per week within our public library system with no additional impact on the budget.
- Increased purchasing transparency by implementing first-in-the-state online, searchable databases for E-commerce card and purchase order transactions.
- Ensured more than \$2 million in savings over four years by utilizing public-private partnerships to provide pediatric care, as well as translation services for Knox County Health Department clients.

- Implemented mileage reimbursement at the standard federal rate in lieu of monthly travel allowances, which saved approximately \$78,000 annually.
- Sold unnecessary county vehicles, resulting in thousands of dollars in cost-avoidance savings through reduced maintenance, fuel and liability costs.
- Reduced Knox County's debt obligations by over \$76 million since taking office.
- Identified a funding mechanism to use one-time dollars to pay for the construction of a new Carter Elementary School, therefore eliminating a potential \$8 million in traditional bond interest payments. The school opened on time for the 2013-2014 school year.
- Sold the Solway greenwaste facility property for \$2 million; prior to the sale, the upkeep on the property cost taxpayers an average of \$245,000 annually.
- Engaged a committee of private sector experts to help advise Mayor Burchett on how to address the growing cost of employee health benefits in an attempt to bring those benefits more in-line with the private market; many of the committee's suggestions were implemented and the changes resulted in projected savings of \$1.7 million.
- Supported the Halls and Northeast Knox greenway projects, as well as the Knox-Blount greenway project.
- Constructed and opened the Concord "Pet Safe" Dog Park.
- Restored the stream bank along Beaver Creek at Halls Community Park.
- Made parking improvements at the Knox County Sports Park.
- Saved the building that formerly was used for the Oakwood Elementary School. The condition of the building had deteriorated, and its future was uncertain. The County worked with developers and others in the private sector to make needed upgrades and repairs to the facility, which is now being used for senior housing. This provides additional services to the community and places the property back on the County tax roll.
- Saved Historic Knoxville High School, which is now being redeveloped for private use.
- Sold State Street properties, which are now under development as a mixed-use residential project known as Marble Alley.
- Opened the new Karns Senior Center, bringing the total number of Knox County senior centers to six.
- Helped launch a youth dental program in partnership with the Great Schools Partnership, Knox County Schools and the Elgin Children's Foundation.
- Opened a larger, safer and more efficient Knox County Solid Waste convenience center in the Karns community.
- Opened the new Clayton Park in the Halls Community.
- Broke ground on the new Plumb Creek Park.
- Broke ground on two new Gibbs and Hardin Valley middle schools.
- Opened or expanded two disc golf courses at Powell Station Park and Tommy Schumpert Park.
- Completed 5.3MW solar project that will save taxpayers approximately \$14 million over the next 30 years.
- Supported Zoo Knoxville's master plan with a 5-year, \$5 million capital commitment.
- Added 70 acres to I.C. King Park, which will lead to improved amenities and a new, safer entrance to the park.
- Led the Midway Business Park rezoning process through a series of public input sessions and public meetings.



### ***Legislative Initiatives***

*Impact of State Funding:* Knox County, like the other 94 county governments in Tennessee, receives significant support from state-shared revenues -- mainly in the form of education and highway dollars. Because of this dependence, the legislative activities of the Tennessee General Assembly are carefully monitored. Thanks to the continuing leadership of our Governor, the State again passed a responsible, balanced budget. We at the local level are thankful for the fiscal responsibility demonstrated by the state budget. A healthy state budget means more stable and predictable revenues for all cities and counties.

### ***Capital Improvement Initiatives***

As evidence of the County's commitment to build the facilities necessary to serve the citizens of Knox County and promote economic development within the County and region, the County Commission adopted the Knox County Capital Improvement Plan. At the recommendation of the County Mayor, the five-year capital plan represents a road map of anticipated major capital projects. It does not represent appropriations and is subject to annual revisions or modifications. These individual projects will be primarily funded through general obligation bonded debt.

During the year, the County and the Board expended significant resources in the following major construction/renovation projects in accordance with the County's Capital Plan:

#### ***General Construction/Renovation:***

- General Project Management
- Dutchtown Convenience Center
- City County Improvements/Developments
- Various Maintenance Improvements

#### ***Road Construction/Improvements:***

- Parkside Drive Extension
- General Road Improvements
- Ebenezer/Gleason Intersection
- Hardin Valley/Greenland

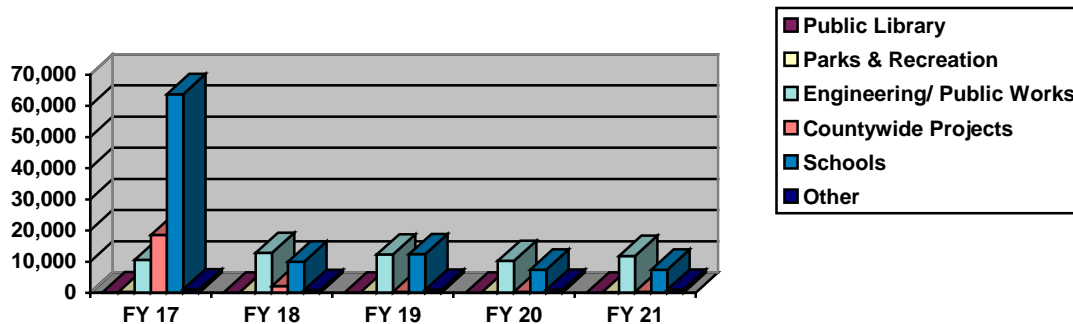
#### ***School Construction/Renovation:***

- Physical Plant Upgrades
- Energy Management Project
- Security Camera System
- HVAC Upgrades
- Mooreland Heights
- Gibbs Middle
- Hardin Valley Middle

The following summarizes the capital improvement plan net of estimated allocations for project schedule variances (amounts expressed in thousands):

Project Description	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	TOTAL
Libraries	\$ 152	\$ 0	\$ 0	\$ 0	\$ 0	\$ 152
Countywide Projects	18,519	2,200	300	300	300	21,619
Parks & Recreation	350	100	200	200	200	1,050
Engineering & Public Works	10,545	12,805	12,280	10,240	11,840	57,710
Building Improvements & Other	1,104	900	1,000	1,000	1,000	5,004
Schools	63,750	10,000	12,400	7,400	7,400	100,950
<b>Total – Approved Projects</b>	<b>\$ 94,420</b>	<b>\$ 26,005</b>	<b>\$ 26,180</b>	<b>\$ 19,140</b>	<b>\$ 20,740</b>	<b>\$ 186,485</b>

***Five Year Capital Plan***  
***(In Thousands of Dollars)***



Note: The increase in FY 17 is due to the planned construction of two new middle schools in the Hardin Valley and Gibbs communities.

## ABOUT KNOX COUNTY



The County is the third most populous county in the State of Tennessee. Located in Middle Eastern Tennessee at the headwaters of the Tennessee River, it is the hub of the areas of East Tennessee, Southeast Kentucky, Southwest Virginia and Western North Carolina. This area encompasses over two million people. The U.S. Census Bureau's 2015 census demographic population data reported that 451,324 citizens reside within the total land area of approximately 526 square miles that make up Knox County. (See [Knoxville-Knox County Metropolitan Planning Commission](#) for additional information regarding population information, demographics, and other information about Knox County.) Knoxville, the County seat, is about 50 miles west of the North Carolina state line.

The City of Knoxville's 2015 census data was reported at 185,291. It is the largest incorporated municipality in the County. Farragut, the only other municipality in the County, has an estimated population of 22,676. Knoxville has a land area of approximately 104 square miles within its corporate limits and is located on the Tennessee River near the geographic center of East Tennessee.

### *Manufacturing and Commerce*

Located in the northeastern portion of the State, Knox County, along with Anderson, Blount, Campbell, Grainger, Loudon, Morgan, Roane and Union counties, is part of the Knoxville Metropolitan Statistical Area (MSA). Because of its central location in the eastern United States, the County metropolitan area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 600 miles of approximately 40 percent of the population of the United States. For many years the County has been known as one of the South's leading wholesale markets. Based on 2015 estimates, there were approximately 995 wholesale establishments, 1,615 retail establishments, and more than 5,924 service industries located in the County.

The area is the trade center for a 42-county region, located in East Tennessee, Kentucky, Virginia and North Carolina, which serves over two million people. It also is the cultural, tourist, and professional center for this region.

The MSA includes more than 780 manufacturing firms, which produce a large variety of items including medical devices, electronic components, chemicals, manufactured housing, apparel, and automobile parts.

### ***Business Climate***

The County has a history of being a regional leader in economic activity. The County offers premier location opportunities for high-technology and precision manufacturing firms. The University of Tennessee, Tennessee Valley Authority and the Oak Ridge National Laboratory help to provide a stable, secure employment base. The Knoxville area is home to many medium-sized manufacturing and distribution operations as well as customer service centers. The Knoxville area boasts a strong and reliable workforce, and low union membership rates. These assets, combined with an excellent location at the intersections of Interstates 40, 75 and 81, make Knox County a great location for any business. The County is also well served by 125 truck lines, two railroads, six airlines, and three local river terminals that provide direct links to the Great Lakes and to the Gulf of Mexico. The Knoxville area continually receives recognition for high quality of life, combining an attractive natural setting with a moderate four-season climate. In addition, the Knoxville area ranks among the nation's top markets for low cost of living. The Knoxville MSA ranks as one of the top southeastern urban areas with an index of 86.4 compared to the average of all participating cities of 100. The County has over 6,200 acres of park and recreation space, with approximately 177 miles of greenways and walking trails. The arts and culture are well served, with the Knoxville Symphony, Knoxville Opera Company, Knoxville Museum of Art, and several performing arts organizations, including the Clarence Brown Theater, providing numerous cultural opportunities. Live entertainment includes touring Broadway productions and many concerts at numerous venues throughout the area, including the historic, beautifully renovated Tennessee and Bijou theaters.

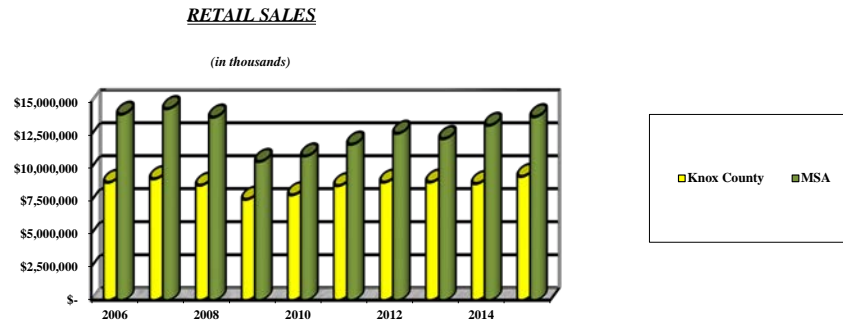
### ***Industrial Investment***

The Knoxville MSA has been recognized nationally as a leading location to live and do business. In 2016, The Brookings Institution ranked the Knoxville metro area as the 54th best-performing in the country based on its showing in job growth, unemployment, output (gross product), and house prices. Among metro areas in Tennessee, Knoxville was second only to Nashville (10th best nationally). Commerce and industry vary from the media success of Scripps Television Networks (HGTV, DIY, Food, Cooking, GAC, and Travel), to Sysco Corporation's (largest food service marketer and distributor in North America) regional warehouse and distribution center. In addition, many other local companies are recognized as national and global leaders, including Clayton Homes, Brunswick Corporation, Keurig Green Mountain, Bush Brothers, Pilot/Flying J Travel Centers, and Ruby Tuesday.

The area is also gaining a reputation as a prime location for corporate headquarters. High profile companies headquartered here in the MSA include the Tennessee Valley Authority, Jewelry Television, AC Entertainment, DeRoyal Industries, PetSafe/Radio Systems Corporation, and Regal Entertainment. Knox County has 7 business parks and a Technology Corridor to meet a wide range of corporate facility needs. In 2015, approximately 6,561 new jobs were created in Knox County among the more than 12,309 jobs created across the metro area.

### *Commercial Development*

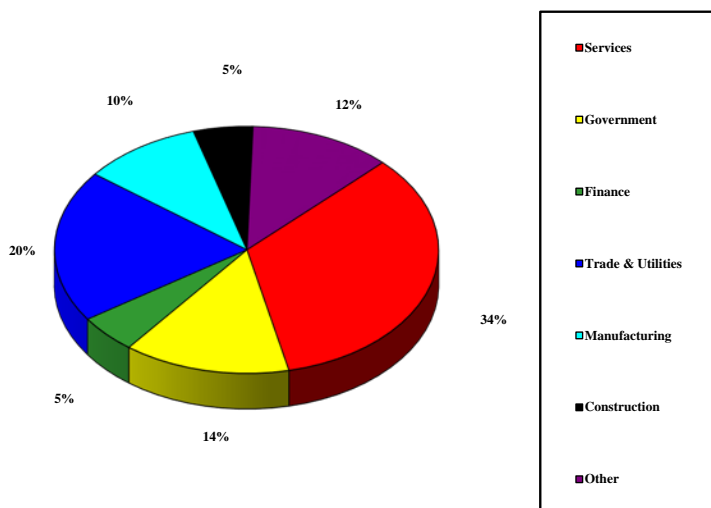
Four regional shopping malls and over 200 shopping centers and factory outlets meet the retail needs of Knox County citizens and visitors. Knox County has traditionally been the regional hub of the MSA. The 2015 retail sales in the MSA grossed over \$13.8 billion, with approximately 67% of that total generated in Knox County.



### *Tourism*

Although industry frequently is considered the core of an economic base, secondary and tertiary activities also make important contributions to economic development. The convention and tourism business contribute to the County's economic base by drawing income into the region, resulting in employment opportunities as well as investment opportunities in tourist-related facilities. The area draws thousands of enthusiasts every year for University of Tennessee sporting events, and minor league hockey and baseball are also available for sports fans. Opportunities for outdoor recreation are plentiful, with parks and recreation activities throughout the County and in the nearby Great Smoky Mountains National Park which had over 10 million guests in 2015.

### *Non-Agricultural Employment*



Knox County has demonstrated a very healthy diversity in employment. Services and trade are the two largest employment sectors in the County metropolitan area, followed by Government.

### ***Unemployment***

Historically, Knox County's unemployment rate has been low relative to the state and national rates. For the month of June 2016, the seasonally unadjusted unemployment rates for the County, state and nation stood at 4.3%, 4.1% and 4.9%, respectively. The County's rate, while in line with the nation's, reflects a full percentage decrease from the corresponding rate from June 2015, and the state and national rates reflect moderate reductions. These rates indicate improvements in economic conditions across the board.

### **Per Capita Income**

In 2015, Knox County's per capita income was \$44,849. This represents an increase of 4.3 percent compared to 2014.

## ***FINANCIAL INFORMATION***

Mayor Tim Burchett assumed the office of Knox County Mayor on September 1, 2010. The Mayor, during his mayoral campaign and throughout his first term, has expressed that priorities of his administration include keeping taxes low, and reducing the County's bonded debt levels. Therefore, the County has faced the challenge of maintaining essential services during the current difficult economy, while reducing the levels of debt. The approach taken has been based on careful budgeting and management of revenues and expenditures in both the annual budgets and the long-term budget for capital planning.

For the annual budget process, the FY 2016 adopted budget provided for a modest increase (6.1%) in General Fund expenditures. Most of the budgeted increase was for needed additional expenditures for public safety. Education funding, provided for in the General Purpose School Fund (the general fund for the Board of Education component unit) has also increased by more than \$13 million. The increases in budgeted funds for public safety and education reflect the Mayor's commitment to ensure that adequate funding is provided for these essential functions. By careful budgeting of expenditures in the overall budget, other essential services to Knox County citizens (road maintenance, parks and recreation, library services, etc.) have been maintained at appropriate levels. Revenues have been estimated conservatively, and actual results exceeded the budget. Much of this was due to local taxes, other local revenues and funding from the State that exceeded originally budgeted estimates.

The planned reduction in the County's bonded debt levels are dependent on both the levels of debt service payments and the amounts of new debt added. Debt service expenditures are provided for in the County's annual budgets, and the amounts of debt retirement have been provided for based on the required upcoming debt service. The amount of new debt to be added is dependent on the amount needed for projects approved in the County's adopted Capital Improvement Plan, which covers the upcoming five-year period. This funding mechanism provides for a matching of debt service expenditures with the useful lives of the assets acquired with the bond proceeds. In order to reduce the overall levels of bonded debt, it has been necessary to reduce the approved projects to be funded from debt proceeds. This reduction is being accomplished. The total bonded debt as of June 30, 2016 of \$614,988,642 is \$76,197,826 less than fiscal year 2011. This change resulted from the payments of bonded debt in the current year exceeding new issuances. Additional reductions are planned in future years to accomplish the Mayor's stated goal of reducing County bonded debt.



## ***OTHER INFORMATION***

### ***Awards***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Knox County Government for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the twentieth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our present report continues to meet the program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The County has also received, for the twenty-first consecutive time, the GFOA Award for Distinguished Budget Presentation for its 2016 Annual Operating Budget. In qualifying for the award, the County's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

### ***Acknowledgments***

The preparation of the CAFR was made possible by the dedicated service of the Department of Finance. Those involved have our sincere appreciation for the individual and collective contributions made in the preparation of the report. Perry Benshoof, Jack Blackburn, Jennifer Bodie, Steve Campbell, Jeff Clark, Dora Compton, Susan Corlew, Patti Galvan-Balzer, Peter Lin, Melanie Wilck, and Taylor Frazier all went above and beyond the call of duty to design and generate this report. Thank you very much for your professional dedication in this effort. Thank you to the entire Department of Finance for your efforts to "get the job done well," every day. You serve the citizens of Knox County very well.

Recognition and appreciation are also extended to the County Commission and the Board of Education for their continued dedication in planning and conducting the operations of the County and the Board in a financially responsible and progressive manner.

Sincerely,



Tim Burchett  
Knox County Mayor



Chris Caldwell  
Director of Finance



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Knox County  
Tennessee**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO





**KNOX COUNTY, TENNESSEE**  
**ROSTER OF PUBLICLY ELECTED OFFICIALS**  
As of June 30, 2016

**Elected Officials:**

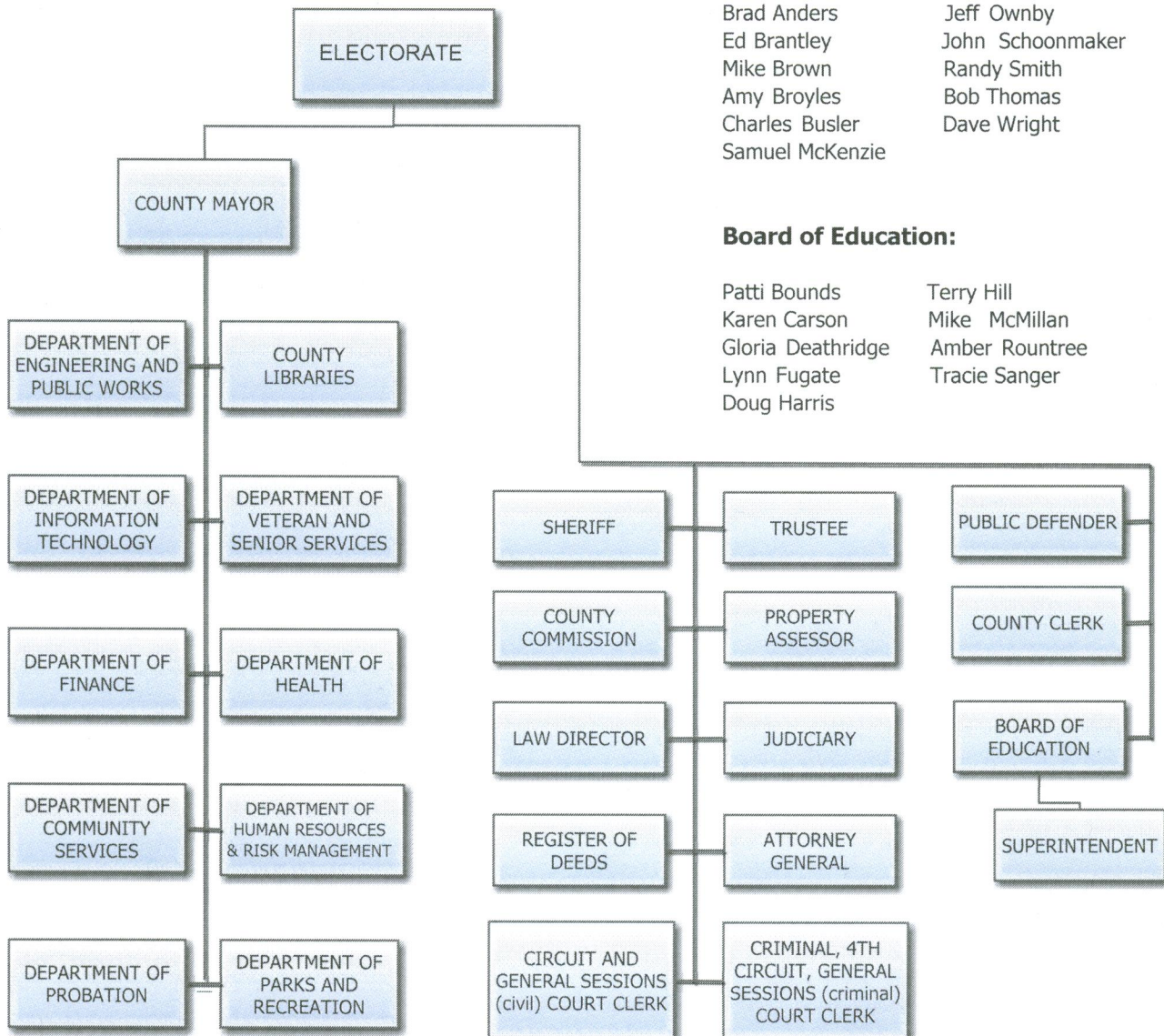
Assessor of Property - Phil Ballard  
Attorney General - Charme P. Allen  
Circuit/General Sessions (civil) Clerk - Cathy Shanks  
County Clerk - Foster D. Arnett, Jr.  
County Mayor - Tim Burchett  
Criminal/Fourth Circuit/Sessions (criminal)  
Clerk - Mike Hammond  
Law Director - Richard Armstrong  
Public Defender - Mark Stephens  
Register of Deeds - Sherry Witt  
Sheriff - Jimmy "J.J." Jones  
Trustee - Ed Shouse

**Board of Commissioners:**

Brad Anders	Jeff Ownby
Ed Brantley	John Schoonmaker
Mike Brown	Randy Smith
Amy Broyles	Bob Thomas
Charles Busler	Dave Wright
Samuel McKenzie	

**Board of Education:**

Patti Bounds	Terry Hill
Karen Carson	Mike McMillan
Gloria Deathridge	Amber Rountree
Lynn Fugate	Tracie Sanger
Doug Harris	



# Financial Section



**KNOXVILLE OFFICE:**

315 NORTH CEDAR BLUFF ROAD – SUITE 200  
KNOXVILLE, TENNESSEE 37923  
TELEPHONE 865-769-0660



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**OAK RIDGE OFFICE:**

800 OAK RIDGE TURNPIKE – SUITE A404  
OAK RIDGE, TENNESSEE 37830  
TELEPHONE 865-769-1657

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, County Commissioners  
and Audit Committee of  
Knox County, Tennessee  
Knoxville, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund, and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Development Corporation of Knox County ("TDC"), a discretely presented Component Unit reported in the financial statements of the County. The TDC comprises 2.27% of total assets and deferred outflows, 8.64% of net position and .14% of revenues of the County. We did not audit the financial statements of the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented Component Unit reported in the financial statements of the Knox County Board of Education (the "BOE"). The Partnership comprises 1.94% of total assets and deferred outflows, .59% of net position and 1.21% of the revenues of the BOE. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the TDC and the Partnership is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An independently owned member  
**RSM US Alliance**

xiii



**TSCPA**  
Members of the Tennessee Society  
Of Certified Public Accountants

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented Component Units, each major fund, and the aggregate remaining fund information of the County and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages xvi through xxx and the schedules of changes in net pension liabilities or assets, investment returns, employer contributions and schedule of funding progress of the various pension and other post-employment benefit plans on pages 124 through 133 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, supplemental section which includes the combining and individual non-major fund financial statements, Component Unit - Board of Education section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplemental section and the Component Unit - Board of Education section, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in the introductory section and the statistical section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards* and Uniform Guidance**

In accordance with *Government Auditing Standards*, we have also issued, in a separately bound document, our report dated December 22, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. In addition, we have also issued, in the same bound document, our report dated December 22, 2016, on the County's compliance for each major federal program, internal control over compliance and the schedules of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the Tennessee Comptroller of the Treasury.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 22, 2016

**Knox County, Tennessee**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016**

As management of the Knox County Government, we offer readers of the Knox County Government's financial statements this narrative overview and analysis of the financial activities of the Knox County Government for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-x of this report. All amounts, unless otherwise indicated, are expressed in dollars.

## **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the governmental activities of the Knox County Primary Government exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$17,177,880 (net position). This amount includes a negative \$259,493,264 of unrestricted net position. The negative unrestricted net position amount resulted from the process by which the Primary Government issues debt on behalf of the Board of Education component unit.
- The Primary Government's change in net position for its governmental activities was an increase of \$3,140,665. Total net position for the Primary Government (governmental and business-type activities) increased by \$3,065,794.
- The Primary Government's governmental funds reported total fund balances of \$121,505,486, a decrease of \$2,366,710 for the fiscal year.
- The Knox County Government's total bonded debt at the end of the year totaled \$614,988,642, a decrease of 0.13 percent compared to the prior year total of \$622,812,923. Of the current year total, \$371,971,565 pertains to County general government activities and \$243,017,077 pertains to the Knox County Board of Education component unit. Bond principal paid in the current year totaled \$43,724,281 and debt issued totaled \$35,900,000.
- The County Property Tax Rate was \$2.32 for the fiscal year. There was no change from the prior year rate.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Knox County Government's basic financial statements. The Knox County Government's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information and other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Knox County Government's finances, in a manner similar to a private-sector business.

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The statement of net position presents information on all the Knox County Government's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Knox County Government is either improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Knox County Government that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Knox County Government include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. Knox County Government reports business-type activities for the operations of the Three Ridges Golf Course enterprise fund.

The government-wide financial statements include the Knox County Government itself (known as the primary government), and legally separate entities for which Knox County Government is financially accountable (component units): the school district – the Board of Education (The Board), a legally separate Emergency Communications District (The District), The Development Corporation (The Corporation), and the Knox County Railroad Authority (The Authority.) Financial information for these component units is reported separately from the financial information presented for the primary government itself. The District and Corporation issue separate financial statements. The Board and the Authority do not issue separate financial statements. The government-wide financial statements can be found on pages 1 and 2 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Knox County Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Knox County Government can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.



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Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

The Knox County Government maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Constitutional Officers Special Revenue Fund, Capital Projects Public Improvement Fund and the Debt Service Fund, all of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Knox County Government adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund for information in the Basic Financial Statements section of the report. For a more detailed demonstration of budgetary compliance, the County also issues a separate Budget Report to Citizenry, which is available online at <http://www.knoxcounty.org/finance/budget.php>.

The basic governmental fund financial statements can be found on pages 3-7 of this report.

**Proprietary funds.** There are two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Knox County Government established an enterprise fund in 2009 to account for the operations of the Three Ridges Golf Course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Knox County Government's various functions. Knox County Government uses internal service funds to account for its fleet service operations, mailroom operations, employee benefits activities (including retirement), self-insurance activities, building operations, technical support operations, self-insurance healthcare activities, and fleet capital leasing activities. Because these services benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The eight internal service funds are combined into a single, aggregated presentation in the basic proprietary fund financial statements, along with the presentation of the Three Ridges Golf Course enterprise fund. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 8-10 of this report.



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**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Knox County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 11-12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-123 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Knox County Government's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 124-133 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and the individual fund statements are presented on pages 134-172. Combining and individual fund statements for proprietary funds can be found on pages 173-194 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Position - Primary Government -- Governmental Activities**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Current and Other Assets	\$ 351,878,840	\$ 344,357,970
Capital Assets	609,534,524	605,696,376
Total Assets	961,413,364	950,054,346
Deferred Outflows of Resources	58,030,181	40,180,016
Long-term Liabilities Outstanding	729,273,514	712,511,484
Other Liabilities	100,426,148	93,868,153
Total Liabilities	829,699,662	806,379,637
Deferred Inflows of Resources	172,566,003	169,817,510
Net Position:		
Invested in Capital Assets	267,670,250	267,497,791
Restricted	9,000,894	8,583,223
Unrestricted (Deficit)	(259,493,264)	(262,043,799)
Total Net Position	\$ 17,177,880	\$ 14,037,215

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**Governmental Net Position.** Current and other assets consist primarily of receivables, mostly taxes, and cash and investments. By far the largest portion of the Knox County Government's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any outstanding related debt used to acquire those assets. The Knox County Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Knox County Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The reasons for changes in capital assets are discussed later in this section.

An additional portion of the Knox County Primary Government's governmental activities net position represents resources that are subject to external restriction on how they may be used. These include restricted for Debt Service \$83,528 (last year \$83,728). Other restrictions include Public Health and Welfare \$2,232,080, Public Safety \$2,890,001, Social and Cultural Purposes \$2,219,077 and Other Purposes \$1,576,208 (last year had a combined total of \$8,499,495). The remaining balance of unrestricted net position deficit of \$259,493,264 reflects a positive change of \$2,550,535 compared to the prior year unrestricted net position deficit of \$262,043,799. The reasons for the positive change in net position are discussed in the section describing governmental activities.

The unrestricted net position balance represents funds that would normally be available to be used to meet the government's ongoing obligations to citizens and creditors. The primary reason for the deficit balance of \$259,493,264 as of June 30, 2016 results from the County's recognition of long-term debt issued on behalf of the Knox County Board of Education. Because the Board cannot by law issue its own debt, the County issues debt on behalf of the Board, and pays the proceeds to the Board. The Board then uses these proceeds for its capital purposes, and records the capital assets on its own Statement of Net Position. Therefore, the assets are shown on the Board's Component Unit financial statements, whereas the related debt is shown on the County's Primary Government financial statements. At June 30, 2016, the amount of bonds, capital leases and loans issued by the County on behalf of the Board still outstanding was \$276,280,509, compared to the prior year amount of \$288,581,780. If these liabilities were shown with the Board's amounts to match the capital assets, the County would have had positive unrestricted net position of its governmental activities of \$16,787,245 in 2016 and \$26,537,981 in 2015.

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At the end of the current fiscal year, positive balances in total net position are reported for the total reporting unit, for the primary government and for each of the separate component units. The same situation held true for the prior fiscal year. The total reporting unit's net position increased by \$26,097,646 during the current fiscal year, compared to an increase of \$21,178,135 for the prior year. For the total reporting unit, the amount of the increase in net position is attributable to the underlying positive combined change in net position of the primary government and of the Board of Education component unit, totaling \$25,212,336, combined with the positive change in net position of the nonmajor component units of \$885,310 in the aggregate. The results for the Board, an overall positive change in net position of \$22,146,542, resulted primarily from increases in state revenues for education purposes of \$8,741,840, an increase in tax revenues of \$9,599,117, an increase in charges for services of \$4,334,598, net of an increase in expenses of \$5,958,053. See the next section for discussion of factors driving the results of the primary government's change in net position.

**Governmental activities.** Governmental activities increased the Knox County Primary Government's net position by \$3,140,665 in 2016. This amount results from the overall realization of certain revenues, primarily property taxes, state shared revenues and payments from component units.

The following table shows the changes in net position for the Primary Government-Governmental Activities for the fiscal years ended June 30, 2016 and 2015.

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**Knox County Primary Government**  
**Governmental Activities**

	<u>2016</u>	<u>2015</u>
Program Revenues:		
Charges for Services	\$ 48,033,851	\$ 41,655,326
Operating Grants and Contributions	21,710,980	27,833,755
General Revenues		
Local Taxes	216,391,798	210,754,601
Payments from Component Units	17,117,442	12,521,580
Intergovernmental Revenues	13,380,140	12,381,045
Other General Revenues	3,534,790	4,409,924
Total Revenues	<u>320,169,001</u>	<u>309,556,231</u>
Expenses:		
Finance and Administration	36,885,718	36,112,276
Administration of Justice	25,571,043	24,414,379
Public Safety	88,917,847	82,717,157
Public Health and Welfare	34,280,078	33,739,935
Social and Cultural Services	21,782,470	20,521,029
Agricultural and Natural Resources	490,451	470,977
Other General Government	28,462,563	23,802,139
Engineering & Public Works	26,950,361	26,515,062
Debt Service - Interest and Fees	23,272,301	22,801,729
Payments to Component Units	30,215,504	31,918,017
Total Expenses	<u>316,828,336</u>	<u>303,012,700</u>
Excess of Revenues over Expenses before Transfers	<u>3,340,665</u>	<u>6,543,531</u>
Transfers to Business Type Activities	(200,000)	(250,000)
Change in Net Position	<u>3,140,665</u>	<u>6,293,531</u>
Net Position, July 1	<u>14,037,215</u>	<u>7,743,684</u>
Net Position, June 30	<u>\$ 17,177,880</u>	<u>\$ 14,037,215</u>

**Program revenues** include charges for services, which consist of various items such as fees for services, licenses, and fines. Charges for services relate to numerous and various government functions. These amounts increased by \$6,378,525 compared to the prior year. These items represent an aggregation of numerous transactions, and there is not a concentration of revenues in any area. These tend, therefore, to be relatively stable from year to year. Program revenues also include operating grants, which consist largely of grants received from the federal and state governments. These amounts decreased by \$6,122,775 compared to the prior year. The current

**Knox County, Tennessee**  
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year decrease in revenues is due to various amounts received for government functions. The decrease also includes amounts contributed from developers related to capital projects.

**General Revenues** include local taxes, payments from component units, intergovernmental revenues, and other general revenues. Local taxes increased by \$5,637,197 compared to the prior year, a majority of this coming from property taxes and a relatively stable overall tax base. Payments from component units primarily consist of the amounts received for the Board's portion of debt service related to the debt obligations that the Primary Government incurred on behalf of the Board. Intergovernmental revenues consisting of state shared revenues increased \$999,095 in the current year. Other general revenues consist primarily of investment revenue and other miscellaneous. The decrease of \$875,134 from 2015 to 2016 in this category was primarily attributable to decreased investment revenues. In 2016, investment revenue was \$702,349. The 2015 corresponding total was \$2,201,014, for a net decrease of \$1,498,665. The largest component of investment revenue in each year is related to the change in fair value of an interest rate swap accounted for as an investment derivative instrument. In 2016, the change in fair value was a negative \$2,551,555, whereas the corresponding amount in 2015 was a negative \$395,203, resulting in a difference between the years of \$2,156,352. Although generally accepted accounting principles require recognition of this amount in the statement of activities, it should be noted that the County intends to hold the interest rate swap until maturity, and therefore the County has not realized any gain or loss in financial assets related to this amount.

**Expenses** for the Primary Government are categorized into functional areas. Total expenses increased by \$13,815,636 compared to the prior year. This change was largely attributable to the increase in the amounts paid to Public Safety of \$6,200,690 and to Other General Government of \$4,660,424. The amounts paid to the Board are primarily the result of debt issued by the County on behalf of the Board. As previously noted, the County issues debt on behalf of the Board for capital purposes because the Board may not incur its own debt obligations. Therefore, the net proceeds of such debt issues are paid to the Board, thus resulting in an expense to the Primary Government. Expenses in other categories were in line with expectations. Increases totaling \$3,191,547 were experienced in the areas of finance and administration, administration of justice and social and cultural services, which reflected necessary increases in the cost of providing essential government services.

**Proprietary Net Position and Activities-Business-type Activities.** Proprietary activities included as business-type activities in the government-wide statements consist solely of the operations of the County's Three Ridges Golf Course, an enterprise fund. These proprietary activities decreased the net position of the primary government by \$74,871 in 2016, comprising 0.02% of the total change in net position of the primary government and 0.003% of the change in net position of the total reporting unit. The golf course is supported by user fees: greens fees, cart fees, pro shop and snack bar. In addition, in 2016 the County's general fund transferred \$200,000 for additional support. The results of operations for the golf course include the effects of depreciation, a noncash expense, totaling \$59,099. If the effects of depreciation were removed from the results of operations, the golf course would have had a decrease in net position of \$15,772. Of the ending net position, \$509,820 was invested in capital assets, with the remaining amount of \$2,719 unrestricted. These amounts reflect the results of ordinary business operations.

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**Net Position-Primary Government-Business-type Activities**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Current and Other Assets	\$ 99,293	\$ 106,794
Capital Assets	509,820	568,919
Total Assets	<u>609,113</u>	<u>675,713</u>
Current Liabilities	69,201	52,073
Noncurrent Liabilities	27,373	36,230
Total Liabilities	<u>96,574</u>	<u>88,303</u>
Net Position:		
Invested in Capital Assets	509,820	568,919
Unrestricted	2,719	18,491
Total Net Position	<u>\$ 512,539</u>	<u>\$ 587,410</u>

**Knox County, Tennessee**  
**Primary Government-Business-type Activities**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Program Revenues:		
Charges for Services	<u>\$ 788,756</u>	<u>\$ 798,212</u>
Expenses:		
Operating Expenses	<u>1,063,627</u>	<u>1,000,090</u>
Operating Income (Loss) before transfers	<u>(274,871)</u>	<u>(201,878)</u>
Transfers:		
Transfer from Other Funds	<u>200,000</u>	<u>250,000</u>
Change in Net Position	<u>(74,871)</u>	<u>48,122</u>
Net Position, July 1	<u>587,410</u>	<u>539,288</u>
Net Position, June 30	<u><u>\$ 512,539</u></u>	<u><u>\$ 587,410</u></u>

**Knox County, Tennessee**  
**Management's Discussion and Analysis (Unaudited)**  
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**FINANCIAL ANALYSIS OF THE FUNDS**

As noted earlier, the Knox County Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Knox County Government's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Knox County Government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year and to help ensure future stability of governmental operations.

The categories of fund balance are:

**Nonspendable** fund balance relates to amounts that cannot be spent because they are in a form that is not expected to be converted to cash (e.g., inventories and prepaid items), as well as the County's investment in joint venture.

**Restricted** fund balance includes amounts restricted for specific purposes by parties outside of the County (e.g., grantors, other governments) or imposed by law through constitutional provisions or enabling legislation.

**Committed** fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Commission.

**Assigned** fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are not restricted or committed.

**Unassigned** fund balance is the residual balance in the General Fund.

**Primary Government--Governmental Fund Balances**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Nonspendable	\$ 6,076,686	\$ 9,892,080
Restricted	14,978,362	21,234,543
Committed	33,651,153	31,832,805
Assigned	6,016,228	5,059,693
Unassigned	<u>60,783,057</u>	<u>55,853,075</u>
Total Fund Balances	<u><u>\$ 121,505,486</u></u>	<u><u>\$ 123,872,196</u></u>

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As of the end of the current fiscal year, the Knox County Government's governmental funds reported combined ending fund balances of \$121,505,486, a decrease of \$2,366,710 in comparison with the prior year total of \$123,872,196. The majority of the overall decrease, \$2,283,837, resulted from operations of the County's four major governmental funds. Factors that affected the results for each of those individual funds are discussed below.

The General Fund is the chief operating fund of the Knox County Government. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$60,783,057 compared to \$55,853,075 last year, an increase of \$4,929,982. Total fund balance increased by \$2,533,005 resulting in total ending fund balance in 2016 of \$72,281,942 compared to \$69,748,937 in 2015. Unassigned fund balance represents 35.0% of actual expenditures compared to 34.0% last year. The County has adopted a formal fund balance policy calling for the maintenance of a minimum level of unassigned fund balance equivalent to three months (25%) of regular operating expenditures plus transfers out. The County strives to maintain levels exceeding that minimum level in order to provide for unanticipated needs. The actual results reflect the achievement of this goal. Factors that affected the results of operations of the major Governmental Funds are discussed further in the following sections.

The Debt Service Fund has a total fund balance of \$24,270,960, which compares to \$23,711,404 in 2015. The majority of the fund balance consists of amounts committed for debt service purposes by County Commission of \$24,187,432, compared to the prior year amount of \$23,627,676. The net increase in fund balance during the current year was \$559,556, compared to a decrease of \$1,957,567 last year. The County had planned for a decrease in the Debt Service Fund, and had budgeted for \$8,416,473 to be applied to the current year budget. As the current year result of operations was an actual increase in fund balance of \$559,556, the fund experienced a positive variance of \$8,976,029 of actual results compared to the original adopted budget. This resulted from the significant savings from conservatively budgeting for its expenses that the County experienced from its variable rate debt, combined with the County's practice of issuing debt as close to the time of the anticipated cash needs as practicable in order to minimize total interest costs. The County plans to continue its conservative financial planning.

The Public Improvement Capital Projects Fund experienced a net decrease in fund balance of \$6,673,852 in 2016, compared to an increase in fund balance of \$5,583,109 in 2015. Fund balance at June 30, 2016 totaled \$5,977,468, compared to the June 30, 2015 balance of \$12,651,320. This change results from the timing of the issuance of bonds for capital purposes compared to the expenditures made therefrom. The County's practice is to issue debt for capital purposes generally on an annual basis, with the intent that debt proceeds be received as close as practicable to the timing of the planned expenditures. This is done to help keep interest charges as low as practicable. During FY 2016, the County issued debt while also spending proceeds from debt. The remaining fund balance represents amounts available to be spent for future capital projects, a normal result for this fund.



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The Constitutional Officers Special Revenue Fund experienced an increase in the fund balance in the current year of \$1,297,454, resulting in fund balance at June 30, 2016 totaling \$5,226,787 compared to the June 30, 2015 total of \$3,929,333. This fund is used to account for the operations of various County offices that receive fees for providing various services to the public. A portion of these fees are used to pay for certain operating expenses, and the remaining fees are transferred to the County General Fund. Amounts transferred to the General Fund in 2016 totaled \$10,741,900, an increase of \$2,500,764 from the prior year total of \$8,241,136. These results were in line with expectations.

**Proprietary funds-Internal Service Funds.** The Knox County Government's proprietary fund statements provide underlying detail information included in the government-wide financial statements.

Net position of all the internal service funds at year-end 2016 was \$10,776,792 as compared to \$11,638,928 at year-end 2015 resulting in a decrease of \$862,136 for FY 2016. This was due primarily to the self-insurance and self-insurance healthcare funds net position decrease of \$1,588,693 and 1,475,530, respectively. During FY 2016 the self-insurance fund experienced an increase in claims expense by \$5,115,883 which was due to greater than expected claims activity for the year and an increased liability resulting from the actuary study. The self-insurance healthcare fund experienced an increase in claims expense by \$811,049. The Internal Service Funds are used to accumulate and distribute costs as a planning tool, and are expected to break even over the long run. The total change in net position for all Internal Service Funds, a decrease of \$862,136, represents -1.1% of total charges for services of \$76,978,480. As the intent of these funds is to "break even," these results are in line with expectations, and reflect the variability and uncertainty in predicting the activity for the year. Total net position at year-end of \$10,776,792 reflects a modest accumulated net position for these funds over time, in line with expectations.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The total fund balance of the County's General Fund increased by \$2,533,005 during 2016, compared to last year's \$3,660,414 increase. The General Fund's original budget planned for a net use of fund balance for the year of \$5,489,715. Therefore, the actual unassigned fund balance of \$60,783,057 was \$8,022,720 greater than originally planned. Key factors in the outcomes for the General Fund are as follows:

- Revenues exceeded budget in eleven of twelve categories; total revenues of \$170,308,332 totaled 105.6% of the total budget of \$161,348,366. Local tax revenues, which include property and sales taxes (among others), exceeded the budget by \$1,836,358. While the County has the ability to raise tax rates, the government has chosen to keep tax rates steady (adjusted only for the effects of reappraisal) to not further burden County taxpayers. Therefore, revenues were budgeted conservatively and in line with the previous year. Various other revenues exceeded the conservatively budgeted amounts, which also contributed to the General Fund positive budgetary outcome.

**Knox County, Tennessee**  
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- The General Fund budget was adopted in amounts intended to provide funds for essential services while not providing for significant increases due to economic conditions. Expenditures of \$173,510,005 totaled 98.6% of the budget of \$176,016,690, reflecting the close monitoring of the budget to achieve results as planned.

Differences between the original budget and the final amended budget were within the normal course of County business and totaled a net \$4,647,825 increase in the total budgeted expenditures. Included in the increase were normal carryover appropriations for projects not completed during the previous fiscal year and appropriations for additional expenditures related to numerous additional revenues received for specific purposes during the year that were in addition to the revenues estimated in the original budget.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The Knox County Government Total Reporting Unit reported a total balance of capital assets (net of accumulated depreciation) as of June 30, 2016, of \$1,017,209,720, which compares to the prior year total of \$1,017,530,727. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The net decrease in the investment in capital assets for the current fiscal year was \$321,007 (0.03 percent), which reflects the depreciation expense for the year in amounts more than capital additions.

Spending for major capital asset additions during the current fiscal year included the following: energy management projects, security and HVAC upgrades and two new middle schools (Board), Clayton Park Greenway Connector, Meads Quarry Recreational Center, County additions/renovations, City/County Building Improvements, various school upgrades, numerous road projects, and various other projects.

The County reported capital assets for its governmental activities as of June 30, 2016 totaling \$1,023,553,890, less accumulated depreciation of \$414,019,366, leaving a net book value of \$609,534,524. The prior year net book value totaled \$605,696,376. The net increase for the year was \$3,838,148. Investment in capital assets includes land and land improvements, buildings, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the County, such as roads and streets, bridges, sidewalks, lighting systems, and similar items. The increase is due to the purchase of land and construction in progress. This was a planned result, reflecting the County's commitment to reduce borrowing for capital purposes which results in an overall lower amount of capital asset additions compared to previous years. Although a certain level of long-term borrowing for capital purposes is both necessary and desirable to service the needs of County citizens, the County is committed to reducing its debt level in order to minimize the burden on County taxpayers resulting from additional debt issuances.

Additional information on the Knox County Government's capital assets can be found in Note III.C of this report.

**Knox County, Tennessee**  
**Management's Discussion and Analysis (Unaudited)**  
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**Long-term debt.** At the end of the current fiscal year, the Knox County Government had total bonded debt outstanding of \$614,988,642, compared to \$622,812,923 at the end of 2015. All of the bonded debt was backed by the full faith and credit of the County government. \$243,017,077 of the total is outstanding debt which the government issued on behalf of the Board for school purposes. The remaining \$371,971,565 of the Knox County Government's debt represents bonds issued for general government purposes. The following schedule shows the changes in bonded debt allocated to the entity responsible for payment thereof.

**KNOX COUNTY GOVERNMENT'S Bonded Debt Changes during FY 2016:**

<u><b>Rollforward of Debt:</b></u>	<u><b>Primary Government</b></u>	<u><b>Board</b></u>	<u><b>Total</b></u>
Beginning Balance	\$ 376,815,961	\$ 245,996,962	\$ 622,812,923
Principal Paid	(21,359,396)	(22,364,885)	(43,724,281)
Proceeds from Debt Issuances	16,515,000	19,385,000	35,900,000
Ending Balance – Bonds	<u>\$371,971,565</u>	<u>\$243,017,077</u>	<u>\$614,988,642</u>

Knox County's total bonded debt decreased by \$7,824,281 (1.3 percent) during the current fiscal year. The net change in bonded debt was planned, combined with reductions already achieved in previous years, as a result of the Mayor's commitment to lower the overall bonded debt levels of the County.

Knox County's debt is rated "AA+" by Standard & Poor's. In addition, the County's debt is rated "Aa1" by Moody's. These ratings were reaffirmed subsequent to June 30, 2016.

State statutes set no limit for the amount of general obligation debt a county may issue. Current bonded debt outstanding for the County Government is \$614,988,642. This translates to approximately \$1,309 per capita. This compares to the FY 2015 per capita amount of \$1,336.

Additional information on the Knox County's long-term debt can be found in the Note III.I to the Financial Statements of this report and on pages 216-221.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The unemployment rate for Knox County for June 2016 was 4.3%, which is a decrease from the final unemployment rate figure of 5.4% percent for June 2015. This was slightly higher compared to the state's average rate of 4.1% percent for June 2016, and 5.7% for June 2015. The national unemployment averages were 4.9% for June 2016 and 5.3% for June 2015.
- The General Fund budget adopted for 2017 reflects a budget totaling \$176,170,991. The budget anticipates using \$2.9 million from fund balance and a minor anticipated use of restricted resources.

**Knox County, Tennessee**  
**Management's Discussion and Analysis (Unaudited)**  
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- Additional information regarding the County's budget may be found at [http://www.knoxcounty.org/finance/pdfs/2016\\_2017\\_budget/adoptedBudget\\_detail.pdf](http://www.knoxcounty.org/finance/pdfs/2016_2017_budget/adoptedBudget_detail.pdf)

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Knox County Government's finances for all those with an interest in the government's finances. The County's CAFR and additional information regarding the County may be located online at: [http://www.knoxcounty.org/finance/annual\\_reports.php](http://www.knoxcounty.org/finance/annual_reports.php). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Knox County Government  
Department of Finance  
Suite 630  
City/County Building  
400 Main Street  
Knoxville, TN 37902

# Basic Financial Statements



**KNOX COUNTY, TENNESSEE**

**Statement of Net Position**

June 30, 2016

	Primary Government			Component Units		Total Reporting Unit
	Governmental Activities	Business-type Activities	Total	Knox County Board of Education	Nonmajor Component Units	
<b>Assets</b>						
Cash and Cash Equivalents	\$ 66,031,901	\$ 5,461	\$ 66,037,362	\$ 58,755,809	\$ 37,191,641	\$ 161,984,812
Investments, at Fair Value	61,641,512	-	61,641,512	5,910,224	-	67,551,736
Accounts Receivable	18,363,286	6,745	18,370,031	37,448,359	266,594	56,084,984
Local Taxes Receivable, net	171,345,306	-	171,345,306	104,938,567	-	276,283,873
Notes Receivable	10,305,379	-	10,305,379	-	-	10,305,379
Due from Component Units	13,685,671	-	13,685,671	-	-	13,685,671
Due from Primary Government	-	-	-	148,026	158,802	306,828
Advances to Other Governments	2,465,000	-	2,465,000	-	-	2,465,000
Inventories	731,000	79,909	810,909	1,878,020	-	2,688,929
Land Held for Resale	-	-	-	-	19,126,258	19,126,258
Prepaid Items	421,669	7,178	428,847	653,439	92,750	1,175,036
Net Pension Asset	-	-	-	280,487	-	280,487
Other Post-Employment Benefits Asset	1,550,766	-	1,550,766	-	-	1,550,766
Equity Interest in Joint Venture	5,337,350	-	5,337,350	-	-	5,337,350
Capital Assets:						
Land and Construction in Process	147,646,824	880	147,647,704	35,179,976	106,939	182,934,619
Other Capital Assets, Net of Accumulated Depreciation	461,887,700	508,940	462,396,640	362,375,345	9,503,116	834,275,101
<b>Total Assets</b>	<b>961,413,364</b>	<b>609,113</b>	<b>962,022,477</b>	<b>607,568,252</b>	<b>66,446,100</b>	<b>1,636,036,829</b>
<b>Deferred Outflows of Resources</b>						
Deferred Outflows Related to Pensions	23,831,904	-	23,831,904	77,584,138	-	101,416,042
Deferred Outflows of Unamortized Amount on Refundings	5,513,072	-	5,513,072	-	-	5,513,072
Deferred Outflows of Hedging Derivatives	28,685,205	-	28,685,205	-	-	28,685,205
<b>Total Deferred Outflows of Resources</b>	<b>58,030,181</b>	<b>-</b>	<b>58,030,181</b>	<b>77,584,138</b>	<b>-</b>	<b>135,614,319</b>
<b>Liabilities</b>						
Accounts Payable	20,530,351	50,951	20,581,302	55,946,761	1,086,278	77,614,341
Due to Component Units	306,828	-	306,828	-	-	306,828
Due to Primary Government	-	-	-	13,685,410	261	13,685,671
Unearned Revenue	2,326,048	-	2,326,048	968,578	-	3,294,626
Accrued Interest	3,614,288	-	3,614,288	-	-	3,614,288
Self-insurance Liability	17,822,547	-	17,822,547	3,686,570	-	21,509,117
Net Pension Liability	70,977,947	-	70,977,947	15,187,485	-	86,165,432
Long-term Obligations:						
Other Post-Employment Benefits Obligation	1,300,238	-	1,300,238	-	-	1,300,238
Fair Value of Interest Rate Swap Derivatives	38,599,015	-	38,599,015	-	-	38,599,015
Other Long-term Obligations:						
Due in Less than One Year	55,826,086	18,250	55,844,336	2,634,719	313,509	58,792,564
Due in More than One Year	618,396,314	27,373	618,423,687	15,348,570	-	633,772,257
<b>Total Liabilities</b>	<b>829,699,662</b>	<b>96,574</b>	<b>829,796,236</b>	<b>107,458,093</b>	<b>1,400,048</b>	<b>938,654,377</b>
<b>Deferred Inflows of Resources</b>						
Deferred Inflows Related to Pensions	257,190	-	257,190	102,884,581	-	103,141,771
Deferred Inflows of Property Taxes and Other Receivables	172,308,813	-	172,308,813	101,164,836	-	273,473,649
<b>Total Deferred Inflows of Resources</b>	<b>172,566,003</b>	<b>-</b>	<b>172,566,003</b>	<b>204,049,417</b>	<b>-</b>	<b>376,615,420</b>
<b>Net Position</b>						
Investment in Capital Assets	-	509,820	509,820	397,555,321	9,610,055	407,675,196
Net Investment in Capital Assets (see note below)	267,670,250	-	267,670,250	-	-	(8,590,259)
Restricted for:						
Debt Service	83,528	-	83,528	-	-	83,528
Public Health and Welfare Purposes	2,232,080	-	2,232,080	-	-	2,232,080
Public Safety Purposes	2,890,001	-	2,890,001	-	-	2,890,001
Education Purposes	-	-	-	8,476,946	-	8,476,946
Social and Cultural Purposes	2,219,077	-	2,219,077	-	-	2,219,077
Other Purposes	1,576,208	-	1,576,208	-	26,966	1,603,174
Unrestricted (see note below)	(259,493,264)	2,719	(259,490,545)	(32,387,387)	55,409,031	39,791,608
<b>Total Net Position</b>	<b>\$ 17,177,880</b>	<b>\$ 512,539</b>	<b>\$ 17,690,419</b>	<b>\$ 373,644,880</b>	<b>\$ 65,046,052</b>	<b>\$ 456,381,351</b>

The sum of the rows that report the net position categories for Net Investment in Capital Assets and Net Position-Unrestricted applicable to the primary government and the component units do not equal the related amounts shown in the Total Reporting Entity column. The difference of \$276,280,509 results because the debt incurred by the Primary Government on behalf of the Board of Education Component Unit reduces the unrestricted net position of the Primary Government, whereas the related assets are reported in the Board Component Unit totals. For the Total Reporting Unit, the \$276,280,509 is deducted from the amount shown for Net Investment in Capital Assets to show the matching of the total assets with the total debt.

*The Notes to the Financial Statements are an integral part of this statement.*

## KNOX COUNTY, TENNESSEE

Statement of Activities  
For the Year Ended June 30, 2016

					Net (Expense) Revenue and Changes in Net Position					
Functions/Programs	Program Revenues				Primary Government			Component Units		Total Reporting Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	The Board	Nonmajor Component Units	
Primary government:										
Governmental activities:										
Finance and Administration	\$ 36,885,718	\$ 32,374,363	\$ -	\$ -	\$ (4,511,355)		\$ (4,511,355)			\$ (4,511,355)
Finance and Administration-Payment to Component Unit	9,553,874	-	-	-	(9,553,874)		(9,553,874)			(9,553,874)
Administration of Justice	25,571,043	2,908,229	227,070	-	(22,435,744)		(22,435,744)			(22,435,744)
Public Safety	88,917,847	4,680,091	3,030,098	-	(81,207,658)		(81,207,658)			(81,207,658)
Public Safety-Payment to Component Unit	485,002	-	-	-	(485,002)		(485,002)			(485,002)
Public Health and Welfare	34,280,078	6,854,390	8,531,121	-	(18,894,567)		(18,894,567)			(18,894,567)
Public Health and Welfare-Payment to Component Unit	166,628	-	-	-	(166,628)		(166,628)			(166,628)
Social and Cultural Services	21,782,470	771,108	394,610	-	(20,616,752)		(20,616,752)			(20,616,752)
Agricultural and Natural Resources	490,451	-	-	-	(490,451)		(490,451)			(490,451)
Other General Government	28,462,563	303,569	1,207,371	-	(26,951,623)		(26,951,623)			(26,951,623)
Other General Government-Payment to Component Unit	625,000	-	-	-	(625,000)		(625,000)			(625,000)
Engineering and Public Works	26,950,361	142,101	8,320,710	-	(18,487,550)		(18,487,550)			(18,487,550)
Education - Payment to Component Unit	19,385,000	-	-	-	(19,385,000)		(19,385,000)			(19,385,000)
Debt Service - Interest and Fees	23,272,301	-	-	-	(23,272,301)		(23,272,301)			(23,272,301)
Total governmental activities	316,828,336	48,033,851	21,710,980	-	(247,083,505)		(247,083,505)			(247,083,505)
Total governmental activities	316,828,336	48,033,851	21,710,980	-	(247,083,505)		(247,083,505)			(247,083,505)
Business-type activities:										
Three Ridges Golf Course	1,063,627	788,756	-	-	-	\$ (274,871)	(274,871)			(274,871)
Total primary government	\$ 317,891,963	\$ 48,822,607	\$ 21,710,980	\$ -	(247,083,505)	(274,871)	(247,358,376)			(247,358,376)
Component units:										
Board of Education	\$ 529,205,667	\$ 18,407,724	\$ 71,824,933	\$ -				\$ (438,973,010)		(438,973,010)
Nonmajor Component Units	9,131,983	6,533,341	-	-				-	\$ (2,598,642)	(2,598,642)
Total component units	\$ 538,337,650	\$ 24,941,065	\$ 71,824,933	\$ -				(438,973,010)	(2,598,642)	(441,571,652)
General Revenues:										
Property Taxes					170,481,050	-	170,481,050	98,932,121	-	269,413,171
Sales Taxes					11,960,270	-	11,960,270	144,321,391	-	156,281,661
Lodging Taxes					7,993,988	-	7,993,988	-	-	7,993,988
Business Taxes					9,301,725	-	9,301,725	-	-	9,301,725
Wheel Taxes					11,552,326	-	11,552,326	1,600,726	-	13,153,052
Other Local Taxes					5,102,439	-	5,102,439	1,082,452	-	6,184,891
Investment Revenue					702,349	-	702,349	378,485	119,887	1,200,721
Payments from Component Units					17,117,442	-	17,117,442	-	-	17,117,442
Payments from Primary Government					-	-	-	28,938,874	1,276,630	30,215,504
Intergovernmental Revenues					13,380,140	-	13,380,140	2,309,611	-	15,689,751
Other Revenues					1,789,623	-	1,789,623	-	-	1,789,623
Other Governments and Citizens Groups					296,117	-	296,117	-	368,295	664,412
Miscellaneous					746,701	-	746,701	88,892	-	835,593
Grants and Contributions Not Restricted for Specific Programs					-	-	-	-	1,719,140	1,719,140
State of Tennessee - Basic Education Program					-	-	-	183,467,000	-	183,467,000
Transfers					(200,000)	200,000	-	-	-	-
Total General Revenues and Transfers					250,224,170	200,000	250,424,170	461,119,552	3,483,952	715,027,674
Change in Net Position					3,140,665	(74,871)	3,065,794	22,146,542	885,310	26,097,646
Net Position, July 1					14,037,215	587,410	14,624,625	351,498,338	64,160,742	430,283,705
Net Position, June 30					\$ 17,177,880	\$ 512,539	\$ 17,690,419	\$ 373,644,880	\$ 65,046,052	\$ 456,381,351

**KNOX COUNTY, TENNESSEE**

**Balance Sheet**  
**Governmental Funds**  
June 30, 2016

	<b>General</b>	<b>Special Revenue Constitutional Officers</b>	<b>Capital Projects Public Improvement</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 15,176,981	\$ 5,767,965	\$ 1,776,560	\$ 6,997,571	\$ 11,334,118	\$ 41,053,195
Investments, at Fair Value	54,860,946	-	6,780,566	-	-	61,641,512
Receivables:						
Accounts, Net	9,697,254	-	1,052	-	7,550,158	17,248,464
Local Taxes	115,465,978	-	-	55,879,328	-	171,345,306
Notes	892,000	-	-	7,475,000	1,915,906	10,282,906
Due from Other Funds	956,895	-	378,598	-	1,141,608	2,477,101
Due from Component Units	-	-	1,351	13,022,088	-	13,023,439
Advances to Other Entity	-	-	-	2,465,000	-	2,465,000
Inventories	427,863	-	-	-	69,985	497,848
Prepaid Items	196,792	-	-	-	44,696	241,488
Investment in Joint Venture	5,337,350	-	-	-	-	5,337,350
<b>TOTAL ASSETS</b>	<b>\$ 203,012,059</b>	<b>\$ 5,767,965</b>	<b>\$ 8,938,127</b>	<b>\$ 85,838,987</b>	<b>\$ 22,056,471</b>	<b>\$ 325,613,609</b>
<b>LIABILITIES</b>						
Accounts Payable and Accrued Liabilities	\$ 11,512,573	\$ -	\$ 2,800,415	\$ 6,761	\$ 4,784,182	\$ 19,103,931
Due to Other Funds	3,419,692	541,178	1,442	-	1,258,413	5,220,725
Due to Component Units	147,314	-	158,802	-	-	306,116
Unearned Revenue	60,501	-	-	-	2,265,547	2,326,048
<b>TOTAL LIABILITIES</b>	<b>15,140,080</b>	<b>541,178</b>	<b>2,960,659</b>	<b>6,761</b>	<b>8,308,142</b>	<b>26,956,820</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred Property Taxes and Notes Receivable	115,590,037	-	-	61,561,266	-	177,151,303
<b>FUND BALANCES</b>						
Nonspendable	5,962,005	-	-	-	114,681	6,076,686
Restricted	2,450,091	-	5,977,468	83,528	6,467,275	14,978,362
Committed	2,297,348	-	-	24,187,432	7,166,373	33,651,153
Assigned	789,441	5,226,787	-	-	-	6,016,228
Unassigned	60,783,057	-	-	-	-	60,783,057
<b>TOTAL FUND BALANCES</b>	<b>72,281,942</b>	<b>5,226,787</b>	<b>5,977,468</b>	<b>24,270,960</b>	<b>13,748,329</b>	<b>121,505,486</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b>\$ 203,012,059</b>	<b>\$ 5,767,965</b>	<b>\$ 8,938,127</b>	<b>\$ 85,838,987</b>	<b>\$ 22,056,471</b>	<b>\$ 325,613,609</b>



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## KNOX COUNTY, TENNESSEE

### Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2016

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Amounts reported for governmental activities in the statement of net position are different because:

Ending Fund Balance - Governmental Funds		\$	121,505,486
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.			609,255,252
The other post-employment benefits asset is not available to pay for current-period expenditures and, therefore, is not reported as an asset in the fund financial statements.			1,550,766
Internal service funds are used by management to charge certain costs (e.g., certain employee benefits, insurance, maintenance, and use of equipment) to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.			10,776,792
Long-term liabilities, including bonds payable and related unamortized premium, loans payable, capital lease obligations, other post-employment benefit obligation, compensated absences, net pension liability, the fair value of interest rate swaps, and accrued interest are not due and payable in the current period and therefore are not reported in the funds.			
Bonds Payable	\$	614,988,642	
Unamortized Bond Premium		8,127,194	
Fair Value of Interest Rate Swaps, net		9,913,810	
Loans Payable		4,912,794	
Accrued Interest		3,614,288	
Capital Lease Obligations		37,571,153	
Net Pension Liability		70,977,947	
Other Post-employment Benefit Obligation		1,300,238	
Compensated Absences		8,434,626	(759,840,692)
Certain revenues will be collected after year-end but not within the period considered available to pay current period expenditures. Therefore, these amounts are recorded as deferred inflows of resources in the fund financial statements but have been recognized as revenues under the accrual basis in the statement of net position.			4,842,490
Deferred outflows of unamortized amounts on refundings (\$5,513,072) and deferred outflows related to pensions (\$23,831,904) increase the amount of net position reported in the statement of net position, but are not reported as assets in the funds. Similarly, deferred inflows related to pensions (\$257,190) decrease the amount of net position reported in the statement of net position, but are not reported as liabilities in the funds.			29,087,786
Net Position of Governmental Activities		\$	17,177,880

*The Notes to the Financial Statements are an integral part of this statement.*

**KNOX COUNTY, TENNESSEE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended June 30, 2016

	General	Special Revenue Constitutional Officers	Capital Projects Public Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
County Property Taxes	\$ 118,263,054	\$ -	\$ -	\$ 52,316,064	\$ -	\$ 170,579,118
Local Option Sales Taxes	4,425,487	-	-	-	7,534,783	11,960,270
Lodging Taxes	-	-	-	-	7,993,988	7,993,988
Business Taxes	9,301,725	-	-	-	-	9,301,725
Wheel Taxes	532,699	-	-	-	11,019,627	11,552,326
Other Local Taxes	2,991,976	-	-	-	2,110,463	5,102,439
Licenses and Permits	4,415,268	-	-	-	-	4,415,268
Fines, Forfeitures and Penalties	2,716,773	-	-	-	813,993	3,530,766
Charges for Current Services	7,152,072	27,462,923	-	-	1,104,509	35,719,504
Other Local Revenues	4,827,617	-	456,435	2,580,575	1,085,005	8,949,632
State of Tennessee	13,883,964	-	96,412	-	8,056,192	22,036,568
Federal Government	1,208,814	-	-	-	9,036,419	10,245,233
Other Governments and Citizen Groups	588,883	-	498,094	-	123,990	1,210,967
Payments from Component Units	-	-	-	13,022,088	-	13,022,088
Investment Revenue	-	16,512	1,609	-	-	18,121
<b>Total Revenues</b>	<b>170,308,332</b>	<b>27,479,435</b>	<b>1,052,550</b>	<b>67,918,727</b>	<b>48,878,969</b>	<b>315,638,013</b>
<b>Expenditures</b>						
Current:						
Finance and Administration	24,536,766	8,383,211	-	-	-	32,919,977
Finance and Administration - Payments to Component Unit	9,553,874	-	-	-	-	9,553,874
Administration of Justice	17,389,378	7,056,870	-	-	585,210	25,031,458
Public Safety	79,193,115	-	-	-	1,974,294	81,167,409
Public Safety - Payments to Component Unit	326,200	-	158,802	-	-	485,002
Social and Cultural Services	20,242,281	-	-	-	13,264,310	33,506,591
Public Health and Welfare - Payments to Component Unit	166,628	-	-	-	-	166,628
Social and Cultural Services	5,123,600	-	-	-	13,987,768	19,111,368
Agricultural and Natural Resources	490,451	-	-	-	-	490,451
Other General Government	15,709,676	-	1,959	-	7,807,035	23,518,670
Other General Government - Payments to Component Unit	625,000	-	-	-	-	625,000
Engineering and Public Works	-	-	-	-	13,454,304	13,454,304
Decrease in Equity Interest in Joint Venture	153,036	-	-	-	-	153,036
Debt Proceeds Paid to Component Unit	-	-	19,385,000	-	-	19,385,000
Debt Issuance Costs	-	-	196,957	-	-	196,957
Capital Projects	-	-	26,501,590	-	92,536	26,594,126
Debt Service						
Other Debt Service	-	-	-	1,533,600	-	1,533,600
Trustee's Commission	-	-	-	1,074,820	-	1,074,820
Principal	-	-	-	44,203,336	-	44,203,336
Interest	-	-	-	20,742,805	-	20,742,805
<b>Total Expenditures</b>	<b>173,510,005</b>	<b>15,440,081</b>	<b>46,244,308</b>	<b>67,554,561</b>	<b>51,165,457</b>	<b>353,914,412</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(3,201,673)</b>	<b>12,039,354</b>	<b>(45,191,758)</b>	<b>364,166</b>	<b>(2,286,488)</b>	<b>(38,276,399)</b>
<b>Other financing sources (uses)</b>						
Transfers from Other Funds	10,741,900	-	411,890	195,390	3,789,180	15,138,360
Transfers to Other Funds	(5,007,222)	(10,741,900)	-	-	(1,585,565)	(17,334,687)
Long-term Bonds Issued	-	-	35,900,000	-	-	35,900,000
Premium on Long-term Debt Issued	-	-	2,206,016	-	-	2,206,016
<b>Total Other Financing Sources (Uses)</b>	<b>5,734,678</b>	<b>(10,741,900)</b>	<b>38,517,906</b>	<b>195,390</b>	<b>2,203,615</b>	<b>35,909,689</b>
<b>Net Change in Fund Balances</b>	<b>2,533,005</b>	<b>1,297,454</b>	<b>(6,673,852)</b>	<b>559,556</b>	<b>(82,873)</b>	<b>(2,366,710)</b>
<b>Fund Balances, July 1</b>	<b>69,748,937</b>	<b>3,929,333</b>	<b>12,651,320</b>	<b>23,711,404</b>	<b>13,831,202</b>	<b>123,872,196</b>
<b>Fund Balances, June 30</b>	<b>\$ 72,281,942</b>	<b>\$ 5,226,787</b>	<b>\$ 5,977,468</b>	<b>\$ 24,270,960</b>	<b>\$ 13,748,329</b>	<b>\$ 121,505,486</b>

The Notes to the Financial Statements are an integral part of this statement.

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## KNOX COUNTY, TENNESSEE

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2016

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Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$ (2,366,710)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$27,889,850) exceeded depreciation (\$26,883,965) in the current period.	1,005,885
Capital assets contributed by developers are not recognized as revenues in the fund financial statements, but are recognized as revenues in the statement of activities.	2,852,052
Certain revenues will be collected after year-end but not within the period considered available to pay current period expenditures. Therefore, these amounts were recognized as revenues in the statement of activities but were not reported as revenues in the fund financial statements.	4,842,490
Amounts reported as fund revenues that met the criteria for revenue recognition under the full accrual method of accounting in the preceding fiscal year have been excluded from the current year statement of activities.	(4,940,558)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is reflected as an expenditure in the governmental funds, whereas the repayment reduces long-term liabilities in the statement of net position. Debt principal payments (\$46,983,837) exceeded proceeds (\$35,900,000) by this amount.	11,083,837
Expenses reported in the statement of activities include amortization of the deferred amount on debt refunding (\$1,006,838). In addition, the amortization of bond premium results in reduction of expenses of \$1,777,761. These amounts do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	770,923
Debt issued at a premium provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position.	(2,206,016)
The increase in the balance of the net other post-employment asset of \$632,050, plus the decrease in the liability for accrued interest of \$323,560, decreased expenses reported in the statement of activities. In addition, the increase in the liability for other post-employment benefits of \$213,345 and the increase in the compensated absences liability balance of \$5,155 increased expenses. These amounts do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	737,110
The increase in the net pension liability of \$17,531,867 and the increase in the deferred inflows related to pensions of \$144,924 increased expenses reported in the statement of activities. The increase in deferred outflows related to pensions of \$12,218,930 reduced expenses reported in the statement of activities.	(5,457,861)
The decrease in the fair value of an interest rate swap accounted for as an investment derivative instrument in the statement of activities did not use current resources in governmental funds.	(2,318,351)
Internal service funds are used by management to charge certain costs (e.g., certain employee benefits, insurance, maintenance, and use of equipment) to individual funds. The net revenue (expense) amounts of the internal service funds are reported with governmental activities.	(862,136)
Change in Net Position of Governmental Activities	<u>\$ 3,140,665</u>

*The Notes to the Financial Statements are an integral part of this statement.*

**KNOX COUNTY, TENNESSEE**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (GAAP Basis) - General Fund  
For the Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
County Property Taxes	\$ 117,353,000	\$ 117,353,000	\$ 118,263,054	\$ 910,054
Local Option Sales Taxes	4,990,500	4,990,500	4,425,487	(565,013)
Business Taxes	8,000,000	8,000,000	9,301,725	1,301,725
Wheel Taxes	525,000	525,000	532,699	7,699
Other Local Taxes	2,707,650	2,810,083	2,991,976	181,893
Licenses and Permits	3,836,600	3,836,600	4,415,268	578,668
Fines, Forfeitures and Penalties	1,872,900	2,068,895	2,716,773	647,878
Charges for Current Services	5,900,650	5,947,550	7,152,072	1,204,522
Other Local Revenues	3,862,699	3,963,420	4,827,617	864,197
State of Tennessee	9,923,980	10,092,877	13,883,964	3,791,087
Federal Government	1,200,000	1,200,000	1,208,814	8,814
Other Governments and Citizen Groups	541,406	560,441	588,883	28,442
Total Revenues	160,714,385	161,348,366	170,308,332	8,959,966
<b>Expenditures</b>				
Current:				
Finance and Administration	25,285,466	25,006,836	24,536,766	470,070
Finance and Administration - Payments to Component Unit	9,553,874	9,553,874	9,553,874	-
Administration of Justice	17,397,659	18,034,600	17,389,378	645,222
Public Safety	78,987,338	79,526,963	79,193,115	333,848
Public Safety - Payments to Component Unit	326,200	326,200	326,200	-
Public Health and Welfare	21,193,718	20,570,582	20,242,281	328,301
Public Health and Welfare - Payments to Component Unit	256,628	256,628	166,628	90,000
Social and Cultural Services	4,998,090	5,346,574	5,123,600	222,974
Agricultural and Natural Resources	526,768	525,365	490,451	34,914
Other General Government	12,218,124	16,091,032	15,709,676	381,356
Other General Government - Payments to Component Unit	625,000	625,000	625,000	-
Decrease in Equity Interest in Joint Venture	-	153,036	153,036	-
Total Expenditures	171,368,865	176,016,690	173,510,005	2,506,685
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(10,654,480)	(14,668,324)	(3,201,673)	11,466,651
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	8,045,000	8,075,000	10,741,900	2,666,900
Transfers to Other Funds	(2,880,235)	(4,917,233)	(5,007,222)	(89,989)
Total Other Financing Sources	5,164,765	3,157,767	5,734,678	2,576,911
<b>Net Change in Fund Balances</b>	\$ (5,489,715)	\$ (11,510,557)	2,533,005	\$ 14,043,562
Fund Balances, July 1			69,748,937	
Fund Balances, June 30			\$ 72,281,942	

The Notes to the Financial Statements are an integral part of this statement.

**KNOX COUNTY, TENNESSEE**

**Statement of Net Position**

**Proprietary Funds**

June 30, 2016

	<b>(Nonmajor) Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 5,461	\$ 24,978,706
Receivables:		
Accounts	6,745	1,114,822
Due from Other Funds	-	2,929,187
Due from Component Units	-	662,232
Notes	-	22,473
Inventories	79,909	233,152
Prepaid Items	7,178	180,181
<b>TOTAL CURRENT ASSETS</b>	<b>99,293</b>	<b>30,120,753</b>
<b>Capital Assets:</b>		
Land	880	-
Buildings	754,504	-
Machinery and Equipment	429,234	5,030,700
Computer Software	25,448	-
Land Improvements	66,463	-
Accumulated Depreciation	(766,709)	(4,751,428)
<b>Capital Assets (Net of Accumulated Depreciation)</b>	<b>509,820</b>	<b>279,272</b>
<b>TOTAL ASSETS</b>	<b>609,113</b>	<b>30,400,025</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	50,951	1,426,420
Due to Other Funds	-	185,563
Due to Component Units	-	712
Claims Liability	-	17,822,547
Compensated Absences Payable	18,250	169,192
<b>TOTAL CURRENT LIABILITIES</b>	<b>69,201</b>	<b>19,604,434</b>
<b>Noncurrent Liabilities:</b>		
Compensated Absences Payable	27,373	18,799
<b>TOTAL LIABILITIES</b>	<b>96,574</b>	<b>19,623,233</b>
<b>NET POSITION</b>		
Investment in Capital Assets	509,820	279,272
Unrestricted	2,719	10,497,520
<b>TOTAL NET POSITION</b>	<b>\$ 512,539</b>	<b>\$ 10,776,792</b>

*The Notes to the Financial Statements are an integral part of this statement.*

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**KNOX COUNTY, TENNESSEE****Statement of Revenues, Expenses and Changes in Net Position****Proprietary Funds**For the Year Ended June 30, 2016

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	<b>(Nonmajor) Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Operating Revenues</b>		
Charges for Services	\$ 788,756	\$ 76,978,480
Payments from Component Unit	-	298,024
Total Operating Revenues	<u>788,756</u>	<u>77,276,504</u>
<b>Operating Expenses</b>		
Cost of Sales and Services	454,327	1,540,522
General and Administration	477,663	16,755,519
Depreciation and Amortization	59,099	87,933
Medical Claims	-	27,163,947
Retirement Contributions	-	28,178,853
Other Employee Benefits	-	826,951
Worker's Compensation & Other Claims	-	5,239,771
Other Expenses	<u>72,538</u>	<u>341,471</u>
Total Operating Expenses	<u>1,063,627</u>	<u>80,134,967</u>
<b>Loss before Transfers</b>	<u>(274,871)</u>	<u>(2,858,463)</u>
<b>Transfers</b>		
Transfers from Other Funds	<u>200,000</u>	<u>1,996,327</u>
<b>Change in Net Position</b>	<u>(74,871)</u>	<u>(862,136)</u>
<b>Total Net Position, July 1</b>	<u>587,410</u>	<u>11,638,928</u>
<b>Total Net Position, June 30</b>	<u>\$ 512,539</u>	<u>\$ 10,776,792</u>

*The Notes to the Financial Statements are an integral part of this statement.*

**KNOX COUNTY, TENNESSEE**

**Statement of Cash Flows  
Proprietary Funds**

For the Year Ended June 30, 2016

	<b>(Nonmajor) Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Operating Activities</b>		
Cash Received from Customers	\$ 790,161	\$ -
Cash Received from Interfund Services Provided	-	76,272,022
Cash Received from Component Unit	-	298,024
Cash Paid to Employees	(472,429)	(1,749,078)
Cash Paid for Goods and Services	(534,073)	(19,300,276)
Cash Paid on Behalf of Employees	-	(56,784,263)
<b>Net Cash Used in Operating Activities</b>	<b>(216,341)</b>	<b>(1,263,571)</b>
<b>Noncapital Financing Activities</b>		
Transfers from Other Funds	-	1,996,327
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>-</b>	<b>1,996,327</b>
<b>Capital and Related Financing Activities</b>		
Transfers from Other Funds for Capital Purposes	200,000	-
Acquisition and Construction of Capital Assets	-	(68,144)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>200,000</b>	<b>(68,144)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(16,341)</b>	<b>664,612</b>
<b>Cash and Cash Equivalents</b>		
<b>Beginning of Year</b>	<b>21,802</b>	<b>24,314,094</b>
<b>End of Year</b>	<b>\$ 5,461</b>	<b>\$ 24,978,706</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating Loss	\$ (274,871)	\$ (2,858,463)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	59,099	87,933
Change in Assets and Liabilities:		
Decrease in Accounts Receivable	1,405	95,228
Increase in Due from Other Funds	-	(707,035)
Increase in Due from Component Units	-	(86,757)
Increase in Inventories	(3,067)	(6,894)
Increase in Prepaid Items	(7,178)	(29,727)
Increase in Accounts Payable and Accrued Liabilities	7,935	165,504
Decrease in Due to Other Funds	-	(911,113)
Increase in Due to Component Units	-	712
Increase (Decrease) in Compensated Absences	336	(4,052)
Increase in Claims Liabilities	-	2,998,987
Decrease in Unearned Revenue	-	(7,894)
<b>Total Adjustments</b>	<b>58,530</b>	<b>1,594,892</b>
<b>Net Cash Used in Operating Activities</b>	<b>\$ (216,341)</b>	<b>\$ (1,263,571)</b>

*The Notes to the Financial Statements are an integral part of this statement.*

**KNOX COUNTY, TENNESSEE**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2016

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,660,384	\$ 27,992,573
Investments, at Fair Value:		
Mutual Funds	242,824,473	-
Collective Investment Trusts	193,383,724	-
Interest-earning Investment Contracts	24,027,178	-
Corporate Bonds	2,893,747	-
U.S. Treasuries	13,092,948	-
Federal Agency Debt Securities	701,523	-
Federal Agency Mortgage Backed Securities	8,330,554	-
Total Investments	485,254,147	-
Receivables:		
Accounts	-	8,466,290
Employee Contributions	225,763	-
Employer Contributions	209,642	-
Receivable from Other Plans	185,398	-
Accrued Interest and Dividends	117,424	-
Total Receivables	738,227	8,466,290
Total Assets	488,652,758	\$ 36,458,863
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	-	\$ 9,788,054
Accounts Payable - Administrative Expenses	357,037	-
Accounts Payable - Investments Purchased	158,583	-
Accounts Payable - To Other Plans	185,399	-
Due to Other Governments	-	7,045,156
Due to Litigants, Heirs and Others	-	19,625,653
Total Liabilities	701,019	\$ 36,458,863
<b>NET POSTION - RESTRICTED FOR PENSION, OPEB, AND RETIREMENT BENEFITS</b>	<u>\$ 487,951,739</u>	

*The Notes to the Financial Statements are an integral part of this statement.*



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**KNOX COUNTY, TENNESSEE****Statement of Changes in Fiduciary Net Position**  
**Pension and Other Employee Benefit Trust Funds**  
For the year ended June 30, 2016

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**ADDITIONS**

## Contributions:

Employer	\$ 17,793,657
Employees	12,599,197
Rollovers	<u>713,456</u>

Total Contributions	<u>31,106,310</u>
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## Investment Income (Loss):

Interest and Dividend Income	4,585,493
Net Depreciation in Fair Value of Investments	<u>(6,007,225)</u>
Total Investment Loss	<u>(1,421,732)</u>
Less Investment Expenses	<u>(919,218)</u>
Net Investment Loss	<u>(2,340,950)</u>

## Other:

Transfers from Other Plans	<u>694,085</u>
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Total Additions	<u>29,459,445</u>
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**DEDUCTIONS**

Benefits and Refunds	33,496,328
Administrative Expenses	1,443,630
Transfers to Other Plans	<u>694,085</u>
Total Deductions	<u>35,634,043</u>

<b>CHANGE IN NET POSITION</b>	<b>(6,174,598)</b>
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**NET POSITION - RESTRICTED****FOR PENSION, OPEB, AND RETIREMENT**  
**BENEFITS, BEGINNING OF YEAR**

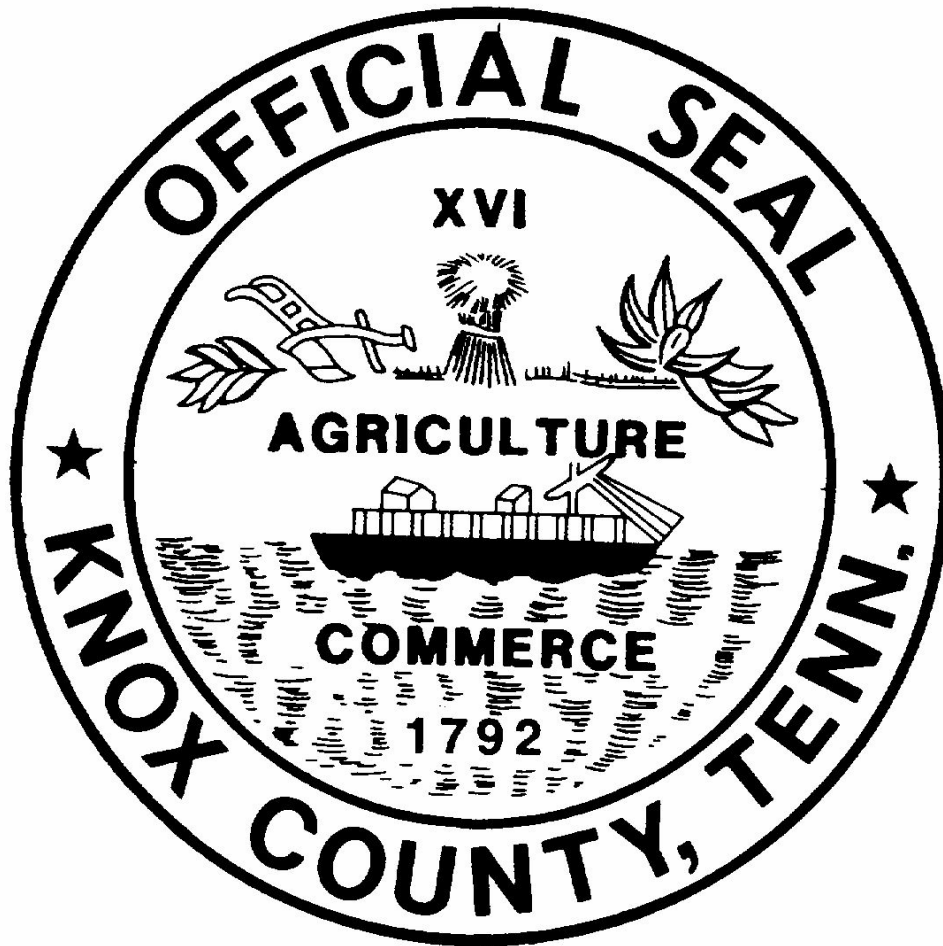
<u>494,126,337</u>
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**NET POSITION - RESTRICTED****FOR PENSION, OPEB, AND RETIREMENT**  
**BENEFITS, END OF YEAR**

<u><u>\$ 487,951,739</u></u>
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*The Notes to Financial Statements are an integral part of this statement.*

# Notes to Financial Statements



**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

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KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Knox County (the County), founded in 1792, is a political subdivision of the State of Tennessee. The County operates under a County Mayor – County Commission form of government pursuant to the Knox County Home Rule Charter (the Charter) established under Tennessee Code Annotated, Section 5-1-208, effective September 1, 1990. The County Mayor serves an elected term of four years. The eleven County Commissioners serve four-year terms and are elected by voters within the County. As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its Component Units. The County is considered to be the primary government. Component Units are legally separate entities for which the County is considered to be financially accountable. These Component Units are discretely presented in separate columns in the government-wide financial statements to emphasize they are legally separate from the County.

***Discretely Presented Component Units - the County***

**The Knox County Board of Education** (the Board) consists of nine members elected by voters of the County and one superintendent appointed by members of the Board. The Board is fiscally dependent on the County because the County levies taxes for the Board, issues debt on behalf of the Board and approves the Board's Budget. The Board is responsible for elementary and secondary education within the County's jurisdiction. The Board operates a total of 89 vocational and handicapped centers, primary, intermediate, middle and high schools. The full-time equivalent average daily membership during the 2015 - 2016 school year was 57,929 with a full time equivalent average daily attendance of 54,563. During the previous year, the full time equivalent average daily membership was 57,581 with a full time equivalent average daily attendance of 55,082.

The **Knox County Railroad Authority** (KCRA) was established by Knox County in April 1999, to provide for the continuation of rail service within the County. KCRA is governed by a two-member Board consisting of the County Mayor and a member selected by the County Commission. KCRA is fiscally dependent on the County for approval of all debt issuances.

The **Knox County Emergency Communications District** (the District) is an emergency response agency operating a consolidated public safety answering point service and emergency radio dispatch service for the residents of the County. The District is governed by an eleven-member Board of Directors, of whom the majority are appointed by the County. Debt issuances or lease agreements exceeding five years require County approval. All fees are collected and remitted to the District through the State of Tennessee Emergency Communications Board (TECB). Revenues are recognized by the District in the period allocated by the TECB.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Reporting Entity (Continued)**

Complete financial statements for the District may be obtained at the entity's administrative offices:

Knox County Emergency Communications District  
605 Bernard Avenue  
Knoxville, TN 37921

The **Development Corporation of Knox County** (the Corporation) is a not-for-profit organization organized for the primary purpose of promoting and encouraging community and economic development within the boundaries of Knox County. The Corporation is governed by an eleven-member board: four members appointed by the County, two members appointed by the City of Knoxville, and five members who are citizens of Knox County. For those five citizen members, terms are staggered so that one member's term ends each year. Appointments are made by nomination from the entire Corporation board, and presented to County Commission for approval. Commission may reject a board nomination; however, the Corporation board's nomination becomes effective upon the third nomination event. The County has agreed to provide a portion of the Corporation's funding, and therefore the Corporation has imposed a financial burden on the County.

Complete financial statements for the Corporation may be obtained at the Corporation's administrative office:

The Development Corporation of Knox County  
17 Market Square, # 201  
Knoxville, TN 37902-1405

The Board and KCRA do not issue separate financial statements from those of the County. Fund financial statements for the Board are, therefore, included in these financial statements. The activities of KCRA are accounted for in a single fund, and the information presented in the government-wide financial statements also constitutes the fund financial statements.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Reporting Entity (Continued)**

***Discretely Presented Major Component Unit - the Board***

The Great Schools Partnership Charitable Trust (the Partnership) was established during the fiscal year ended June 30, 2005. Its purpose is to provide financial and other support to the Knox County Schools by expending funds in furtherance of specific programs and activities conducted by the Board, or by distributions of funds directly to the Board. The Partnership is a legally separate, tax-exempt organization governed by a board consisting of representatives of the Board, Knox County, the City of Knoxville, and various other governmental, educational, and not-for-profit organizations. Although the Board does not control the timing or amount of expenditures made by the Partnership, the majority of the resources, or income therefrom, that the Partnership holds are restricted to the exempt purposes of the Board by the donors. Therefore, the Partnership is considered a component unit of the Board and is discretely presented in the Board's financial statements. During fiscal year 2014, the Partnership entered into an agreement with a separate not-for-profit organization whereby that organization became a supporting organization of the Partnership. Amounts presented in the financial statements reflect this combined reporting presentation.

Complete financial statements for the Partnership may be obtained at the Partnership's administrative office:

Great Schools Partnership Charitable Trust  
912 South Gay Street L-210  
Knoxville, TN 37902

**B. Government-wide and Fund Financial Statements**

The accompanying financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*The government-wide financial statements* are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and pension trust fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental fund financial statements* are reported using the flow of current financial resources measurement focus and employ the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are "measurable and available". "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County considers property tax revenues available if they are collected within 60 days after the fiscal year end. All other revenues are considered available if collected within one year after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting, except for debt and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are considered susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the County are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the County and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**Fund Accounting:** The accounts of the County are organized, operated and presented on the basis of funds. Funds are independent fiscal and accounting entities with self-balancing sets of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

**Governmental Funds** are used to account for the County's general government activities. The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund. The major revenue sources are property taxes and local option sales tax.

The *Constitutional Officers Fund* accounts for activities associated with the administrative functions of the County's Constitutional Officers. Revenues for this fund consist of user fees collected from the public for services performed by these offices. The major revenue source is fees collected by the elected officials.

The *Public Improvement Fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds, exclusive of construction activity related to the Americans with Disabilities Act. The major revenue source is proceeds from debt issuances.

The *Debt Service Fund* accounts for the servicing of general long-term debt not being financed by proprietary funds. The major revenue source is property tax collections.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

*Proprietary funds* are used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise.

*Enterprise funds* account for operations that provide services primarily to the general public on a user charge basis. During the fiscal year ended June 30, 2009, the County commenced the management and operation of the Three Ridges Golf Course. These operations are accounted for as an enterprise fund.

*Internal service funds* account for operations of the County that provide services to other departments, agencies, other governments, component units, and joint ventures on a cost reimbursement basis.

Activities accounted for in the internal service funds include: (1) provision of gasoline and maintenance services for County vehicles, (2) operation of a central mailroom, (3) payment of retiree medical premiums, employee retirement, life insurance and other payroll related expenses, and unemployment claims, (4) accounting for the payment of workers' compensation and general liability claims, (5) provision of central maintenance for County buildings, (6) providing technical support for electronic data processing functions, (7) providing leased vehicles and equipment to County departments, and (8) accounting for the payment of employee health insurance claims.

*Fiduciary funds* account for assets held by the County in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Fiduciary funds include the following:

The *pension trust and other employee benefit trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The pension and other employee benefit trust funds account for the assets of the County's defined benefit pension plan, defined contribution pension plan, defined contribution medical retirement plan, the pension trust funds for Uniformed Officers, and the employee disability plan. Plan member contributions are recognized in the period when contributions are due and payable in accordance with the terms of the plan. Employer contributions are recognized when due and the County makes a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Fiduciary funds also include agency funds used to account for the receipt and disbursement of funds held for various third parties. Agency funds include transactions related to (1) local sales taxes collected by the State of Tennessee and remitted to the County for distribution to other municipalities, (2) funds held on behalf of subdivision developers pending completion of road and hydrology requirements, (3) cash held by the County on behalf of several external agencies and County joint ventures, and (4) funds held by various elected officials on behalf of state agencies and/or other funds.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

*Proprietary funds* distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is generally the government's policy to use restricted resources first and then, unrestricted resources as they are needed.

***Component Units***

The Board of Education uses two major governmental funds (general fund and school construction capital projects), three nonmajor governmental (special revenue) funds, and fiduciary funds (pension trust fund, agency). These fund types use the same measurement focus and basis of accounting as those of the County. KCRA follows the County's governmental funds measurement focus and basis of accounting. The District follows the County's proprietary funds measurement focus and basis of accounting. The Corporation's separately issued financial statements also are accounted for as a proprietary fund. The Partnership's separately issued financial statements are prepared in accordance with the requirements of the Financial Accounting Standards Board (FASB). The financial data included for the Partnership in this Comprehensive Annual Financial Report has been formatted to comply with the classification and display requirements of the Governmental Accounting Standards Board (GASB).

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity**

***Deposits and Investments***

The cash and cash equivalents of the County and its component units are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The County maintains a pooled cash system through the Knox County Trustee. The fair value of purchased investments and investment income at fiscal year-end is allocated to major funds based on the total cash position of that fund at fiscal year-end. In accordance with County directive, the majority of interest earned during the year is allocated to the General Fund.

State statutes and local ordinances authorize the County and the Board to invest in certificates of deposit, the State Local Government Investment Pool, U.S. Treasury obligations, U.S. agency issues, corporate bonds, equity funds, short-term bond funds, and guaranteed investment contracts.

Investments are reported at their estimated fair value. Realized gains and (losses) from the sale of investments are calculated separately from the change in the fair value. Realized gains or (losses) in the current period include unrealized amounts from prior periods. Purchases and sales of securities are recorded on the trade-date basis. Interest income is recorded on the accrual basis.

Investments - Fiduciary Fund - The pension trust fund's investments are stated at their estimated fair value. Investment income includes realized gains (losses) from the sale of investments, unrealized gains (losses) in the change in market values, and interest and dividend income earned during the year. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

***Receivables, Payables, and Unearned Revenue***

In the County's fund financial reporting, transactions between County funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

Transactions between the County and its component units that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from Component Units." All other outstanding balances between the County and its component units are reported as "due to/from Component Units/Primary Government."

In the fund financial statements governmental funds report unearned revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current accounting period. Governmental funds also defer recognition of revenues in connection with resources that have been received, but not yet earned. The County accrues additional assets (receivables) for certain nonexchange revenues in governmental funds. As governmental funds are subject to the modified accrual basis of accounting, any additional revenues recognized as receivable before the resources are available have been reported as deferred inflows of resources with no resulting effect on fund equity. Unearned revenue in the government-wide financial statements consists of resources received that have not yet been earned.

All trade receivables are shown net of an allowance for doubtful accounts. Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. In Tennessee, this date is January 1<sup>st</sup>, and is referred to as the lien date. Revenues from property taxes, however, are recognized in the period for which the taxes are levied, which for the County is October 1<sup>st</sup> of the ensuing fiscal year. Property tax payments are due by February 28 of the following year. Since the receivable for property taxes is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated amount for uncollectible taxes, is reported as deferred inflows in the fund financial statements and in the government-wide financial statements as of June 30<sup>th</sup>.

Property taxes receivable are also reported as of June 30<sup>th</sup> for the taxes that are levied and uncollected during the current fiscal year as well as the previous eight fiscal years. These property taxes receivable are presented on the fund balance sheet with offsetting deferred inflows to reflect amounts not available as of June 30<sup>th</sup>. Property taxes collected within 60 days of year-end are considered available and are accrued as revenue. Property taxes collected later than 60 days after year-end are not considered available and are accrued and reported as deferred inflows. An allowance for uncollectible taxes is also recorded representing the estimated amount of delinquent taxes receivable that will be filed with the court for collection. Delinquent taxes filed with the court for collection are considered uncollectible and are written off.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

***Inventories and Prepaid Assets***

The County maintains material inventory balances in its proprietary and governmental funds. Inventories in the proprietary funds are stated at the lower of cost or market. Inventories in the governmental funds are stated at cost. Inventories are accounted for under the consumption method. Supplies for resale and the cost of oil and gasoline in the internal service funds use the first-in, first-out (FIFO) flow assumption in determining cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

The Board values school supplies inventories using the specific identification method. The Board's Central Cafeteria Fund inventories are composed of food supplies. These inventories are stated at cost.

The County's general fund inventory consists of land held for resale. The land is recorded at cost excluding the cost of infrastructure (roads, utilities, etc.).

***Derivative Instruments***

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (Statement No. 53) as amended by GASB Statement No. 72, *Fair Value Measurement and Application*, requires the County to recognize all its derivative instruments on the Statement of Net Position at fair value.

The County analyzes its derivative instruments into hedging derivative instruments and investment derivative instruments, as defined by Statement No. 53. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as either deferred inflows or deferred outflows. If the derivative is classified as an investment derivative instrument, changes in its fair value are reported on the Statement of Activities in the period in which they occur. Such changes are included in the County's investment income (loss). See Note III. (I) for more detailed analysis. The County formally assesses the effectiveness of its hedging derivative instruments at each year-end.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacement. Public domain infrastructure includes long-lived assets, primarily roads; system infrastructure includes street lighting and other assets with shorter expected useful lives. Depreciation is computed using the straight-line method generally over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Land Improvements	10 - 20
Public Domain Infrastructure	40
System Infrastructure	25
Vehicles	5
Machinery and Equipment	5 - 20
Intangibles	5 - 10

It is the County's and the District's policy to capitalize the cost of the rights to externally acquired software as an intangible asset.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

***Compensated Absences***

It is the policy of the County and its component units to permit employees to accumulate, in varying amounts, earned but unused vacation, compensatory time and sick pay benefits. In general, unpaid accumulated sick leave does not vest and is not recorded as a liability. During FY 2014, the County implemented a policy whereby retiring employees may be paid for unused sick leave in varying amounts up to a maximum of \$10,000, and a liability has been recorded for these estimated termination payments. Vacation, compensatory, and sick leave benefits from the County's and the Board's governmental funds are not reported in their respective fund financial statements because it is not expected that such amounts would be liquidated with expendable available financial resources. No expenditure is reported for these amounts. For the County and Component Unit governmental activities, compensated absences liabilities are generally liquidated by the respective general fund. The compensated absences liability and the related change in liability are reported in the government-wide and proprietary fund financial statements of the County and its component units.

***Risk Financing Activities***

Knox County and its component units are exposed to various risks of loss associated with general liability claims. The County is self-insured for such risks. The majority of general liability claims are accounted for in the Self Insurance Fund, an internal service fund. The County's policy is to utilize the Self Insurance Fund to account for claims that meet certain criteria. Claims that meet these criteria include those that are reasonably expected to occur from time to time as the result of normal recurring activities, claims that do not appear to result from gross negligence or intent, that are expected to be settled within a reasonable period of time and that are not expected to be in unusual amounts, and claims that have not resulted in death or catastrophic injury. On occasion, events occur giving rise to claims that do not meet the County's criteria for recording in the Self Insurance Fund. Such claims are accounted for in the appropriate governmental fund.

***Long-Term Obligations***

The County and the Board record long-term debt in the government-wide financial statements. Similarly, long-term debt and other obligations financed by the County's proprietary funds and the District are recorded as liabilities in the appropriate funds.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

Bond premiums and discounts, as well as deferred amounts on refundings, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount and deferred amounts on refundings.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Fund Equity***

In the governmental fund financial statements, fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints related to the specific purposes for which amounts in the funds can be spent. The classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are (a) not in spendable form, or (b) legally or contractually required to be maintained intact (e.g., endowments.) Fund balance not in spendable form includes items not expected to be converted to cash (e.g., inventories and prepaid items), as well as the County's investment in joint venture. The County does not have any nonspendable fund balance that is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted for specific purposes. These amounts result from constraints placed on the use of resources (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the County is the County Commission. Amounts are reported as committed pursuant to resolutions passed by Commission (legislative branch), which have also been approved by the County Mayor (executive branch.)

Assigned fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The County Mayor is the head of the County executive branch, and the Mayor is the County's chief fiscal officer as set forth in the Knox County Charter. Therefore, assignments may be made upon the authority of the County Mayor or designee.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity (Continued)**

Unassigned fund balance is the residual balance in the general fund (i.e., fund balance that is not nonspendable, and is not restricted, committed, or assigned.)

The County has adopted a policy requiring that a minimum level of unassigned fund balance in the General Fund equal to three months (25%) of regular, ongoing operating expenditures be maintained. Generally, when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are expended first, and then unrestricted funds are used. Generally, when expenditures are incurred utilizing unrestricted funds, unassigned amounts are expended first, then assigned amounts, then committed amounts. Net position in government-wide and proprietary fund financial statements are classified as investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by County law.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and therefore, will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

**E. Additional Information**

***Comparative Data/Reclassifications***

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements to provide an understanding of the changes in the financial position and operations of the County and the Board. Comparative totals have not been included on statements where their inclusion would not provide enhanced understanding of the reporting entity's financial position and operations or would cause the statements to be unduly complex and difficult to understand.

***Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Data**

***Budget Basis/Authority***

Annual budgets, as required by the County Charter and applicable County ordinances, are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the Constitutional Officers Fund and the Capital Projects Funds.

The Constitutional Officers Special Revenue Fund is used to account for the transactions of the fee and commission accounts of the County Trustee, Register of Deeds, County Clerk, Criminal and Fourth Circuit Court Clerk, Circuit and General Sessions Court Clerk, and Clerk and Master. These separately elected officials pay salaries and related expenditures from fees and commissions earned by their offices.

Excess fees and commissions are transferred to other funds. In some instances, all fees and commissions earned are transferred to other funds. Transactions related to the Constitutional Officers Special Revenue Fund are not subject to the budgetary control of the County Commission. Therefore, this fund is presented as an unbudgeted special revenue fund.

The Drug Control Special Revenue Fund was established in the 1998 fiscal year pursuant to an amendment of Tennessee Code Annotated Section 39-17-420, stipulating drug control activities to be reported in a special revenue fund. The budget for this fund is a separately adopted budget proposed by the Sheriff and approved by the County Commission.

The County's Public Improvement Capital Projects Fund, Americans with Disabilities Act (ADA) Construction Capital Projects Fund, and the Board's School Construction Capital Projects Fund each adopt project-length budgets for major construction projects rather than annual budgets for these projects.

Budgets for portions of the County's State, Federal and Other Grants Fund and all of the Board's School General Projects and School Federal Projects Funds are generally adopted at the time the grant or program has been approved by the grantor, so the Commission can fulfill any requirement to appropriate local matching funds at the time of adoption.

With the exception of project length budgets and grants, all appropriations lapse at fiscal year-end.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. Budgetary Data (Continued)**

***Budgetary Process***

On or before April 15, heads of all County departments and agencies submit requests for appropriations to the County Department of Finance. The Board prepares a comprehensive budgetary request that is also sent to the Department of Finance. This budget has been approved by the members of the Board of Education and is sent to the County for adoption.

The Department of Finance in conjunction with the Office of the County Mayor compiles the requests, negotiates with the various departments and submits a comprehensive budget to the County Commission. By July 1, the final County and Board budget is adopted by County Commissioners.

The appropriated County budget is prepared at the fund, department, and major category level. For the County, the legal level of budgetary control, that is, the level at which management cannot overspend funds without a budget amendment approved by the County Commission, is the major category level within departments. The major categories are Personal Services, Employee Benefits, Contracted Services, Supplies and Materials, Other Charges, Debt Service and Capital Outlay.

The budget adopted by the County for the Board is recommended by the County Mayor and adopted in total. The County does not exercise control over the Board at the department or major category level. After the budget for the Board is approved, the Board of Education may modify it within the total appropriation granted by the County Commission.

The budget and actual schedules included herein are not intended to demonstrate compliance at the legal level of budgetary control. Such statements and schedules are included in the County's separately issued *Budget Report to Citizenry*. Copies of the report may be obtained from the Knox County Department of Finance or online at: <http://www.knoxcounty.org/finance/budget.php>.

Knox County Department of Finance  
Room 630  
City County Building  
400 Main Avenue  
Knoxville, TN 37902

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. Budgetary Data (Continued)**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation, is utilized for budgetary control purposes in the governmental funds. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are included in the balances of assigned, committed, or restricted fund balance based on the purposes for which the resources that will be used to liquidate the encumbrances have been classified. Encumbrances are not treated as expenditures for financial reporting purposes. Outstanding encumbrances are reappropriated in the subsequent year.

***Supplemental Appropriations***

The following schedule shows the annual budget originally adopted expenditures and transfers out for the County and the Board, and the revisions to that budget as authorized by the County Commission, for the year ended June 30, 2016:

Fund	Original Budget	Revisions	Revised Budget
Governmental Funds:			
General Fund	\$ 174,249,100	\$ 6,684,823	\$ 180,933,923
Special Revenue Funds:			
State, Federal and Other Grants	160,000	1,466,631	1,626,631
Governmental Library	119,600	109	119,709
Public Library	13,278,900	82,621	13,361,521
Solid Waste	4,105,000	8,559	4,113,559
Hotel/Motel Tax	6,110,000	1,244,395	7,354,395
Drug Control	774,520	117,383	891,903
Engineering & Public Works	13,638,946	943,904	14,582,850
Total Special Revenue Funds	38,186,966	3,863,602	42,050,568
Debt Service Fund	75,500,000	-	75,500,000
Total - Governmental Funds	\$ 287,936,066	\$ 10,548,425	\$ 298,484,491

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. Budgetary Data (Continued)**

Fund	Original Budget	Revisions	Revised Budget
Component Unit - the Board:			
General Fund:			
General Purpose School	\$ 438,000,000	\$ 5,586,252	\$ 443,586,252
Special Revenue Fund:			
Central Cafeteria	28,028,000	287,675	28,315,675
Total - the Board	<u>\$ 466,028,000</u>	<u>\$ 5,873,927</u>	<u>\$ 471,901,927</u>

Remaining supplemental appropriations primarily represent funds designated during the previous fiscal year, encumbrances outstanding at June 30, 2015 reappropriated during fiscal year 2016, and grant awards appropriated at the time the award is received.

A local ordinance requires a two-thirds approval of the County Commission before reducing any County fund balance below an amount equal to five percent of the total amount budgeted in the fund. State law stipulates that the Board's General Purpose School Fund balance in excess of three percent of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for nonrecurring purposes but shall not be used for recurring annual operating expenses.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The County, the Board and the District maintain a cash and investment pool through the County Trustee's office. The County Trustee is the treasurer of the County and in this capacity is responsible for receiving, disbursing, depositing and investing most funds.

The Trustee of Knox County utilizes a negotiated sweep agreement for a portion of funds held by the Trustee. These funds are invested each night in various instruments, but under the County's policy these funds are classified as Cash and Cash Equivalents.

Other investments are held in the State of Tennessee's Local Government Investment Pool ("LGIP") and are not subject to categorization. LGIP investments are reported at amortized cost.

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's governmental activities investments follow their adopted investment policy and are monitored and managed by an Investment Committee, whose objectives are to maximize earnings while reducing the exposure to interest rate risks to a low level by utilizing a mixture of short and long-term maturity investments so that the changing interest rates will cause only minimal deviations in the net asset value. Investment maturities shall not exceed three years without the approval of the Investment Committee or greater than five years without the approval from the Director of State and Local Finance or as otherwise provided by State Statute. Investments of bond proceeds shall not exceed two years without the approval of the Investment Committee. The County's investments are primarily in U.S. Government Securities and securities issued by agencies of the U.S. Government. The County's and Board's Pension Trust fund activities are managed by the Knox County Retirement Board (see separately issued Pension Trust Fund Statements), whose objectives are to maximize earnings while reducing the exposure to interest rate risks to an appropriate level by using a mixture of long-term and short-term investments in various debt and equity securities. The investments of the County's defined benefit plan and the Board's defined benefit plan are included in a single trust account. The following represents the County's and the Board's governmental activities investments and the activities of the County's and the Board's Pension Trust funds:

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

	Primary Governmental Activities		Pension Board Fiduciary Activities	
	Fair Value or Carrying Amount	Weighted Average Maturity (Years)	Fair Value or Carrying Amount	Weighted Average Maturity (Years)
Cash Equivalents Classified as Investments	\$ 23,118		\$ 2,749,271	
Certificate of Deposits held greater than 90 days	3,252,788		-	
Collective Investment Trusts	-		240,455,949	
Interest-earning Investment Contracts	-		24,027,178	
Mutual Funds	-		245,848,936	
Fixed Income Securities:				
U.S. Treasuries	1,003,130	0.880	17,175,559	9.770
Federal Agency Mortgage Backed Securities	5,982,226	0.410	10,979,133	25.300
Federal Agency Debt Securities	15,933,576	0.790	922,580	3.000
Corporate Bonds	-		3,898,758	5.000
Municipal Bonds	35,446,674	0.650	-	
Total Fixed Income Securities	58,365,606		32,976,030	
Total Investments:	\$ 61,641,512		\$ 546,057,364	

The Pension Board investments are allocated to the County's and Board's pension trust funds of \$487,914,531 and \$58,142,833, respectively.

***Custodial credit risk***

The County's policies limit deposits and investments to those instruments allowed by applicable state laws. Tennessee State Law requires financial institutions to secure a local government's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 105% of the average daily balance of deposits. Alternatively, financial institutions that hold public deposits may participate in the State's collateral pool.

A portion of the County's, the Board's and the District's deposits at June 30, 2016 were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee (the State). Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must equal between 90 – 115 percent of the average daily balance of public deposits held and must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required to pay an assessment to cover any deficiency.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

***Credit risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's adopted investment policy is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and preservation of principal and liquidity. The County will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the investment policy and as allowed under Title 5, Chapter 8 of the Tennessee Code Annotated and by diversifying the investment portfolio so that potential losses from any type of security or from any individual securities will be minimized and by limiting investments to specified credit ratings.

The County's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable laws. The County's and Board's Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and County policies allow the Pension Trust funds a broader range of investments than those available to the governmental activities. The credit risk of the investments of the County's and Board's governmental activities and the County's and Board's Pension Trust funds investments in fixed-income securities is as follows:



**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

	Primary Government Governmental Activities	Pension Board Fiduciary Activities	Standard & Poor's and Moody's Credit Ratings	
	Fair Value	Fair Value		
U.S. Treasuries	\$ 1,003,130	\$ -	Aaa	Moody's
U.S. Treasuries	-	17,175,559	AA+	S&P
Federal Agency Mortgage Backed Securities	5,982,226	10,979,133	AA+	S&P
Federal Agency Debt Securities	8,083,140	922,580	AA+	S&P
Federal Agency Debt Securities	4,303,203	-	NR	Not Rated
Federal Agency Debt Securities	3,547,233	-	Aaa	Moody's
Corporate Bonds:				
Corporate Bonds	-	149,655	AAA	S&P
Corporate Bonds	-	426,301	AA+	S&P
Corporate Bonds	-	149,923	AA	S&P
Corporate Bonds	-	259,735	AA-	S&P
Corporate Bonds	-	300,998	A+	S&P
Corporate Bonds	-	1,193,448	A	S&P
Corporate Bonds	-	832,277	A-	S&P
Corporate Bonds	-	460,432	BBB+	S&P
Corporate Bonds	-	125,989	BBB	S&P
Municipal Bonds	5,258,491	-	AAA	S&P
Municipal Bonds	351,285	-	Aaa	Moody's
Municipal Bonds	250,228	-	Aa3	Moody's
Municipal Bonds	2,310,146	-	Aa2	Moody's
Municipal Bonds	591,752	-	Aa1	Moody's
Municipal Bonds	5,534,228	-	AA+	S&P
Municipal Bonds	9,644,166	-	AA-	S&P
Municipal Bonds	8,486,641	-	AA	S&P
Municipal Bonds	308,050	-	A1	Moody's
Municipal Bonds	1,983,477	-	A+	S&P
Municipal Bonds	728,210	-	A	S&P
Total Fixed Income Securities	<u>\$ 58,365,606</u>	<u>\$ 32,976,030</u>		

The County's and Board's governmental activities investments and the County's and the Board's pension trust investments have no investments in any single issuer of fixed income securities other than U.S. Treasuries that represent 5 percent or more of total investments.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

***Concentration of Credit Risk***

The County's governmental investment activities will diversify the overall portfolio to eliminate the risk of loss from an over concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer. According to the County's investment policies, the maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Treasury	100% maximum
Federal Agency/Instrumentalities	100% maximum
Tennessee LGIP	50% maximum
Repurchase Agreements	20% maximum
Commercial Paper	30% maximum
Bankers' Acceptances	10% maximum
Insured/Collateralized Certificates of Deposit	100% maximum
State, County and Municipal Obligations	50% maximum

The combined amount of bankers' acceptances and commercial paper shall not exceed forty percent (40%) of the total book value of the portfolio at the date of acquisition.

The County's Portfolio will be further diversified to limit the exposure to any one issuer. No more than three (3%) or five million dollars, whichever is less, of the County's portfolio will be invested in the securities of any single issuer.

***Investments Measured at Fair Value***

GASB Statement No. 72 (see Note IV.G) generally requires that investments be measured at fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, primarily include certain U.S. Government obligations, common stock and preferred stock equities. These investments are traded daily in public markets in the United States and other foreign countries. The fair value of these investments is based on the last reported sales price on the last day of the fiscal year.

Investments that trade in markets that are not considered to be actively traded on a daily basis, but are valued based on quoted market prices, dealer and broker quotations, bid prices, or alternative pricing sources using observable inputs, are classified within Level 2. These include certain U.S. Government and foreign obligations, interest-earning investment contracts – certificates of deposit (participating), investment grade corporate bonds and bank loans, certain mortgage and asset backed securities, less-liquid listed securities, certain government agency securities, and foreign currency exchange purchase and sales contracts. Common and collective trust funds, investment entities and short-term investment funds, whose underlying assets are primarily invested in securities that are actively traded, are measured based upon the redemption value of each unit on the last business day of the plan year.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include private equity funds, real estate investment, limited partnerships, certain mortgage and asset backed and common and collective trust funds that are primarily invested in real estate. The fair value of these investments is determined by estimates provided by independent pricing sources in asset classes, non-binding bid prices from industry vendors and managers, and the net asset value on the last day of plan year.

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

The fair value measurements of the County and the Board's investments at June 30, 2016 are as follows:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Primary Government - Governmental Activities</u>				
Investments by Fair Value Level				
Debt Securities:				
US Treasury	\$ 1,003,130	\$ 1,003,130	\$ -	\$ -
Fixed Government Agency	21,915,802	-	21,915,802	-
Tax-Free Municipal Securities	35,446,674	-	35,446,674	-
Total Debt Securities by Fair Value Level	58,365,606	1,003,130	57,362,476	-
Interest-earning Investment Contracts - Certificates of Deposit	3,252,788	-	3,252,788	-
Total Investment by Fair Value Level	\$ 61,618,394	\$ 1,003,130	\$ 60,615,264	\$ -

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities and certificates of deposit are classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. The certificates of deposit are participating as defined by GASB and meet the criteria for fair value reporting. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Fiduciary Activities - Primary Government and Board</u>				
Debt Securities:				
Corporate Bonds	\$ 3,898,758	\$ -	\$ 3,898,758	\$ -
U.S. Treasuries	17,175,559	-	17,175,559	-
Federal Agency Debt Securities	922,580	-	922,580	-
Federal Agency Mortgage Backed Securities	10,979,133	-	10,979,133	-
Total Debt Investments by Fair Value Level	32,976,030	-	32,976,030	-
Equity Investments:				
Mutual Funds	245,848,936	245,848,936	-	-
Interest-earning Investment Contracts - Insurance Companies	24,027,178	-	-	24,027,178
Total Investments Measured at Fair Value	\$ 302,852,144	\$ 245,848,936	\$ 32,976,030	\$ 24,027,178

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

The following is a description of the valuation techniques used to measure investments at fair value for the Fiduciary Activities:

*Interest-Bearing Deposits and Money Market Funds:* Valued at purchase price, which approximates fair value.

*Debt Securities:* Typically this category includes corporate bonds, U.S. Treasuries, Federal agency debt securities and Federal agency mortgage backed securities. Values are based upon quotes obtained from national or international exchanges and classified as level 2 of the fair value hierarchy.

*Mutual Funds:* Valued at quoted market prices which represent the net asset value of shares held by the plans at year end and classified as level 1 of the fair value hierarchy.

*Collective Investment Trusts (Investments Measured at the NAV):* Fair value for these investments are not readily determinable and instead, as a practical expedient, fair value is determined based on the Net Asset Value (NAV) per share. Fair value is determined based on the collective trust's share price multiplied by the number of shares owned, as based on information reported by the investment advisor using the audited financial statements of the collective trust at year-end. Investments measured at the NAV are excluded from the fair value hierarchy. These collective investment trusts are external investment pools not registered with the SEC and are, instead, regulated primarily by the Office of the Comptroller of the Currency (OCC) as well as various, DOL, FDIC and state banking laws.

*Interest Earning Investment Contracts:* The stable value investments held inside the contracts with an insurance company are not actively traded and significant other observable inputs are not available. The contracts are included in the financial statements at fair value, as reported by the insurance company, and classified as Level 3 of the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan administrator believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the valuation techniques used in the fair value measurements from the prior year.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

<u>Investments Measured at the Net Asset Value (NAV)</u>	<u>Total</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective Investment Trusts:			
Domestic Equity Funds	\$ 56,342,087	Daily	2 days
Domestic Bond Funds	38,988,209	Daily	0-3 days
International Equity Funds	72,760,449	Daily, Semi-monthly	2-5 days
Real Estate Funds	35,024,922	Monthly, Quarterly	30-90 days
Stable Value Funds	<u>37,340,282</u>	Daily	0 days
Total Investments Measured at the NAV	<u>\$ 240,455,949</u>		

The following is a description of the valuation technique used to measure investments at the net asset value (NAV) per share:

1. *Domestic Equity Funds:* This type includes investments in one collective investment trust that invests mainly in large capitalization U.S. common stocks. The fair value of the investment in this type has been determined using the NAV per share of the investments.
2. *Domestic Bond Funds:* This type includes investments in two collective investment trusts that invest mainly in U.S. Treasury Inflation Protected Securities (TIPS) and U.S. corporate high yield bonds. The fair value of the investment in this type has been determined using the NAV per share of the investments.
3. *International Equity Funds:* This type includes investments in three collective investment trusts that hold approximately 90 percent of the funds' investments in non-U.S. common stocks and preferred and approximately 10 percent of the funds' investments in foreign cash and other assets. The fair values of the investments in this type have been determined using the NAV per share of the investments.
4. *Real Estate Funds:* This type includes two collective investment funds that invest primarily in securities of real estate investment trusts, other companies in the real estate industry, and direct ownership of real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments.
5. *Stable Value Funds:* This type includes two collective investment funds that invest primarily in high quality stable value investment contracts such as guaranteed investment contracts (GICs), synthetic GICs, and separate account contracts. Fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments.

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Receivables**

Receivables for the County's individual major funds and nonmajor governmental, internal service, and fiduciary funds in the aggregate, as of year-end, including allowances for uncollectible accounts are:

**Primary Government**

	Major Governmental Funds							Trust and Agency
	General	Debt Service	Capital Projects Public Improvement	Nonmajor Governmental Funds	Internal Service	Enterprise Fund	Total Primary Government	
Receivables:								
Taxes	\$ 117,593,831	\$ 56,777,953	\$ -	\$ -	\$ -	\$ -	\$ 174,371,784	\$ -
Accounts	9,697,254	-	1,052	7,550,158	1,114,822	6,745	18,370,031	8,769,112
Contributions	-	-	-	-	-	-	-	435,405
Gross Receivables	127,291,085	56,777,953	1,052	7,550,158	1,114,822	6,745	192,741,815	9,204,517
Less: Allowances for Uncollectibles	(2,127,853)	(898,625)	-	-	-	-	(3,026,478)	-
Net Total Receivables	\$ 125,163,232	\$ 55,879,328	\$ 1,052	\$ 7,550,158	\$ 1,114,822	\$ 6,745	\$ 189,715,337	\$ 9,204,517

Receivables for the County's component units as of year-end, including the allowances for uncollectible accounts are:

**Component Units:**

	Government-wide Totals			
	The Board	The Partnership	The District	The Corporation
Receivables:				
Taxes	\$ 107,039,114	\$ -	\$ -	\$ -
Accounts	36,718,096	751,260	3,811	262,783
Gross Receivables	143,757,210	751,260	3,811	262,783
Less: Allowances for Uncollectibles	(2,100,547)	(20,997)	-	-
Net Total Receivables	\$ 141,656,663	\$ 730,263	\$ 3,811	\$ 262,783

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Receivables (Continued)**

The General Fund has the following note receivable at June 30, 2016:

- (1) A note receivable from the Knoxville-Knox County Community Action Committee (CAC) with an initial balance of \$2,300,000 was originated during the fiscal year ended June 30, 2004. The note resulted from an arrangement between the County and CAC whereby certain proceeds from debt issued by the County were used to construct a facility on CAC's behalf. CAC agreed to reimburse the County by repaying the annual amounts of the County's related debt service requirements. The resulting note receivable is due in varying principal installments, plus interest, through 2022. As of June 30, 2016, \$892,000 remained outstanding.

The County's Debt Service Fund has the following note and loan receivable at June 30, 2016:

- (1) Note receivable from the West Knox Utility District of Knox County (WKUD) has a current balance of \$1,455,000. The basis of this note is an agreement made by the County to participate with the district to expedite utility relocation and upgrading necessary for construction of improved roadways within the northwest portion of the County. The district was advanced up to \$2,000,000, which was disbursed by the County in installments upon receipt of draw notices. The note is non-interest bearing and is payable in four varying installments every five years. The amount to be repaid also includes \$140,000, recognized as revenue when received, that the district must pay to cover the County's administrative, accounting and financial costs associated with the agreement. The final installment of this note receivable is due August 11, 2018.
- (2) A loan receivable from the Industrial Development Board of Blount County (IDBBC) was made for the purpose of providing financial assistance for the acquisition and development of property as a business and industrial park. The loan initially bore interest at 5% annually and is to be repaid from amounts to be received by the IDBBC from land sales and other revenues related to the park. Interest on the loan is not currently being accrued. At June 30, 2016, the loan balance was \$6,020,000.

The State, Federal and Other Grants Special Revenue Fund had \$1,915,906 of notes receivable at June 30, 2016. These note agreements are from eligible County citizens participating in various state and federal low-income housing projects. These notes are executed with a range of below market interest rates and varying repayment terms.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Receivables (Continued)**

*Advances to Other Entity*

During the fiscal year ended June 30, 2006, the County advanced \$2,500,000 to the Knoxville-Knox County Community Action Committee (CAC). An additional advance during the fiscal year ended June 30, 2009 for \$3,500,000 was made to CAC from Knox County. These advances were made to provide funding for operations and are to be repaid from grant monies and other funding received by CAC. During the fiscal year ended June 30, 2011, CAC paid the County \$3,500,000 and \$35,000 in fiscal year 2014 towards the advances leaving a balance due to the County of \$2,465,000. CAC made no payments to the County during the fiscal year ended 2016.

**C. Capital Assets**

Activity in the County's and the Component Unit's capital assets for the fiscal year ended June 30, 2016, was the following:

**Primary Government**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land	\$ 100,908,462	\$ 2,207,768	\$ -	\$ 103,116,230
Construction in Progress	25,714,649	20,415,505	1,599,560	44,530,594
Total Capital Assets, not being depreciated	126,623,111	22,623,273	1,599,560	147,646,824
Capital Assets being depreciated:				
Buildings	213,930,864	1,131,443	15,459	215,046,848
Land Improvements	24,125,305	614,006	-	24,739,311
Machinery and Equipment	46,270,432	5,045,413	1,275,289	50,040,556
Intangible Assets	16,240,051	82,375	-	16,322,426
Infrastructure	566,843,382	2,914,543	-	569,757,925
Total Capital Assets being depreciated	867,410,034	9,787,780	1,290,748	875,907,066
Less Accumulated Depreciation for:				
Buildings	91,224,405	8,053,065	15,459	99,262,011
Land Improvements	15,438,789	919,325	-	16,358,114
Machinery and Equipment	36,037,925	3,402,972	1,273,842	38,167,055
Intangible Assets	12,502,793	464,240	-	12,967,033
Infrastructure	233,132,857	14,132,296	-	247,265,153
Total Accumulated Depreciation	388,336,769	26,971,898	1,289,301	414,019,366
Total Capital Assets being depreciated, net	479,073,265	(17,184,118)	1,447	461,887,700
Governmental Activities Capital Assets, net	\$ 605,696,376	\$ 5,439,155	\$ 1,601,007	\$ 609,534,524

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital Assets (Continued)**

**Primary Government**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type Activities:</b>				
<b>Three Ridges Golf Course:</b>				
Land and Construction in Progress	\$ 880	\$ -	\$ -	\$ 880
Buildings	754,504	-	-	754,504
Machinery and Equipment	429,234	-	-	429,234
Computer Software	25,448	-	-	25,448
Land Improvements	66,463	-	-	66,463
Less: Accumulated Depreciation	(707,610)	(59,099)	-	(766,709)
Total	<u>\$ 568,919</u>	<u>\$ (59,099)</u>	<u>\$ -</u>	<u>\$ 509,820</u>

Depreciation expense was charged to primary government governmental activities functions as follows:

Finance and Administration	\$ 3,965,741
Administration of Justice	539,584
Public Safety	3,192,637
Public Health and Welfare	773,487
Social and Cultural Services	2,671,102
Other General Government	1,037,569
Engineering & Public Works	<u>14,791,778</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 26,971,898</u></u>

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital Assets (Continued)**

**Component Unit – the Board**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated:				
Land	\$ 22,837,977	\$ -	\$ 1,632	\$ 22,836,345
Construction in Progress	2,260,101	14,320,424	4,236,894	12,343,631
Total Capital Assets, not being depreciated	25,098,078	14,320,424	4,238,526	35,179,976
Capital Assets being depreciated:				
Buildings	535,875,619	3,103,127	-	538,978,746
Land Improvements	3,342,065	1,367,780	-	4,709,845
Machinery and Equipment	95,765,936	3,876,057	432,534	99,209,459
Intangible Assets	2,002,779	-	-	2,002,779
Total Capital Assets being depreciated	636,986,399	8,346,964	432,534	644,900,829
Less Accumulated Depreciation for:				
Buildings	210,568,283	13,210,979	-	223,779,262
Land Improvements	1,465,237	289,064	-	1,754,301
Machinery and Equipment	46,671,148	9,704,543	432,534	55,943,157
Intangible Assets	832,401	298,820	-	1,131,221
Total Accumulated Depreciation	259,537,069	23,503,406	432,534	282,607,941
Total Capital Assets being depreciated, net	377,449,330	(15,156,442)	-	362,292,888
Governmental Activities Capital Assets, net	\$ 402,547,408	\$ (836,018)	\$ 4,238,526	\$ 397,472,864

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund and Component Unit Receivables and Payables**

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The composition of the County and component unit interfund receivables and payables as of June 30, 2016, is as follows:

***Due to/from Other Funds - Primary Government:***

Receivable Fund	Payable Fund	Amount
<u>Major Funds:</u>		
General	Constitutional Officers' Special Revenue Fund	\$ 541,178
	State, Federal and Other Grants	249,769
	Vehicle Service Center	165,948
		<u>956,895</u>
Public Improvement	ADA Construction	359,581
	Building Operations	19,017
		<u>378,598</u>
Total Major Governmental Funds		<u>1,335,493</u>
<u>Nonmajor Special Revenue Funds:</u>		
State, Federal and Other Grants	General	530,929
	Drug Control	127
		<u>531,056</u>
Engineering & Public Works	Public Improvement	1,442
Governmental Library	General	6,000
Solid Waste	General	3,110
	Engineering & Public Works	600,000
		<u>603,110</u>
Total Nonmajor Governmental Funds		<u>1,141,608</u>
Total Governmental Funds		<u><u>\$ 2,477,101</u></u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund and Component Unit Receivables and Payables (Continued):**

Receivable Fund	Payable Fund	Amount
<u>Internal Service Funds:</u>		
Vehicle Service Center	General	\$ 66,924
	State, Federal and Other Grants	1,733
	Public Library	2,455
	Solid Waste	4,448
	Engineering & Public Works	38,320
	Self Insurance	49
		<u>113,929</u>
Mailroom Services	General	18,795
	State, Federal and Other Grants	4
	Engineering & Public Works	520
	Employee Benefits	474
	Self Insurance	75
		<u>19,868</u>
Employee Benefits	General	1,304,522
	State, Federal and Other Grants	356
	Public Library	1,100
		<u>1,305,978</u>
Self Insurance Healthcare	General	<u>1,489,412</u>
Total Internal Service Funds		<u>\$ 2,929,187</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund and Component Unit Receivables and Payables (Continued)**

***Due to/from Primary Government and Component Units:***

Receivable Fund	Payable Fund	Amount
<u>Primary Government - Major Funds:</u>		
Debt Service	Component Unit - the Board, General Purpose School	\$ 13,022,088
Public Improvement	Component Unit - the Board, School Construction	1,351
Total Primary Government - Major Funds		13,023,439
<u>Primary Government - Internal Service Funds:</u>		
Vehicle Service Center	Component Unit - the Board, General Purpose School	10
	Component Unit - the District	261
		271
Employee Benefits	Component Unit - the Board, General Purpose School	223,550
	Component Unit - the Board, School Federal Projects	41,012
	Component Unit - the Board, School General Projects	7,351
		271,913
Self Insurance	Component Unit - the Board, General Purpose School	390,048
Total Primary Government - Internal Service Funds		662,232
Total Primary Government		\$ 13,685,671

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund and Component Unit Receivables and Payables (Continued)**

Receivable Fund	Payable Fund	Amount
Component Unit - the Board, General Purpose School	Primary Government - General Primary Government - Building Operations	\$ 147,314 712 <u>148,026</u>
Component Unit - the District	Primary Government - Public Improvement	<u>158,802</u>
Total Component Unit - the Board		<u><u>\$ 306,828</u></u>

***Due to/from Other Funds - The Board:***

Receivable Fund	Payable Fund	Amount
<u>Major Funds:</u>		
General - General Purpose School	School Federal Projects School General Projects School Construction Central Cafeteria	\$ 5,661,141 672,446 8,180,591 20,421 <u>14,534,599</u>
<u>Nonmajor Special Revenue Funds:</u>		
School Federal Projects	General Purpose School	<u>81,533</u>
School General Projects	General Purpose School School Federal Projects	794,885 475,206 <u>1,270,091</u>
Total Board of Education		<u><u>\$ 15,886,223</u></u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Transfers and Similar Transactions**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The composition of primary government transfers for the year ended June 30, 2016, is as follows:

***Primary Government:***

Transfers - In	Transfers - Out	Amount
<u>Major Funds:</u>		
General	Constitutional Officers - Special Revenue	\$ 10,741,900
Debt Service	General	195,390
Public Improvement	General	26,325
	ADA Construction	359,581
	Engineering & Public Works	25,984
		411,890
Total Major Governmental Funds		11,349,180
<u>Nonmajor Governmental Funds:</u>		
Special Revenue Funds:		
State, Federal and Other Grants	General	453,180
Governmental Library	General	6,000
Public Library	General	1,130,000
	Hotel/Motel	600,000
		1,730,000
Solid Waste	Engineering & Public Works	600,000
Engineering & Public Works	General	1,000,000
Total Nonmajor Governmental Funds		3,789,180
Total Governmental Funds		\$ 15,138,360



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Transfers and Similar Transactions (Continued)**

Transfers - In	Transfers - Out	Amount
<u>Internal Service Funds:</u>		
Vehicle Service Center	General	\$ 696,327
Employee Benefits	General	1,300,000
Total Internal Service Funds		\$ 1,996,327
<u>Enterprise Fund:</u>		
Three Ridges Golf Course	General	\$ 200,000

In addition, payments of \$1,443,630 were made from the Pension Trust – Defined Benefit Plans to the General Fund for the County Retirement Board administrative expenses.

***Transfers Within Component Unit – the Board:***

Transfers - In	Transfers - Out	Amount
<u>Special Revenue Funds (Nonmajor):</u>		
General Purpose School	Central Cafeteria	\$ 875,008
	School Federal Projects	12,379
	School General Projects	274,590
		1,161,977
School General Projects	General Purpose School	8,267,846
	School Federal Projects	581,063
		8,848,909
School Federal Projects	General Purpose School	39,878
Total Board of Education		\$ 10,050,764

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Transfers and Similar Transactions (Continued)**

***Transactions between Primary Government and Component Units:***

Revenues and Other Sources	Expenses/Expenditures and Other Uses	Amount
Primary Government - Debt Service (Major Fund)	Component Unit - the Board, General Purpose School	\$ 13,022,088
Primary Government - Self Insurance Fund	Component Unit - the Board, General Purpose School	298,024
Total Primary Government		\$ 13,320,112
Component Unit - General Purpose School	Primary Government - General	\$ 7,052,000
Component Unit - School Construction	Primary Government - Public Improvement	19,385,000
Component Unit - Great Schools Partnership	Primary Government - General	2,501,874
Component Unit - The District	Primary Government - Public Improvement	158,802
Total Component Units		\$ 29,097,676

***Transactions between the Board and its Component Unit:***

The Board, School General Projects	Component Unit, Great Schools Partnership	\$ 951,982
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KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Unearned Revenues**

Amounts reported as unearned revenue in the fund financial statements consist of the following:

	Fund Financial Statements
Primary Government - Major Funds:	
<u>General Fund:</u>	
Unearned revenue	\$ 60,501
Primary Government - Nonmajor Funds:	
<u>General Grants Fund:</u>	
Unexpended grant funds	2,265,547
Total - Primary Government	\$ 2,326,048
Component Unit - the Board - Nonmajor Funds:	
<u>School General Projects:</u>	
Unexpended grant funds	\$ 679,168
<u>Central Cafeteria:</u>	
Unearned revenue	289,410
Total Component Unit - the Board	\$ 968,578

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**G. Deferred Inflows**

Amounts reported as deferred inflows in the fund financial statements and the government-wide financial statements consist of the following:

	Fund Financial Statements	Government-wide Financial Statements
Primary Government - Major Funds:		
<u>General Fund:</u>		
Taxes receivable, delinquent	\$ 3,284,901	\$ -
Taxes receivable, applicable to subsequent fiscal year	111,413,121	111,413,121
Notes receivable, applicable to subsequent fiscal year	892,015	892,015
	<u>115,590,037</u>	<u>112,305,136</u>
 <u>Debt Service Fund:</u>		
Taxes receivable, delinquent	1,557,589	-
Taxes receivable, applicable to subsequent fiscal year	53,983,677	53,983,677
Notes receivable, applicable to subsequent fiscal year	6,020,000	6,020,000
	<u>61,561,266</u>	<u>60,003,677</u>
 Total - Primary Government	<u>\$ 177,151,303</u>	<u>\$ 172,308,813</u>
 Component Unit - the Board - Major Fund		
<u>General Purpose School:</u>		
Taxes receivable, delinquent	\$ 3,036,945	\$ -
Taxes receivable, applicable to subsequent fiscal year	101,075,821	101,075,821
Accounts receivable, applicable to subsequent fiscal year	89,015	89,015
	<u>104,201,781</u>	<u>101,164,836</u>
 Total Component Unit - the Board	<u>\$ 104,201,781</u>	<u>\$ 101,164,836</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**H. Leases**

*Capital Leases*

All capital leases pertain to governmental activities.

The Primary Government and the Board lease various land, buildings and equipment through capital leasing arrangements. The Primary Government's and the Board's capital lease obligations are reflected as liabilities in the Statement of Net Position.

The future minimum lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Primary Government</u>	<u>Component Unit - The Board</u>
2017	\$ 2,882,200	\$ 425,004
2018	2,925,023	425,004
2019	2,968,886	425,004
2020	3,013,820	425,004
2021	3,059,849	425,004
2022 - 2026	16,030,229	2,125,020
2027 - 2031	13,486,376	1,912,518
2032 - 2036	5,263,195	-
2037	539,557	-
Total Minimum Lease Payments	\$ 50,169,135	\$ 6,162,558
Less: Amounts Representing Interest	(12,597,981)	(1,492,175)
Present Value of Minimum Lease Payments	<u>\$ 37,571,154</u>	<u>\$ 4,670,383</u>

As of June 30, 2016, assets recorded under capital leases totaled \$91,183,693 (\$85,319,632 equipment, \$879,609 land, and \$4,984,452 buildings). Related accumulated amortization totaled \$41,203,023. Amortization of assets recorded under capital leases is included with depreciation expense.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities**

***Loans Payable***

All loans payable pertain to governmental activities.

In November 2011, the County entered into a loan agreement whereby the County borrowed funds for Knox County Board of Education capital purposes. The original proceeds of \$5 million, plus \$7,192 accrued interest added to principal, are payable in monthly payments including interest at .75% through July 1, 2024. Debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 412,201	\$ 24,251	\$ 436,452
2018	415,303	21,149	436,452
2019	418,428	18,024	436,452
2020	421,576	14,876	436,452
2021	424,750	11,702	436,452
2022 - 2025	1,329,911	15,852	1,345,763
Total	<u>\$ 3,422,169</u>	<u>\$ 105,854</u>	<u>\$ 3,528,023</u>

In addition, in August 2013, the County entered into a loan agreement whereby the County borrowed funds for the Board of Education, which acquired computer equipment for instructional purposes in various schools. The total borrowed of \$5,962,500 is to be repaid in four equal annual installments of \$1,490,625 ending in 2016. As of June 30, 2016, the remaining balance was \$1,490,625.

The Partnership has reported non-capital related loans payable of \$10,655,000, due in more than one year.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

***General Obligation and Public Improvement Bonds***

The County issues general obligation and public improvement bonds to provide funds for the acquisition and construction of major capital facilities. Except for the County's General Obligation Series 2007 (Taxable) pension obligation bonds issued pursuant to the establishment of the Uniformed Officers Pension Plan, all County bonded debt was issued for capital purposes. All bonded debt pertains to governmental activities.

For financial reporting purposes, the portion of those bond issues related to the Board are recorded as payments from the primary government in the Board's Capital Projects Fund. The County issues all the debt on behalf of the Board, in the County's name and with a full faith and credit pledge from the County. Therefore, from a legal perspective, the debt is County debt. In practice, the County's Five-Year Capital Plan, its Debt Service Fund and its Operating Budget are all developed with the Board providing funds from its operations to make the debt payments related to County debt issued on behalf of the Board. However, as all bonded indebtedness is County debt, the entire balance is recorded as a liability of the primary government in the government-wide financial statements.

As all bonded indebtedness is County debt, the portion issued on behalf of the Board is not considered capital-related debt in the primary government's statement of net position. However, the total amount of the County's bonded indebtedness is considered capital-related in the total reporting entity column of the statement of net position.

Bond indebtedness for the County is backed by the full faith and credit of the County.

Bonds payable to be repaid from resources of the County and the Board currently outstanding are as follows:

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

	Interest Rate	Last Maturity Date	Principal Balance
<b>Governmental Activities:</b>			
General Obligation - Refunding Bonds, Series 2003A	5.00%	2/1/2017	\$ 1,815,180
General Obligation - Series 2003	Variable Rate Swap to 3.95%	6/1/2029	27,126,816
General Obligation - Refunding Series 2004	4.00-5.25%	4/1/2020	8,513,409
General Obligation - Series 2004	Variable Rate Swap to 3.40%	6/1/2029	39,099,999
General Obligation - Refunding Series 2005A	3.569-5.00%	5/1/2021	16,866,485
General Obligation - Series 2005	Variable Rate Swap to 3.89%	6/1/2034	40,811,690
General Obligation - Series 2007	Variable Rate (.757% at 6/30/16)	6/1/2034	50,450,000
General Obligation - Series 2008	Variable Rate (.43% at 6/30/16)	6/1/2029	19,597,500
General Obligation - Series 2009	3.00-4.00%	6/1/2018	1,260,000
General Obligation - Series 2010A (Federally Taxable Build America Bonds)	1.10-5.75% (1)	6/1/2035	990,622
General Obligation - Refunding Bonds, Series 2010B	2.00-5.00%	4/1/2035	29,365,000
General Obligation - Refunding Bonds, Series 2010C	2.00-4.00%	4/1/2024	7,270,000
General Obligation - Series 2010D (Federally Taxable Build America Bonds)	1.125-6.00% (1)	6/1/2035	16,825,000
General Obligation - Series 2012	2.0 - 4.0%	4/1/2032	5,300,000
General Obligation - Series 2013	2.0 - 4.35%	6/1/2035	20,069,669
General Obligation - Series 2014A	2.125 - 5.00%	6/1/2036	14,755,000
General Obligation - Refunding Series 2014B	0.25 - 3.23%	6/1/2027	50,600,000
General Obligation - Refunding Series 2015	5.00%	4/1/2019	4,740,195
General Obligation - Series 2016	1.0 - 5.0%	6/1/2036	16,515,000
Total Bonded Debt to be repaid by Governmental Activities			<u>371,971,565</u>
The Board:			
General Obligation - Refunding Series 2003A	5.00%	2/1/2017	4,134,820
General Obligation - Series 2003	Variable Rate Swap to 3.95%	6/1/2029	25,948,184
General Obligation - Refunding Series 2004	4.00-5.25%	4/1/2020	12,001,591
General Obligation - Series 2004	Variable Rate Swap to 3.40%	6/1/2029	20,400,001
General Obligation - Refunding Series 2005A	3.569-5.00%	5/1/2021	10,048,515
General Obligation - Series 2005	Variable Rate Swap to 3.89%	6/1/2034	22,038,310
General Obligation - Series 2007	Variable Rate (.757% at 6/30/16)	6/1/2034	18,550,000
General Obligation - Series 2008	Variable Rate (.43% at 6/30/16)	6/1/2029	10,552,500
General Obligation - Series 2010A (Federally Taxable Build America Bonds)	1.10-5.75% (1)	6/1/2035	14,859,378
General Obligation - Refunding Bonds, Series 2010C	2.00-4.00%	4/1/2024	14,210,000
General Obligation - Qualified School Construction Bonds	.0% (2)	7/1/2027	20,418,642
General Obligation - Series 2012	2.0 - 4.0%	4/1/2032	8,400,000
General Obligation - Series 2013	2.0 - 4.35%	6/1/2035	17,340,331
General Obligation - Series 2014A	2.125 - 5.00%	6/1/2036	14,510,000
General Obligation - Refunding Series 2014B	0.25 - 3.23%	6/1/2027	2,635,000
General Obligation - Refunding Series 2015	5.00%	4/1/2019	7,584,805
General Obligation - Series 2016	1.0 - 5.0%	6/1/2036	19,385,000
Total Bonded Debt to be repaid by the Board			<u>243,017,077</u>
Total Bonded Debt			<u><u>\$ 614,988,642</u></u>

(1) Stated interest rates on the Build America Bonds do not include the effects of the interest subsidy expected to be received from the federal government pursuant to the federal Build America Bonds program. The interest rate subsidy, 35% at issuance of the bonds, is being reduced due to sequestration by the federal government. At June 30, 2016, the sequestration rate was 6.8%.



**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

- (2) Stated interest rate is net of the interest rate subsidy to be received from the federal government pursuant to the federal Qualified School Construction Bonds program.

Annual debt service requirements to maturity for bonds to be repaid by the County and the Board are as follows:

Fiscal Year Ending June 30,	Primary Government Debt			To be Repaid By:		
	Principal	Interest	Total	County	Board	Total
2017	\$ 42,774,281	\$ 26,280,265	\$ 69,054,546	\$ 37,250,891	\$ 31,803,655	\$ 69,054,546
2018	39,684,281	24,382,086	64,066,367	35,945,985	28,120,382	64,066,367
2019	40,264,281	22,854,171	63,118,452	35,917,483	27,200,969	63,118,452
2020	38,179,281	21,278,080	59,457,361	34,848,788	24,608,573	59,457,361
2021	35,979,281	19,717,889	55,697,170	33,987,512	21,709,658	55,697,170
2022 - 2026	153,216,405	81,759,928	234,976,333	143,978,871	90,997,462	234,976,333
2027 - 2031	155,010,832	46,190,033	201,200,865	126,902,462	74,298,403	201,200,865
2032 - 2036	109,880,000	11,783,978	121,663,978	76,434,329	45,229,649	121,663,978
Total	\$ 614,988,642	\$ 254,246,430	\$ 869,235,072	\$ 525,266,321	\$ 343,968,751	\$ 869,235,072

The total bonded debt service requirements to be repaid by the County and the Board include interest of \$153,294,756 and \$100,951,674, respectively, for a total of \$254,246,430.

***Changes in General Long-Term Liabilities***

The following represents the changes in long-term liabilities for the County, the Board, and the District for the year ended June 30, 2016:

	Balance July 1	Additions	Deductions	Balance June 30	Current Portion
<u>Primary Government</u>					
Bonded Debt	\$ 622,812,923	\$ 35,900,000	\$ (43,724,281)	\$ 614,988,642	\$ 42,774,281
Unamortized Bond Premium	7,698,939	2,206,016	(1,777,761)	8,127,194	1,718,836
Loans Payable	6,812,540	-	(1,899,746)	4,912,794	1,902,826
Capital Leases	38,930,963	-	(1,359,810)	37,571,153	1,649,788
Compensated Absences	8,666,801	6,859,182	(6,857,744)	8,668,239	7,798,604
Total - Primary Government	\$ 684,922,166	\$ 44,965,198	\$ (55,619,342)	\$ 674,268,022	\$ 55,844,335
<u>Component Unit - the Board</u>					
Compensated Absences	\$ 2,894,964	\$ 2,795,627	\$ (3,032,685)	\$ 2,657,906	\$ 2,392,115
Capital Lease	4,903,489	-	(233,106)	4,670,383	242,604
Total Component Unit - the Board	\$ 7,798,453	\$ 2,795,627	\$ (3,265,791)	\$ 7,328,289	\$ 2,634,719
<u>Component Unit - the District</u>					
Compensated Absences	\$ 303,046	\$ 367,519	\$ (357,056)	\$ 313,509	\$ 313,509
Total - the District	\$ 303,046	\$ 367,519	\$ (357,056)	\$ 313,509	\$ 313,509

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

***Changes in General Long-Term Liabilities (Continued)***

For the primary government, compensated absences totaling \$45,623 pertains to the non-major enterprise fund, with the remaining long-term liabilities related to governmental activities.

***Interest Rate Swaps***

The County's Statement of Net Position includes interest rate swap derivatives with a fair value totaling \$38,599,015. The fair value of these derivatives was measured using Level 2 inputs, which were valued using a market approach that considers benchmark interest rates and foreign exchange rates.

***Series C-1-A***

Under its loan agreement, the Public Building Authority of Blount County, TN (the "Authority"), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series C-1-A.

*Objective of the interest rate swap.* In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$72 million Series C-1-A variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an effective hedge, and is therefore accounted for as a hedging derivative instrument. The fair value of the hedging derivative instrument is reported in the Statement of Net Position as a long-term obligation. Accumulated changes in fair values are reported as deferred outflows in the Statement of Net Position.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Terms.* Under the swap, the Authority pays the counterparty a fixed payment of 3.95 percent and receives a variable payment computed as 63.2 percent of the five-year London Interbank Offered Rate (LIBOR). At inception, the swap had a notional amount of \$72 million and the associated variable-rate bond had a \$72 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series C-1-A Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2029. As of June 30, 2016, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment by Authority	Fixed	3.95%
Variable payment to Authority	% of LIBOR	-0.62%
Net interest rate swap payments		3.33%
Variable-rate bond coupon payments		0.43%
Synthetic interest rate on bonds		3.76%

*Fair value.* As of June 30, 2016, the swap had a negative fair value of (\$10,747,564), a change of (\$2,126,397) compared to the June 30, 2015 balance of (\$8,621,167). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

*Credit risk.* As of June 30, 2016, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baa2/BBB+/BBB+ by Moody's, Standard & Poor's and Fitch, respectively.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Basis risk.* As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 63.2% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.2% of LIBOR, then the synthetic rate on the bonds will decrease.

*Termination risk.* The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination provision.” The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap’s fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap’s fair value.

*Swap payments and associated debt.* As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	<u>Variable Rate Bonds</u>		Net Interest Rate	
	Principal	Interest	Swap Payment	Total
2017	2,775,000	228,223	1,765,614	4,768,837
2018	2,950,000	216,290	1,673,300	4,839,590
2019	3,125,000	203,605	1,575,164	4,903,769
2020	3,300,000	190,168	1,471,207	4,961,375
2021	3,525,000	175,978	1,361,427	5,062,405
2022-2026	21,225,000	632,638	4,894,319	26,751,957
2027-2029	16,175,000	141,900	1,097,791	17,414,691
	<u>\$ 53,075,000</u>	<u>\$ 1,788,802</u>	<u>\$ 13,838,822</u>	<u>\$ 68,702,624</u>

***Series VI-A-1***

Under its loan agreement, the Public Building Authority of Sevier County, TN (the “Authority”), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series VI-A-1.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Objective of the interest rate swap.* In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$70 million Series VI-A-1 variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an ineffective hedge, and is therefore accounted for as an investment derivative instrument. The fair value of the investment derivative instrument is reported in the Statement of Net Position as a long-term obligation. Changes in the fair value of the derivative instrument are reported within the investment revenue classifications in the Statement of Activities.

*Terms.* Under the swap, the Authority pays a fixed payment of 3.40 percent and receives a variable payment computed as 59 percent of the five-year London Interbank Offered Rate (LIBOR). At inception, the swap had a notional amount of \$70 million and the associated variable-rate bond had a \$70 million original principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series VI-A-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2029. As of June 30, 2016, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment by Authority	Fixed	3.40%
Variable payment to Authority	% of LIBOR	-0.58%
Net interest rate swap payments		2.82%
Variable-rate bond coupon payments		0.43%
Synthetic interest rate on bonds		3.25%

*Fair value.* As of June 30, 2016, the swap had a negative fair value of (\$9,913,810), a change of (\$2,318,351) compared to the June 30, 2015 balance of (\$7,595,459). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Credit risk.* As of June 30, 2016, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baa2/BBB+/BBB+ by Moody's, Standard & Poor's and Fitch, respectively.

*Basis risk.* As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 59% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 59% of LIBOR, then the synthetic rate on the bonds will decrease.

*Termination risk.* The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

*Swap payments and associated debt.* As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	<u>Variable Rate Bonds</u>		Net Interest Rate	
	Principal	Interest	Swap Payment	Total
2017	\$ 3,200,000	\$ 255,850	\$ 1,675,996	\$ 5,131,846
2018	3,400,000	242,090	1,585,858	5,227,948
2019	3,600,000	227,470	1,490,087	5,317,557
2020	3,810,000	211,990	1,388,682	5,410,672
2021	4,030,000	195,607	1,281,362	5,506,969
2022-2026	23,840,000	697,546	4,569,413	29,106,959
2027-2029	17,620,000	154,069	1,009,259	18,783,328
	<u>\$ 59,500,000</u>	<u>\$ 1,984,622</u>	<u>\$ 13,000,657</u>	<u>\$ 74,485,279</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

***Series D-3-A***

Under its loan agreement, the Public Building Authority of Blount County, TN (the “Authority”), at the request of the County, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series D-3-A.

*Objective of the interest rate swap.* In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the County requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$77 million Series D-3-A variable-rate bonds. The intention of the swap was to effectively change the County’s variable interest rate on the bonds to a synthetic fixed rate. The swap agreement has been determined to be an effective hedge, and is therefore accounted for as a hedging derivative instrument. The fair value of the hedging derivative instrument is reported in the Statement of Net Position as a long-term obligation. Accumulated changes in fair values are reported as deferred outflows in the Statement of Net Position.

*Terms.* Under the swap, the Authority pays the counterparty a fixed payment of 3.89 percent and receives a variable payment computed as 63.2 percent of the five-year London Interbank Offered Rate (LIBOR). At inception, the swap had a notional amount of \$77 million and the associated variable-rate bond had a \$77 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series D-3-A Bonds. The bonds’ variable-rates have historically approximated the Securities Industry and Financial Markets Association Index (the “SIFMA”). The bonds and the related swap agreement mature on June 1, 2034. As of June 30, 2016, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment by Authority	Fixed	3.89%
Variable payment to Authority	% of LIBOR	-0.62%
Net interest rate swap payments		<u>3.27%</u>
Variable-rate bond coupon payments		<u>0.90%</u>
Synthetic interest rate on bonds		<u><u>4.17%</u></u>

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Fair value.* As of June 30, 2016, the swap had a negative fair value of (\$17,937,641), a change of (\$4,511,676) compared to the June 30, 2015 balance of (\$13,425,965). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

*Credit risk.* As of June 30, 2016, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baaa2/BBB+/BBB+ by Moody's, Standard & Poor's and Fitch, respectively.

*Basis risk.* As noted above, the swap exposes the County to basis risk should the rate on the bonds increase to above 63.2 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.2 percent of LIBOR, then the synthetic rate on the bonds will decrease.

*Termination risk.* The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Long-Term Liabilities (Continued)**

*Swap payments and associated debt.* As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	<u>Variable Rate Bonds</u>		Net Interest Rate		Total
	Principal	Interest	Swap Payment		
2017	\$ 2,100,000	\$ 565,595	\$ 2,055,597	\$	4,721,192
2018	2,250,000	546,697	1,986,914		4,783,611
2019	2,375,000	526,449	1,913,324		4,814,773
2020	2,500,000	505,076	1,835,647		4,840,723
2021	2,625,000	482,578	1,753,881		4,861,459
2022-2026	5,375,000	2,200,286	7,996,715		15,572,001
2027-2031	19,475,000	1,884,867	6,850,355		28,210,222
2032-2034	26,150,000	476,954	1,733,439		28,360,393
	<u>\$ 62,850,000</u>	<u>\$ 7,188,502</u>	<u>\$ 26,125,872</u>	<u>\$</u>	<u>96,164,374</u>

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. Fund Equity**

The amounts reported on the balance sheets as fund balances for the County are comprised of the following:

	<u>Major Funds</u>				
	<u>General</u>	<u>Constitutional Officers</u>	<u>Capital Projects Public Improvement</u>	<u>Debt Service</u>	<u>Total</u>
<b>Fund balances:</b>					
<b>Nonspendable:</b>					
Inventories	\$ 427,863	\$ -	\$ -	\$ -	\$ 427,863
Prepays	196,792	-	-	-	196,792
Investment in Joint Venture	5,337,350	-	-	-	5,337,350
	<u>5,962,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,962,005</u>
<b>Restricted for:</b>					
Finance and Administration	304,416	-	-	-	304,416
Administration of Justice	623,031	-	-	-	623,031
Public Safety	281,338	-	-	-	281,338
Public Health & Welfare	1,033,195	-	-	-	1,033,195
Social and Cultural	208,111	-	-	-	208,111
Debt Service	-	-	-	83,528	83,528
Capital Projects	-	-	5,977,468	-	5,977,468
	<u>2,450,091</u>	<u>-</u>	<u>5,977,468</u>	<u>83,528</u>	<u>8,511,087</u>
<b>Committed to:</b>					
Finance and Administration	57,448	-	-	-	57,448
Administration of Justice	99,000	-	-	-	99,000
Public Safety	165,000	-	-	-	165,000
Public Health & Welfare	410,000	-	-	-	410,000
Social and Cultural	13,900	-	-	-	13,900
Other General Government	1,552,000	-	-	-	1,552,000
Debt Service	-	-	-	24,187,432	24,187,432
	<u>2,297,348</u>	<u>-</u>	<u>-</u>	<u>24,187,432</u>	<u>26,484,780</u>
<b>Assigned to:</b>					
Finance and Administration	52,124	1,890,805	-	-	1,942,929
Administration of Justice	105,398	3,335,982	-	-	3,441,380
Public Safety	148,918	-	-	-	148,918
Public Health & Welfare	7,592	-	-	-	7,592
Social and Cultural	109,373	-	-	-	109,373
Other General Government	366,036	-	-	-	366,036
	<u>789,441</u>	<u>5,226,787</u>	<u>-</u>	<u>-</u>	<u>6,016,228</u>
<b>Unassigned:</b>	<u>60,783,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,783,057</u>
Total fund balances	<u>\$ 72,281,942</u>	<u>\$ 5,226,787</u>	<u>\$ 5,977,468</u>	<u>\$ 24,270,960</u>	<u>\$ 107,757,157</u>

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. Fund Equity (Continued)**

Nonmajor Governmental Funds

	State, Federal and Other Grants	Governmental Library	Public Library	Solid Waste	Hotel/Motel Tax	Drug Control	Engineering & Public Works	ADA Construction	Total
<b>Fund balances:</b>									
<b>Nonspendable:</b>									
Inventories	\$ 69,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,985
Prepays	20,185	-	12,011	-	12,500	-	-	-	44,696
	<u>90,170</u>	<u>-</u>	<u>12,011</u>	<u>-</u>	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,681</u>
<b>Restricted for:</b>									
Finance and Administration	77,010	-	-	-	-	-	-	-	77,010
Administration of Justice	96,787	-	-	-	-	-	-	-	96,787
Public Safety	195,439	-	-	-	-	2,413,224	-	-	2,608,663
Public Health & Welfare	1,198,885	-	-	-	-	-	-	-	1,198,885
Social and Cultural	35,962	-	-	-	1,975,004	-	-	-	2,010,966
Other General Government	196,296	-	-	-	-	-	-	-	196,296
Highway Grants	278,668	-	-	-	-	-	-	-	278,668
	<u>2,079,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,975,004</u>	<u>2,413,224</u>	<u>-</u>	<u>-</u>	<u>6,467,275</u>
<b>Committed to:</b>									
Public Health & Welfare	-	-	-	1,284,362	-	-	-	-	1,284,362
Social and Cultural	-	48,896	1,676,141	-	-	-	-	-	1,725,037
Engineering & Public Works	-	-	-	-	-	-	3,888,391	-	3,888,391
Capital Projects	-	-	-	-	-	-	-	268,583	268,583
	<u>-</u>	<u>48,896</u>	<u>1,676,141</u>	<u>1,284,362</u>	<u>-</u>	<u>-</u>	<u>3,888,391</u>	<u>268,583</u>	<u>7,166,373</u>
 Total fund balances	 <u>\$ 2,169,217</u>	 <u>\$ 48,896</u>	 <u>\$ 1,688,152</u>	 <u>\$ 1,284,362</u>	 <u>\$ 1,987,504</u>	 <u>\$ 2,413,224</u>	 <u>\$ 3,888,391</u>	 <u>\$ 268,583</u>	 <u>\$ 13,748,329</u>

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. Fund Equity (Continued)**

The amounts reported on the balance sheets as fund balances for the Board are comprised of the following:

	<u>General Purpose Schools</u>	<u>School Construction Capital Projects</u>	<u>School Federal Projects</u>	<u>School General Projects</u>	<u>Central Cafeteria</u>	<u>Total</u>
<b>Fund balances:</b>						
<b>Nonspendable:</b>						
Inventories	\$ 1,044,579	\$ -	\$ -	\$ 633,136	\$ 200,305	\$ 1,878,020
Prepaids	588,679	-	11,983	43,456	-	644,118
	<u>1,633,258</u>	<u>-</u>	<u>11,983</u>	<u>676,592</u>	<u>200,305</u>	<u>2,522,138</u>
<b>Restricted for:</b>						
Education	-	-	-	-	8,288,339	8,288,339
<b>Committed to:</b>						
Education	-	-	-	2,365,587	-	2,365,587
<b>Assigned to:</b>						
Education	396,527	-	-	-	-	396,527
<b>Unassigned:</b>	<u>18,325,000</u>	<u>(9,719,404)</u>	<u>(11,983)</u>	<u>-</u>	<u>-</u>	<u>8,593,613</u>
Total fund balances	<u>\$ 20,354,785</u>	<u>\$ (9,719,404)</u>	<u>\$ -</u>	<u>\$ 3,042,179</u>	<u>\$ 8,488,644</u>	<u>\$ 22,166,204</u>

The School Construction Capital Projects Fund had a deficit balance of \$9,719,404 at June 30, 2016. The deficit balance was caused by the timing of the recognition of various expenditures and the related debt issuances. Expenditures for this fund are funded primarily by debt proceeds. The adopted Capital Improvement Plan includes planned debt issuance for the Board of \$63,750,000. In addition, future Capital Improvement Plans will include planned debt issuance in amounts sufficient to cover all approved expenditures. The funds to be received upon issuance will eliminate the deficit.

**K. Property Taxes**

Property taxes levied by the County Commission are the primary source of revenue for the County and the Board. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

Personal Property	30 %
Railroads, Industrial and Commercial Property	40 %
Public Utility	55 %
Residential and Farm Real Property	25 %

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE III. DETAILED NOTES ON ALL FUNDS (Continued)**

**K. Property Taxes (Continued)**

Taxes were levied at a rate of \$2.32 per \$100 of assessed values. Tax collections of \$252,882,970 for fiscal year 2016 were approximately 97.5 percent of the total tax levy.

The 2016 fiscal year property tax rate of \$2.32 was divided between the County and the Board as follows:

	Amount	Percent of Total
<u>Primary Government:</u>		
General Fund	\$ 0.97	41.81%
Debt Service Fund	0.47	20.26%
Total - Primary Government	1.44	62.07%
 <u>Component Unit - the Board:</u>		
General Fund - General		
Purpose School Fund	0.88	37.93%
 Total Tax Levy	\$ 2.32	100.00%

The 2017 fiscal year property tax rate of \$2.32 is divided between the County and the Board as follows:

	Amount	Percent of Total
<u>Primary Government:</u>		
General Fund	\$ 0.97	41.81%
Debt Service Fund	0.47	20.26%
Total - Primary Government	1.44	62.07%
 <u>Component Unit - the Board:</u>		
General Fund - General		
Purpose School Fund	0.88	37.93%
 Total Tax Levy	\$ 2.32	100.00%

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION**

**A. Joint Ventures**

The County is a participant in a joint venture with the City of Knoxville and the Knoxville Utilities Board in the operation of the Geographic Information Systems (GIS). The Geographic Information Systems was established to create and maintain a digitized mapping system of Knox County. Each of the participants appoints one of the three board members who oversee the operations. In March 1987, the County issued public improvement bonds, which included \$5,500,000 used to install the geographic information system. In accordance with the terms of the joint venture agreement, payments are shared between the County, the City of Knoxville and the Knoxville Utilities Board. In the 2016 fiscal year, the joint venture received 91 percent of its revenues from the participants in the joint venture. The Geographic Information Systems charged the County \$430,190 for the year ended June 30, 2016. The County does not retain an equity interest in the joint venture. The financial results of Geographic Information Systems have maintained adequate levels. Since the support for Geographic Information Systems is shared with two other entities, the County considers its involvement to be low risk. Complete separate financial statements for the Geographic Information Systems may be obtained at 606 Main Street, Suite 150, Main Place, Knoxville, TN 37902.

The County is a participant in a joint venture with the City of Knoxville in the operation of the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA). The Authority was created to purchase, construct, refurbish, maintain and operate certain public building complexes to house the governments of the County and the City of Knoxville. The County appoints six of an eleven-member board of directors, which oversee the operations of PBA. The fact that the County appoints a majority of the board is negated by the participants' agreements calling for joint control of PBA. The County retains an equity interest in the joint venture. The County contributed \$6,744,383 to the PBA for development, management, and maintenance of County projects during 2016. Complete separate financial statements for PBA may be obtained at Room M-22, City County Building, 400 Main Street, Knoxville, TN 37902.

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION**

**A. Joint Ventures (Continued)**

Condensed financial information for GIS and PBA as of June 30, 2016 and for the year then ended, is as follows:

ASSETS	<b>GIS</b>	<b>PBA</b>
Cash and Cash Equivalents	\$ 463,918	\$ 5,124,722
Receivables	25,285	2,669,749
Inventory	-	12,235
Prepays	67,697	85,052
Capital Assets - Net	<u>245,212</u>	<u>7,987,860</u>
Total Assets	<u>802,112</u>	<u>15,879,618</u>
 <b>LIABILITIES AND NET POSITION</b>		
Liabilities		
Accounts Payable and Accrued Liabilities	81,173	3,068,515
Due To Others	-	1,089,007
Customer Deposits	-	18,719
Compensated Absences	<u>42,600</u>	<u>476,796</u>
Total Liabilities	<u>123,773</u>	<u>4,653,037</u>
Net Position		
Investment in Capital Assets	245,212	7,987,860
Unrestricted	<u>433,127</u>	<u>3,238,721</u>
Total Net Position	<u>\$ 678,339</u>	<u>\$ 11,226,581</u>
 <b>SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>		
Total Operating Revenues	\$ 1,529,569	\$ 15,155,459
Total Operating Expenses	<u>(1,396,226)</u>	<u>(14,563,259)</u>
Operating Income (Loss)	133,343	592,200
Non-Operating Revenues	186,094	21,844
Non-Operating Expenses	-	(1,930,651)
Capital Contributions	<u>-</u>	<u>1,298,538</u>
Increase (Decrease) in Net Position	319,437	(18,069)
Net Position, Beginning of Year	<u>358,902</u>	<u>11,244,650</u>
Net Position, End of Year	<u>\$ 678,339</u>	<u>\$ 11,226,581</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**B. Related Organizations**

The County is responsible for all of the board appointments of the Knox County Industrial Development Board. However, the County has no further accountability for the organization.

The County is responsible for a minority of the board appointments for the Knoxville-Knox County Community Action Committee. During the year ended June 30, 2016, the County appropriated operating subsidies of \$1,500,919 to the Community Action Committee.

In FY 2016, the County and the Hall of Fame Management, Inc., dba the Women's Basketball Hall of Fame (the Hall) were parties to a contract for the operations management of the Women's Basketball Hall of Fame. The County paid the Hall a management fee. Pursuant to that contract, the Hall managed the day-to-day operations and events at the facility, collected revenues for the County, and paid the operating expenses from these revenues. All revenues collected by the Hall were the property of the County and held by the Hall in trust as public funds and applied to pay operating expenses in accordance with the budget. To the extent revenues were insufficient, the Hall was to pay operating expenses out of its management fee.

In 2016, the County and the Knoxville Convention & Visitors Bureau, Inc., dba "Visit Knoxville" were parties to a contract whereby Visit Knoxville performed tourism marketing services for Knox County. Visit Knoxville received a percentage of hotel-motel tax collections as compensation for these services. The County appoints certain board members of Visit Knoxville.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**C. Risk Management**

The County has established the Self Insurance Healthcare Fund for risks associated with employees' health plan and the Self Insurance Fund for the majority of risks associated with the general liability and workers' compensation claim settlements. In the Self Insurance Fund, each participating fund with eligible employees is charged a premium calculated using trends in actual claims experience. The Board and the District (component units), the Geographic Information Systems (joint venture between the County and the City of Knoxville), and the Knox County-City of Knoxville Metropolitan Planning Commission (a separate governmental organization) also participate in one or both of the plans. The Self Insurance Healthcare and the Self Insurance Fund are accounted for as internal service funds where assets are set aside for claim settlements. The County retains the risk of loss to a limit of \$450,000 for each employee in any plan year for health coverage and \$750,000 for each employee (except the Sheriff's Department which is \$1,250,000 per employee) in any plan year for worker's compensation coverage by obtaining stop/loss commercial insurance policies that covers claims beyond these limits.

At June 30, 2016, Humana and Catamaran OptumRx are the third-party administrators of the County's self-insured healthcare plans. In the Self Insurance Healthcare Fund, a premium is charged to the participating fund, component unit, joint venture, or outside entity that accounts for eligible employees. The total charges for the funds are calculated using trends in actual claims experience. In instances where medical claims materially exceed premiums received, each participating entity is charged a pro-rata basis for any fund deficits incurred.

Liabilities of the funds are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation and recent claim settlements. The County has an independent actuary develop the estimates for claims liabilities including IBNR on an annual basis. Changes in the balances of claims during the past two fiscal years are as follows:

	Self Insurance Healthcare Fund - Medical Claims		Self Insurance Fund - General Liability, and Workers' Compensation	
	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2015
Unpaid Claims - Beginning Balance	\$ 1,780,523	\$ 1,190,451	\$ 13,043,037	\$ 15,027,569
Incurred Claims (Including IBNR's)	26,815,077	26,004,027	5,239,771	123,888
Claim Payments	(26,686,011)	(25,413,955)	(2,369,850)	(2,108,420)
Unpaid Claims - Ending Balance	<u>\$ 1,909,589</u>	<u>\$ 1,780,523</u>	<u>\$ 15,912,958</u>	<u>\$ 13,043,037</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**C. Risk Management (Continued)**

The Self Insurance Fund had a deficit net position balance of \$3,596,588 at June 30, 2016. Management plans to eliminate the deficit by increasing charges for services and by implementing additional procedures designed to reduce claims costs by additional monitoring and settlement procedures.

The County and the Board purchase insurance coverage for personal and real property. The District purchases insurance coverage for personal and real property, general liability and workers' compensation coverage. The County and its component units have had no significant reduction in insurance coverage over the last three years. Settlements have not exceeded insurance coverage in the past three fiscal years.

The Board maintains worker's compensation and employer's liability insurance for approximately 3,226 non-certified employees (i.e. security officers, educational assistants, nutrition services, and operations) through the Tennessee Risk Management Trust (TNRMT), a public entity risk pool operated as a risk-sharing program by the Tennessee School Board Association (TSBA). This pool is sustained by member premiums, and, because the pool has excess aggregate and individual claim loss reinsurance coverage, management considers any related credit risk to be insignificant.

Certain self insurance liabilities of the Board that are for unexpected and unusual claims are reported directly in the Board of Education's Statement of Net Position. As of June 30, 2016, the liabilities were \$3,686,570.

**D. Other Post Employment Benefits**

***Retiree Healthcare***

***Plan Description***

As authorized by County Resolution, the County provides post-retirement health care benefits for County retirees and their dependents. Retirees may participate only until they reach age 65 (except for a few "grandfathered" retirees who still have active medical insurance). The retiree is responsible for paying 100 percent of the related premium. The retirees who have chosen to participate in the County's medical insurance plan have not been evaluated on a separate experience rating from those of existing County and Board employees. Therefore, participating retirees contribute the same premium as existing employees, plus the amount the employer contributes for existing employees. Under this arrangement the retiree contributions are expected to be less than their expected health care cost, and a portion of the premiums the County pays on behalf of its active employees is deemed to subsidize the retirees' costs. This implicit subsidy is an Other Post-employment Benefit (OPEB) as defined by GASB Statement No. 45. The County's medical insurance plan, a single-employer defined benefit plan, does not issue a separate financial report.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**D. Other Post Employment Benefits (Continued)**

***Retiree Healthcare (Continued)***

***Funding Policies***

The contribution requirements of the County healthcare plan members and the County are established in the annual budget approved by County Commission. The required contribution is based on the annual premiums for the healthcare plan. The active employees pay a portion of the premium cost and the County pays the remaining premiums. For health insurance, the retiree contributes 100% of all premium payments. For the fiscal year ended June 30, 2016, the retirees contributed \$348,300 to the active Humana medical plans. Retirees contributed 100% of the cost of the Medicare Advantage premium totaling \$176,286. Effective January 1, 2016, the Medicare Advantage Plan was no longer offered through Knox County for retirees.

***Annual OPEB Cost and Net OPEB Obligation***

The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The plan contains both active employees and retirees. Although the County's annual contribution is 36.70% of premium payments for the combined participants, the share of claims related to retirees represents a higher percentage of the total claims. Accordingly, contributions reflected in the OPEB calculations have been adjusted to reflect that a portion of contributions for active employees are subsidizing the retiree claims.

As the OPEB consists solely of the implicit subsidy of retiree healthcare contributions, the County has elected to have actuarial valuations performed biennially.

The following table shows the components of the County's annual OPEB cost, the amounts contributed to the plan, and changes in the County's net OPEB obligation:

Annual Required Contribution	\$ 353,450
Interest on net OPEB obligation	43,476
Adjustment to annual required contribution	<u>(60,118)</u>
Annual OPEB Cost	336,808
Contribution made	<u>(123,463)</u>
Increase (decrease) in net OPEB obligation	213,345
Net OPEB obligation July 1, 2015	<u>1,086,893</u>
Net OPEB obligation June 30, 2016	<u><u>\$ 1,300,238</u></u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**D. Other Post Employment Benefits (Continued)**

***Retiree Healthcare (Continued)***

Annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 278,805	51.62%	\$ 782,362
June 30, 2014	294,662	47.30%	937,656
June 30, 2015	305,965	51.22%	1,086,893
June 30, 2016	336,808	36.70%	1,300,238

***Funded Status and Funding Progress***

As of July 1, 2015, the most recent actuarial valuation date, the County healthcare plan was 0% funded. The actuarial accrued liability for benefits for June 30, 2016 was \$2,749,997, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,749,997. The schedule of funding progress immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***Actuarial Valuations***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the County Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following these notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE IV. OTHER INFORMATION (Continued)**

**D. Other Post Employment Benefits (Continued)**

*Retiree Healthcare (Continued)*

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 valuation, the projected unit credit cost method was used. The actuarial assumptions included a funded interest rate of 4.0% and a participation rate of 10%. Annual health care costs are assumed to increase 9% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% by the year 2023. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2016 was 20.77 years.

*Disability Plan*

*Plan Description*

As authorized by County Resolution, the County provides disability benefits for eligible employees of the County who are participants in the UOPP, STAR, Closed Defined Benefit, or Asset Accumulation Plans and who become disabled after January 1, 2014. The Plan, a single-employer OPEB plan, is administered by the Knox County Retirement and Pension Board. Participating employees become eligible after five years of credited service, unless the disability occurs as a result of an act required to perform duties in the course of employment, in which case there is no service requirement. The employer pays 100 percent of the related premium. In the event of disability, eligible employees receive benefits equal to 60% of pre-disability compensation as of the date of the disability, subject to offset by Social Security, workers' compensation, and adjustments for earned income. Benefits continue until the employee is no longer disabled, reaches Social Security normal retirement age, or begins receiving benefits from a County-funded retirement plan, whichever is earliest. The Plan issues a stand-alone report, which may be obtained at Suite 371, City County Building, 400 Main Street, Knoxville, TN 17902.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**D. Other Post Employment Benefits (Continued)**

*Disability Plan (Continued)*

*Funding Policies*

Annual required contributions to the Plan are determined each year as part of the actuarial valuation process. The annual required contributions for the current year were determined using the following significant assumptions:

Actuarial Measurement Date	June 30, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level % of Payroll, Closed
Remaining Amortization Period	18 years
Actuarial Valuation of Assets	Smoothed Market Value Over 5 Years
Inflation Rate	1.45%
Investment Return	7.00%
Projected Salary Increases	3.00%
Post Retirement Increases (Cost of Living Adjustments)	None

*Annual OPEB Cost and Net OPEB Obligation*

The following table shows the components of the County's annual OPEB cost, the amounts contributed to the plan, and changes in the County's net OPEB obligation.

Annual Required Contribution	\$ 530,426
Interest on net OPEB Obligation	(64,310)
Adjustment to annual required contribution	85,357
Annual OPEB Cost	<u>551,473</u>
Contribution made	<u>(1,183,523)</u>
Increase (decrease) in net OPEB obligation	(632,050)
Net OPEB obligation July 1, 2015	(918,716)
Net OPEB (asset) obligation June 30, 2016	<u><u>\$ (1,550,766)</u></u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**D. Other Post Employment Benefits (Continued)**

***Disability Plan (Continued)***

Annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2014	\$ -	N/A	\$ (354,018)
June 30, 2015	534,678	208.43%	(918,716)
June 30, 2016	551,473	223.13%	(1,550,766)

***Funded Status and Funding Progress***

As of July 1, 2016, the most recent actuarial valuation date, the County plan was 47.81% funded. The actuarial accrued liability for benefits for June 30, 2016 was \$3,036,796, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,584,894. The market value of plan assets was \$1,451,902. Covered payroll totaled \$156,080,523, and the UAAL as a percentage of covered payroll was 1.02%.

***Actuarial Valuations***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions regarding future employment and mortality trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the County Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following these notes to the financial statement, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**E. Commitments and Contingencies**

The County and its component units are parties to various legal proceedings, a number of which normally occur in governmental operations. As discussed in Note IV.C., amounts have been accrued in the County's Self Insurance Fund for the estimated amounts of claims liabilities.

The County receives significant financial assistance from the Federal and State governments in the form of grants and entitlements. These programs are subject to various terms and conditions, compliance with which is the responsibility of the County. These programs are subject to financial and compliance audits by the grantor agencies. Any costs disallowed as a result of such audits could become a liability of the County. As of June 30, 2016, the amount of any liabilities that could result from such audits cannot be determined. However, the County believes that any such amounts would not have a material adverse effect on the County's financial position.

The County and the Board have several outstanding construction projects as of June 30, 2016. The County also has a five-year Capital Improvement Plan which addresses major capital needs for the County and the Board. Although the Capital Improvement Plan does not represent legal appropriations or contractual commitments, it does represent priorities as determined by the County and the Board. Funding for the first year of the adopted Capital Improvement Plan has been appropriated by action of the County Commission.

The following represents capital projects funds spent to date, current contractual obligations, and appropriations for future projects as adopted in the Capital Improvement Plan for the fiscal year beginning July 1, 2016:



**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**E. Commitments and Contingencies (Continued)**

	Spent to Date	Contractual Commitment Remaining at June 30, 2016	Capital Improvement Plan July 1, 2016 - June 30, 2017
<u>Primary Government:</u>			
Ebenezer/Gleason Intersection	\$ 556,277	\$ 2,688,374	\$ -
Schaad Road	735,561	1,274,413	4,450,000
Hardin Valley/Greenland	437,460	59,988	-
Stormwater Management Plan	12,924,461	-	645,000
Parkside Drive Extension	13,064,394	2,949,614	-
Other Projects	221,479,645	1,913,543	29,375,000
Total - Primary Government	<u>\$ 249,197,798</u>	<u>\$ 8,885,932</u>	<u>\$ 34,470,000</u>
<u>Component Unit - the Board:</u>			
Physical Plant Upgrades	\$ 3,910,274	\$ 1,844,608	\$ 2,500,000
Gibbs Middle School	1,123,608	-	18,000,000
Hardin Valley Middle School	967,126	966,573	31,000,000
Pond Gap Elementary	556,419	8,172,961	1,750,000
Security Upgrades	4,657,951	377,827	2,000,000
Other Projects	231,316,905	1,755,038	8,500,000
Total - the Board	<u>\$ 242,532,283</u>	<u>\$ 13,117,007</u>	<u>\$ 63,750,000</u>

Construction projects for both the County and the Board are primarily funded by general obligation bonds.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**F. Constitutional Officers**

The Constitutional Officers Special Revenue Fund includes the operations of the following elected officials:

*Trustee* - serves as the treasurer and primary investment manager of the County's funds and manages property tax collection efforts.

*Knox County Clerk* - serves as the Clerk of the County Commission. Principally engaged in the sale of motor vehicle licenses and acceptance of applications of motor vehicle registrations of the State of Tennessee.

*Circuit and General Sessions, Criminal and Fourth Circuit Courts Clerks and Clerk and Master* - serve as the clerical and support staff for the various courts for both civil and criminal proceedings.

*Register of Deeds* - collects various fees for the recording of conveyances, trust deeds, chattels, charters, plats and other legal instruments.

These officials, responsible for the collection and remittance of State, County and other funds, earn fees and commissions for their services.

The operations of the Constitutional Officers are operated under the provisions of Section 8-22-104, Tennessee Code Annotated (TCA). Salaries and related benefits of the officials and staff are paid from fees and commissions earned. Fees earned in excess of these costs are remitted to the County's General Fund, less an allowance of three months of anticipated operating expenses retained in the respective fee account. Salaries for clerical assistance were supported by chancery court decrees that were obtained under provisions of Section 8-20-101, et seq., TCA. These activities are accounted for in the County's Constitutional Officers' Special Revenue Fund.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**F. Constitutional Officers (Continued)**

Collections and payments for litigants, heirs and others are accounted for in the County's Constitutional Officers' Agency Fund.

Other operating costs of these offices (excluding salaries and benefits) are accounted for in the County's General Fund. These budgeted amounts are approved by the County Commission in accordance with the County Charter. Fees remitted by the officials in excess of salaries and benefits are used to offset the cost to the General Fund.

Included in the Supplementary Schedules of the County's Comprehensive Annual Financial Report is the schedule of Combined Analysis of Fee and Commission Accounts (reported on the cash basis of accounting) for the year ended June 30, 2016.

**G. Accounting Pronouncements**

The County adopted GASB Statement No. 72, *Fair Value Measurement and Application*, required for fiscal periods beginning after June 15, 2015, in fiscal 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements (see Note III-A).

The County adopted portions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in fiscal 2016. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE IV. OTHER INFORMATION (Continued)**

**G. Accounting Pronouncements (Continued)**

The County adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, required for fiscal periods beginning after June 15, 2015, in fiscal 2016. The Statement identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The County adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, required for fiscal periods beginning after June 15, 2015, in fiscal 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement establishes measurement criteria for investments held by pools and pool participants, and establishes additional note disclosure requirements regarding limitations or restrictions on participant withdrawals.

**H. Subsequent Events**

Subsequent to the end of the fiscal year ended June 30, 2016, the County established a new post-retirement medical plan for County retirees. The plan, which became effective October 1, 2016, provides that eligible retirees will be able to remain on the County’s medical plan until age 65. The County will contribute 35% of the premium cost, with the remaining 65% to be contributed by the retiree. The County’s portion will be based on the premiums for individual coverage only.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS**

**A. General Information**

County and Board employees are covered by a variety of retirement plans. These plans fall into three categories – defined benefit, defined contribution and OPEB plans. The majority of County and Board employees participate in *defined contribution plans*. Those not included in the defined contribution plans are certified teachers covered under the Board's Article IX Defined Benefit Plan for former Knoxville City School teachers, all certified County school teachers, certain non-certified employees who elected not to transfer to the primary defined contribution plan or sworn officers in the Sheriff's Department who elected to transfer to the Uniformed Officers Pension Plan (UOPP) effective July 1, 2007, or were hired as a sworn officer on or after June 1, 2007. County certified school teachers participate in the State Retirement Plan for Teachers as administered by the Tennessee Consolidated Retirement System (TCRS). Certain County Officials also participate in TCRS.

The County participates in the Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer retirement system (PERS). The County's plan in TCRS is titled the Knox County Executive And Officials Plan. A single actuarial evaluation is computed for the Knox County Executive And Officials plan by TCRS. TCRS prepares a separate financial report for the operations and activities of this plan, which are not included in the County's reporting entity and are not included in the accompanied financial statements.

The Board participates in the TCRS through two different plans, the Teacher Legacy Pension Plan and the Teacher Retirement Plan. These two plans are cost sharing multiple-employer pension plans administered by TCRS. The Knox County Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP). The Board also allows certified teachers and administrators to participate in one of two multiple-employer defined contribution plans as administered by the Tennessee Department of Treasury (see Note V-F).

The four defined contribution plans, the three single-employer defined benefit plans and the one OPEB (employee disability) plan are part of the County's financial reporting entity and are included in the accompanying financial statements. The operations of the Knox County Closed Defined Benefit Plan (County DB Plan), the County's Asset Accumulation Plan (County DC Plan), the Sheriff's Total Accumulation Retirement Plan (STAR DC Plan), the Employee Disability Plan (OPEB) Plan, the County's Uniformed Officers Pension Plan (UOPP DB Plan), Voluntary 457 Plan (DC Plan) and the County's Medical Expense Retirement Defined Contribution Plan (MERP DC Plan) are recorded as County pension and other employee benefit trust funds. The operations of the Board's Teacher's Defined Benefit Plan (Teacher's DB Plan) are recorded in the Board's pension trust fund. Complete separate financial statements for the four defined contribution plans, the three defined benefit plans, and the OPEB plan may be obtained by contacting the Knox County Retirement and Pension Board at Suite 371, City County Building, 400 Main Street, Knoxville, TN 37902.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**A. General Information (Continued)**

Since the County's and Board's Plans are sponsored by a governmental entity, these Plans are not subject to the statutory provisions of the Employee Retirement Income Security Act of 1974 (ERISA). In addition, none of the accompanying governmental defined benefit plans are insured by the U.S. Pension Benefit Guaranty Corporation.

**B. Single-Employer Defined Benefit Plans**

**Summary of Significant Accounting Policies**

*Pensions* - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Knox County's (County) Plans (the County DB Plan, the Uniformed Officers Pension Plan (UOPP), and the Knox County Board of Education (Board) Plan (the Teacher's DB Plan) and additions to or deductions from the County, UOPP, and Teacher's DB Plan's fiduciary net position have been determined on the same basis as they are reported by Knox County, and the Knox County Board of Education for the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Defined Benefit Pension Plans**

*Plan Description* - The County's defined benefit pension plans, (County and UOPP DB Plans), and the Board's defined benefit pension plan (Teacher's DB Plan) provides pensions to plan members and their beneficiaries. The County DB Plan was established by the County Commission pursuant to House Bill Number 886 of Chapter 246 of the 1967 Private Acts of the State of Tennessee as amended and continued by the County's charter. The County DB Plan was closed to new participants effective September 30, 1991. The UOPP DB Plan was approved by the voters of Knox County during the November 2006 elections. The Plan was established July 1, 2007 with approximately 600 sworn Sheriff's Office employees electing to transfer their retirement balance from the County DC Plan to the UOPP DB Plan. The amount transferred from the participant's accounts totaled \$39,429,351. In addition, during FY 2007, Knox County issued \$57 million of pension obligation bonds, and transferred the proceeds (net of issuance costs) totaling \$56,510,846 to the plan. During the November 2012 elections, voters approved to close the UOPP DB Plan to new hires or rehires effective January 1, 2014. The Teacher's DB Plan was established under Article IX of the Knox County Employee Benefit System. The Teacher's DB Plan is closed to new plan members. The County, UOPP, and the Teacher's DB Plans are single-employer defined benefit pension plans administered by the Knox County Retirement and Pension Board.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**General Information about the Defined Benefit Pension Plans (Continued)**

*Benefits Provided* - The County DB Plan provides pensions to any person who is an active employee hired before the close date of September 30, 1991. The plan also provides death and disability benefits to participants and their beneficiaries. Normal retirement monthly benefits for County DB Plan participants are equal to credited service multiplied by the greater of 1.75% of average monthly compensation or \$30. The average monthly compensation is calculated using the employee's 60 consecutive months of highest compensation prior to retirement, or such lesser number of months of credited service actually completed. Credited service is equal to all contributions, uninterrupted service expressed in years and decimal fraction of a year based on completed calendar months. The normal retirement date for participants is the first day of the month coinciding with or next following attainment of age 65 or, if later, 5 years of credited service, or, if an elected official, the later of his 55<sup>th</sup> birthday and completion of 5 years of credited service. Employees may retire at age 55 after 5 years of service but accrued benefits are reduced by 5/12% for each month that the early retirement precedes normal retirement. All participants are eligible for non-duty disability benefits after 5 years of credited service and for duty-related disability benefits upon hire. Disability retirement benefits are payable immediately to age 65 and equal to 50% of average monthly compensation plus 10% of average monthly compensation if there is at least one dependent child minus the sum of monthly primary social security at time of disability, monthly workers' compensation benefits, and monthly disability pension reduction, but not less than \$150. Pre-retirement death benefits (in the line of duty) are payable in the amount of 37.5% of the average monthly compensation at date of death minus 75% of all social security benefits payable. Pre-retirement death benefits (not in the line of duty) requires participants to have reached age 55 and have a minimum service of 5 years. Benefits are payable at 100% joint and survivor benefit accrued to date of death. If the participant completed 5 years of service, but had not yet attained age 55, the benefit payable to the beneficiary is equal to the participant's contributions plus a 100% match by the employer, both of which accumulate at 3% interest compounded annually. Post-retirement death benefits equal to \$300 multiplied by years of service up to 30 years are paid in a lump sum. The County DB Plan includes a Cost of Living increase of 3% per annum of the participant's original benefit.

The UOPP DB Plan provides pensions to officers employed by the Sheriff's Office on or after June 1, 2007, and most recently employed or reemployed before January 1, 2014. Normal monthly retirement benefits are equal to the greater of 2.5% of average monthly compensation multiplied by service up to a maximum of 30 years or \$10 multiplied by service up to a maximum of 25 years. The normal retirement date is the first day of the month coinciding with or next following attainment of age 50 or, if later, the date the participant completes (or would have completed if the participant remained continuously employed until then) 25 years of service. A participant with 5 or more years of service

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**General Information about the Defined Benefit Pension Plans (Continued)**

who retires prior to his normal retirement date shall be entitled to the greater of 2% of average monthly compensation multiplied by the participant's projected service (maximum of 25 years), multiplied by the participant's actual service, and divided by the participant's projected service or \$10 multiplied by service up to a maximum of 25 years. The average monthly compensation of a participant is averaged over any 2 twelve month periods, whether or not consecutive but which do not overlap, from date of employment, including periods prior to the effective date of the plan, which produce the highest monthly average. A participant may receive early retirement benefits of the greater of the actuarial equivalent of 2% average monthly compensation multiplied by the participant's projected service (maximum of 25 years), multiplied by the participant's actual service, and divided by the participant's projected service or \$10 multiplied by service up to a maximum of 25 years. Disability benefits are payable to participants (in the line of duty) equal to 50% of average monthly compensation. A participant (not in the line of duty) is eligible to receive the greater of 2% of average monthly compensation multiplied by the participant's service (maximum of 25 years) multiplied by the participant's actual service and divided by the participant's projected service or \$10 multiplied by service up to a maximum of 25 years. All participants who become disabled prior to January 1, 2014 are eligible to receive this benefit. Pre-retirement death benefits (in the line of duty) for the participant's surviving spouse are payable monthly for life in the amount of the greater of 2% of average monthly compensation multiplied by the participant's service (maximum of 25 years) or \$250. Pre-retirement death benefits (not in the line of duty) for the participant's surviving spouse are payable monthly for life in the amount of the greater of 1% of average monthly compensation multiplied by the participant's service (maximum of 25 years) or \$10 multiplied by service up to a maximum of 25 years. Participants must have completed 5 years of service. Post-retirement death benefits are payable to the participant's surviving spouse in the greater of 50% of the participant's normal retirement benefit immediately prior to death or \$10 multiplied by service up to a maximum of 25 years. The UOPP DB Plan includes a Cost of Living adjustment annually of 3% plus (if a participant is over 62 years old) one half of the amount by which the percentage increase in the Consumer Price Index for the 12 months ending September 30 preceding the year of adjustment exceeds 3%, not to exceed 1%.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**General Information about the Defined Benefit Pension Plans (Continued)**

The Teacher's DB Plan provides pensions to any person who is a "teacher" as defined by the Court of Appeals in its opinion of December 30, 1987 in the case of Knox County v. the City of Knoxville, et al, and who is entitled to maintain membership in a local pension system as a result of their membership in any applicable plan of the City of Knoxville Pension System on June 30, 1987, and who thereafter is employed as a result of the City of Knoxville ceasing to operate a separate school system and is so regularly employed by the Knox County Board of Education. Each participant shall be eligible to retire at age 62, the normal retirement date or on the first day of any of the thirty-five months next following age 62. The normal retirement benefit, a monthly benefit payable for life, computed as of normal retirement date as 1/12<sup>th</sup> of credited service multiplied by the sum of Benefit Rate A times average base earnings and Benefit Rate B times average excess earnings. Benefit Rate A and Benefit Rate B shall vary according to the participant's last birthday at the time benefit payments are to commence, as follows:

Age	Benefit Rate A	Benefit Rate B
62 or earlier	0.75%	1.50%
63	0.78%	1.58%
64	0.84%	1.66%
65 or later	0.88%	1.76%

This amount is then reduced by the benefit accrued under the applicable City of Knoxville retirement plan as of June 30, 1987. The monthly benefit, including 50% of the primary Social Security benefit, shall not be less than \$10 per year of credited service, with a maximum of \$250. After completing 25 years of credited service, participants are eligible for early retirement benefits. Upon early retirement, a participant may elect to receive either a deferred monthly benefit equal to his accrued benefit commencing at normal retirement date or a reduced benefit equal to the actuarially equivalent benefit commencing immediately. Participants are eligible for Disability (not in the line of duty) after completing 15 years of credited service. Accrued benefits are based on credited service at time of disablement, payable immediately, plus a lump sum equal to six times the accrued monthly benefit. Participants who are disabled in the course of performance of duty are eligible for disability. The accrued benefit is based on credited service projected to age 62, payable immediately and reduced by any workers' compensation benefits paid. A participant must complete 15 years of credited service to be eligible for death benefits. Death benefits are payable as 50% of the monthly benefit that the participant would have been entitled to if he/she had elected the 50% joint and survivor form of payment, payable at the earliest time benefits could have commenced to the participant. The Teacher's DB Plan includes a Cost of Living adjustment of 3% per annum of the participant's original benefit.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**General Information about the Defined Benefit Pension Plans (Continued)**

*Employees Covered by Benefit Terms* - At January 1, 2016, the valuation date, the following participants were covered by the benefit terms:

	County DB Plan	UOPP DB Plan	Teacher's DB Plan
Inactive employees or beneficiaries currently receiving benefits	831	122	440
Inactive employees entitled to, but not yet receiving benefits	24	21	-
Active employees	61	630	1
	<u>916</u>	<u>773</u>	<u>441</u>

*Contributions* - Provisions and contribution requirements in the County and the Teacher's DB Plans are established and may be amended by the Knox County Retirement and Pension Board in compliance with state law. For the UOPP DB Plan, some provisions and employee changes are limited based on wording in the Knox County Charter (Article VII, Section 7.05) while other provisions and employer contributions can be determined by the Knox County Retirement and Pension Board in compliance with state law. The Knox County Retirement and Pension Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by participants during the year, with an additional amount to finance net pension liabilities. Prior to July 1, 1991, County DB Plan participants contributed 5% of annual earnings. Effective July 1, 1991, all participant contributions were assumed by the County under Section 414(h) of the Internal Revenue Code. In the UOPP DB Plan, each participant shall contribute to the fund an amount equal to 6% of annual earnings. The employee accumulation will receive 4% simple interest. No participant contributions shall be required after a participant has completed 30 years of service. Each participant in the Teacher's DB Plan shall contribute an amount equal to 3% of base earnings (that part of earnings in any calendar year which does not exceed \$4,800 per annum) plus 5% of excess earnings (that part of earnings in any calendar year which are in excess of base earnings). For FY 2016, the employer contributions for the County, UOPP, and the Teacher's DB Plans were approximately 161.82%, 12.94%, and N/A, respectively, of annual covered-employee payroll.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Net Pension Liability**

The County, UOPP, and Teacher's DB Plans' net pension liabilities were measured as of June 30, 2016, and the total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of January 1, 2016.

*Actuarial Assumptions* - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement for the County, UOPP, and Teacher's DB Plans.

	County DB Plan	UOPP DB Plan	Teacher's DB Plan
Actuarial Cost Method:	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost
Amortization Method:	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed
Remaining Amortization Period:	17 Years	27 Years	17 Years
Asset Valuation Method for Actuarial Determined Contributions:	5-year smoothed subject to a 10% corridor around the market value of assets	5-year smoothed subject to a 20% corridor around the market value of assets	5-year smoothed subject to a 10% corridor around the market value of assets
Discount and Investment Rate of Return:	7.00%	7.00%	7.00%
Salary Increases:	3.00%	3.00%	N/A
Cost of Living Increase	3.00%	3.25%	3.00%
Inflation	1.45%	1.45%	1.45%
Age at Retirement:	65 and five years of service	Participants hired before age 40, age 57 and 30 years of credited service. Participants hired after age 40, age 50 and 25 years credited service.	60 or immediately if older (25 years of service or greater), 62 or immediately if older (less than 25 years of service)
Mortality Table:	1983 Group Annuity (Male and Female)	1984 Unisex	1983 Group Annuity (Male and Female)
Disability Table:	RR 96-7 Post 94	RR 96-7 Post 94	N/A
Experience Study:	January 1, 2002 to December 31, 2011	January 1, 2008 to December 31, 2011	January 1, 2002 to December 31, 2011

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Net Pension Liability (Continued)**

*Expected Investment Rate of Return and Asset Allocation* - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The actual exposure and target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

County and Teacher's DB Plans	Actual Exposure	Target Allocation
Investment Type:		
U.S. Equities	27%	22% - 33%
Non - U.S. Equities	29%	22% - 33%
Core Fixed Income	14%	12% - 18%
High Yield Fixed Income	12%	12% - 18%
U.S. Treasury Inflation Protected Securities	5%	3% - 7%
Private Real Estate	7%	5% - 9%
U.S. Real Estate (REITS)	6%	1% - 5%
	<hr/>	
Total	<hr/> <hr/>	
<hr/>		
UOPP DB Plan		
Investment Type:		
U.S. Equities	28%	24% - 36%
Non - U.S. Equities	29%	24% - 36%
Core Fixed Income	13%	10% - 16%
High Yield Fixed Income	10%	9% - 14%
U.S. Treasury Inflation Protected Securities	5%	3% - 7%
Private Real Estate	8%	6% - 10%
U.S. Real Estate (REITS)	6%	1% - 5%
Short-term and Cash Equivalents	1%	0% - 5%
	<hr/>	
Total	<hr/> <hr/>	

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Net Pension Liability (Continued)**

Best estimates of arithmetic real rates of return, net of assumed inflation rate, for each major investment classification included in the pension plan's target asset allocation as of June 30, 2016 are as follows:

Defined Benefit Plans (All Plans)	
Investment Type	June 30, 2016 Long-Term Expected Real Rate of Return
U.S. Equities	6.25%
Non - U.S. Equities	6.45%
Core Fixed Income	2.75%
High Yield Fixed Income	5.65%
U.S. Treasury Inflation Protected Securities	2.35%
Private Real Estate	5.85%
U.S. Real Estate (REITS)	4.70%

The assumed inflation rate is 1.45% per annum.

*Rates of Return* - The annual money-weighted rates of returns on defined benefit pension plan investments, net of pension plan expenses for the year ended June 30, 2016 were as follows:

Defined Benefit Plans:	2016
County DB Plan	-0.90%
UOPP DB Plan	-0.14%
Teacher's DB Plan	-0.70%

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

*Discount Rate* - The discount rate used to measure the total pension liability for each DB Plan was 7%. The projections of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the County, UOPP, and Teacher's DB Plans' contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**KNOX COUNTY, TENNESSEE**  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Net Pension Liability (Continued)**

*Tennessee State Law for Local Government Sponsored Defined Benefit Plans* - In May 2014, the Tennessee General Assembly passed "The Public Employee Defined Benefit Financial Security Act of 2014", Tennessee Code Section 9-3-501, which will require Knox County and the Knox County Board of Education to make annual employer contributions equal to 100% of its actuarially determined contributions (ADC), use the entry age normal cost method, limit future pension benefit improvements if the net pension plan funded ratio is less than 60% and other requirements beginning in fiscal year 2016 with various provisions phased in through FY 2020. As of June 30, 2016, the County DB Plan's funded ratio was 50.65%. State law provides for penalties in the event that the funding level is below 60%, if the entity additionally provides benefit enhancements and fails to make contributions equal to the ADC. As the County made the required contributions and did not enhance benefits, there were no penalties.

**Changes in the Net Pension Liability**

The changes in the net pension liability for the plans for the fiscal year ended June 30, 2016 are as follows (dollar amounts in thousands):

	County DB Plan			UOPP DB Plan			Teachers' DB Plan		
	Increase (Decrease)			Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 77,035	\$ 47,178	\$ 29,857	\$ 175,912	\$ 152,395	\$ 23,517	\$ 73,356	\$ 64,425	\$ 8,931
Changes for the Year:									
Service Cost	176	-	176	3,387	-	3,387	-	-	-
Interest	5,150	-	5,150	12,354	-	12,354	4,906	-	4,906
Difference between Expected and Actual Expense	(225)	-	(225)	1,812	-	1,812	(937)	-	(937)
Change of Assumptions	-	-	-	1,900	-	1,900	-	-	-
Contribution - Employer	-	3,160	(3,160)	-	3,553	(3,553)	-	832	(832)
Contribution - Employee	-	94	(94)	-	1,620	(1,620)	-	4	(4)
Net Investment Income (Loss)	-	(419)	419	-	(214)	214	-	(437)	437
Benefit Payments including Refunds of Employee Contributions	(7,425)	(7,425)	-	(5,723)	(5,723)	-	(6,655)	(6,655)	-
Administrative Expense	-	(229)	229	-	(439)	439	-	(122)	122
Other Changes	-	(38)	38	-	-	-	-	-	-
Net Changes	(2,324)	(4,857)	2,533	13,730	(1,203)	14,933	(2,686)	(6,378)	3,692
Balance at June 30, 2016	\$ 74,711	\$ 42,321	\$ 32,390	\$ 189,642	\$ 151,192	\$ 38,450	\$ 70,670	\$ 58,047	\$ 12,623

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Changes in the Net Pension Liability (Continued)**

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the net pension liability of the County, UOPP, and Teacher's DB Plans, calculated using the discount rate of 7%, as well as what the net pension liability (asset) would be for each plan if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate as of June 30, 2016:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
County DB Plan Net Pension Liability	\$ 38,709,571	\$ 32,389,964	\$ 26,932,262
UOPP DB Plan Net Pension Liability	\$ 66,598,963	\$ 38,450,173	\$ 15,229,770
Teachers' DB Plan Net Pension Liability	\$ 18,340,154	\$ 12,622,675	\$ 7,629,640

*Pension Plan Fiduciary Net Position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports (or in the County, UOPP, and Teacher's DB Plans accompanying Pension Trust Fund financial statements).

**Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the County and the Board recognized pension expense of \$4,149,815, \$8,111,112, and \$1,281,803, for the County, UOPP, and Teacher's Plans, respectively. At June 30, 2016, the County, UOPP, and Teacher's Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>County DB Plan</u>		<u>UOPP DB Plan</u>		<u>Teachers' DB Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 205,462	\$ 172,991	\$ 3,702,129	\$ -	\$ -	\$ -
Changes of assumptions	1,017,256	-	1,706,192	-	-	-
Net difference between projected and actual earnings on pension plan investments	4,118,720	-	12,845,140	-	5,543,202	-
Total	<u>\$ 5,341,438</u>	<u>\$ 172,991</u>	<u>\$ 18,253,461</u>	<u>\$ -</u>	<u>\$ 5,543,202</u>	<u>\$ -</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**B. Single-Employer Defined Benefit Plans (Continued)**

**Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

<u>Years ended June 30,</u>	<u>County DB Plan</u>	<u>UOPP DB Plan</u>	<u>Teachers' DB Plan</u>
2017	\$ 1,801,717	\$ 4,184,380	\$ 1,529,620
2018	1,585,943	4,184,380	1,529,620
2019	1,082,471	4,184,382	1,529,618
2020	698,316	2,795,238	954,344
2021	-	625,810	-
Thereafter	-	2,279,271	-
Total	<u>\$ 5,168,447</u>	<u>\$ 18,253,461</u>	<u>\$ 5,543,202</u>

**Payable to Pension Plans**

At June 30, 2016, the County and the Board did not report a payable for any outstanding amount of employer contributions to the Plans required for the year ended June 30, 2016.

**Trend Information**

The schedules of changes in the County, UOPP, and Teacher's DB Plans' net pension liabilities and related ratios, the schedule of County and Board's employer contributions, and schedule of investment returns are presented in required supplementary information (RSI) following the notes to financial statements, and present multiyear trend information about whether each Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability and whether the County's and the Board's contributions are in accordance with the actuarially determined amounts.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan**

**Summary of Significant Accounting Policies**

*Pensions* - For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Knox County Executive And Officials' participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Knox County Executive And Officials' fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan Description* - Certain elected officials (employees) of Knox County are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits Provided* – Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

KNOX COUNTY, TENNESSEE  
Notes to Financial Statements  
June 30, 2016

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**General Information about the Pension Plan (Continued)**

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 1/2%. A 1% COLA is granted if the CPI change is between 1/2% and 1%. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

*Employees Covered by Benefit Terms* - At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>6</u>
Total	<u><u>10</u></u>

*Contributions* - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary and Knox County makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions made by Knox County were \$105,298 based on a rate of 10.87% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Knox County state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**Net Pension Liability (Asset)**

Knox County Executive And Officials' net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial Assumptions* - The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Reporting Date	June 30, 2016
Measurement Date	June 30, 2015
Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Asset Valuation Method	Fair Market Value
Inflation	3.00%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.5%, net of investment expense, including inflation
Discount Rate	7.5% per annum, compounded annually
Cost of Living Adjustments	2.50%
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement.

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**Net Pension Liability (Asset) (Continued)**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-term Securities	0.00%	1%
Total		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**Net Pension Liability (Asset) (Continued)**

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Knox County will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014	\$ 1,900,933	\$ 1,829,313	\$ 71,620
Changes for the Year:			
Service Cost	38,325	-	38,325
Interest	142,449	-	142,449
Differences between expected and actual experience	91,692	-	91,692
Contributions - Employer	-	102,177	(102,177)
Contributions - Employees	-	47,000	(47,000)
Net Investment Income	-	57,404	(57,404)
Benefit Payments, including refunds of employee contributions	(79,872)	(79,872)	-
Administrative Expense	-	(305)	305
Net Change	192,594	126,404	66,190
Balance at June 30, 2015	\$ 2,093,527	\$ 1,955,717	\$ 137,810

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**Net Pension Liability (Asset) (Continued)**

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate* - The following presents the net pension liability (asset) of Knox County Executive And Officials calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Knox County Executive And Official's Net Pension Liability (Asset)	<u>\$ 384,267</u>	<u>\$ 137,810</u>	<u>\$ (71,247)</u>

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources**

*Pension Expense* - For the year ended June 30, 2016, Knox County recognized a pension expense of \$15,602.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the year ended June 30, 2016, Knox County Executive And Officials reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 65,801	\$ -
Net Difference between Projected and Actual Earnings on Pension Plan Investments	65,906	84,199
Contributions Subsequent to the Measurement date of June 30, 2015	<u>105,298</u>	<u>-</u>
Total	<u>\$ 237,005</u>	<u>\$ 84,199</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**C. Agent Multiple-Employer Defined Benefit Plan (Continued)**

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)**

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2015,” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30:	Amounts
2017	\$ 21,309
2018	21,309
2019	(11,591)
2020	16,476

In the table above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Payable to the Pension Plan**

At June 30, 2016, Knox County did not report a payable outstanding. Contributions were paid to the pension plan as required for the year ended June 30, 2016.

**Trend Information**

The schedule of changes in the Knox County Executive And Officials Plan’s net position liability and related ratios and the schedule of Knox County Executive And Officials Plan’s contributions are presented in required supplementary information (RSI) following the notes to financial statements, and present multiyear trend information about whether the Plan’s fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability and whether Knox County’s contributions are in accordance with the actuarially determined amounts.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans**

**Teacher's Legacy Plan**

**Summary of Significant Accounting Policies**

*Pensions* - For purposes of measuring the net pension liability (assets), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Legacy Pension Plan. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan Description* - Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Knox County Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan was closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Boards of Education (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**General Information about the Pension Plan (Continued)**

*Benefits Provided* - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest 5 consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with 5 years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of livings adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 1/2%. A 1% COLA is granted if the CPI change is between 1/2% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Contributions* - Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5% of salary and the LEAs make employer contributions at the rate set by the Board of Trustees of TCRS as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Knox County Schools for the year ended June 30, 2016 to the Teacher Legacy Pension Plan were \$20,249,092 which is 9.04% of covered payroll. At June 30, 2016, there were 4,229 active Board participants. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liabilities (Assets)* - At June 30, 2016, Knox County Schools reported a liability of \$2,564,810 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Knox County Schools' proportion of the net pension liability was based on Knox County Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015, Knox County Schools' proportion was 6.26%. The proportion measured as of June 30, 2014 was 6.25%.

*Negative Pension Expense* - For the year ended June 30, 2016, Knox County Schools recognized negative pension expense of \$1,871,781.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the year ended June 30, 2016, Knox County Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 2,058,367	\$ 39,921,641
Net Difference between Projected and Actual Earnings on Pension Plan Investments	46,312,430	62,871,646
Changes in Proportion of Net Pension Liability (Asset)	2,269,093	-
Board's Contributions Subsequent to the Measurement date of June 30, 2015	20,249,092	-
Total	<u>\$ 70,888,982</u>	<u>\$ 102,793,287</u>

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Knox County Schools' employer contributions of \$20,249,092, reported as pension related deferred outflows of resources subsequent to the measurement date of June 30, 2015, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30:</u>	<u>Amounts</u>
2017	\$ (16,497,944)
2018	(16,497,944)
2019	(16,497,944)
2020	4,459,271
2021	(7,118,836)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

*Actuarial Assumptions* - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following assumptions applied to all periods included the measurement:

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Reporting Date	June 30, 2016
Measurement Date	June 30, 2015
Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Asset Valuation Method	Fair Market Value
Inflation	3.00%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.5%, net of investment expense, including inflation
Discount Rate	7.5% per annum, compounded annually
Cost of Living Adjustments	2.50%
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement.

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best- estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-term Securities	0.00%	1%
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Knox County Schools will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents Knox County Schools' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what Knox County Schools' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Knox County Schools' Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 174,860,078</u>	<u>\$ 2,564,810</u>	<u>\$ (140,075,355)</u>

*Pension Plan Fiduciary Net Position* - Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

**Payable to the Pension Plan**

At June 30, 2016, Knox County Schools did not report a payable since all required employer contributions were made to the pension plan before the year ended June 30, 2016.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher's Legacy Plan (Continued)**

**Trend Information**

The schedule of Knox County Schools' proportionate share of the net pension liability (asset) in the Teacher Legacy Pension Plan and related ratios and the schedule of contributions are presented in required supplementary information (RSI) following the notes to financial statements, and present multiyear trend information about whether the Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability (asset) and whether the Knox County School's contributions are in accordance with the actuarially determined amounts.

**Teacher Retirement Plan**

**Summary of Significant Accounting Policies**

*Pensions* - For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Retirement Plan. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan Description* - Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Knox County Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**General Information about the Pension Plan (Continued)**

*Benefits Provided* - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with 5 years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service-related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 1/2%. A 1% COLA is granted if the CPI change is between 1/2% and 1%. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

*Contributions* - Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5% of salary and the LEAs make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4%, unless the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2016 to the Teacher Retirement Plan were \$1,129,281, which is 4.0% of covered payroll. At June 30, 2016, there were 888 active Board participants. The employer rate, when combined with member contributions, is expected to finance the



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**General Information about the Pension Plan (Continued)**

costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Mandatory Defined Contribution Plan**

As part of this plan, teachers hired after July 1, 2014 are required to participate in the State of Tennessee 401(k) Plan (see Note V - F) which requires the Board to make mandatory employer contributions of 5.0% of the participant's compensation.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liabilities (Assets)* – At June 30, 2016, Knox County Schools reported an asset of \$280,487 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Knox County Schools' proportion of the net pension asset was based on Knox County Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015, Knox County Schools' proportion was 6.97%.

*Pension Expense* – For the year ended June 30, 2016, Knox County Schools recognized pension expense of \$1,232,324.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the year ended June 30, 2016, Knox County Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ -	\$ 91,294
Net Difference between Projected and Actual Earnings on Pension Plan Investments	22,673	-
Board's Contributions Subsequent to the Measurement date of June 30, 2015	1,129,281	-
Total	<u>\$ 1,151,954</u>	<u>\$ 91,294</u>

Knox County School's employer contributions of \$1,129,281 reported as pension related deferred outflows of resources, subsequent to the measurement date of June 30, 2015, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30:	Amounts
2017	\$ (1,940)
2018	(1,940)
2019	(1,940)
2020	(1,940)
2021	(7,608)
Thereafter	(53,257)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

*Actuarial Assumptions* - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Reporting Date	June 30, 2016
Measurement Date	June 30, 2015
Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Asset Valuation Method	Fair Market Value
Inflation	3.00%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%.
Investment Rate of Return	7.5%, net of investment expense, including inflation
Discount Rate	7.5% per annum, compounded annually
Cost of Living Adjustments	2.50%
Retirement Age	Pattern of retirement determined by experience study.
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement.

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best- estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market technique projects the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-term Securities	0.00%	1%
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Knox County Schools will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents Knox County Schools' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what Knox County Schools' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Knox County Schools' Proportionate Share of the Net Pension Liability (Asset)	\$ 49,737	\$ (280,487)	\$ (522,678)

*Pension Plan Fiduciary Net Position* - Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

**Payable to the Pension Plan**

At June 30, 2016, Knox County Schools did not report a payable since all required employer contributions were made to the pension plan before the year ended June 30, 2016.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**D. Cost Sharing Multiple-Employer Defined Benefit Plans (Continued)**

**Teacher Retirement Plan (Continued)**

**Trend Information**

The schedule of Knox County School's proportionate share of net pension liability (asset) in the Teacher Retirement Plan's and related ratios and the schedule of contributions are presented in required supplementary information (RSI) following the notes to financial statements, and present multiyear trend information about whether the Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability whether the Knox County School's contributions are in accordance with the actuarially determined amounts.

**E. Defined Contribution Plans**

Plan provisions and contribution requirements for the defined contribution plans are established and may be amended by the Knox County Retirement and Pension Board. Administrative costs of the plans are paid with plan assets in the DB Plans and the Disability (OPEB) Plan.

**Asset Accumulation Plan**

The *Asset Accumulation Plan* is a defined contribution plan established by Knox County under Section 401(a)(9) of the Internal Revenue Code. The plan covers a majority of the full time employees of the County and classified employees of the School Board. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Participation begins on the first day of employment and all eligible employees not participating in another County, Board or state retirement plan are required to participate. The plan requires all participants to contribute a minimum of 6% of compensation and the employer matching contribution is 6%. Participants are 100% vested in the employer contributions after completing five years of credited service.

At June 30, 2016, there were 4,160 active plan members. During the year, the County's and Board's employer and member contributions amounted to \$8,304,376 and \$8,304,376 respectively.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**E. Defined Contribution Plans (Continued)**

**Voluntary 457 Plan**

The Asset Accumulation Program incorporated both a 401(a) Plan and a 457(b) Plan in the Defined Contribution Plan for Knox County participants and classified Board participants. The Knox County Voluntary 457 Plan incorporates voluntary pre-tax contributions by the participant with an employer match based on length of service with the County and/or Board. The employer will match:

Years of Service	Maximum % Match
0 - 5	0%
5 - 9	2%
10 - 14	4%
15 or more	6%

The employer matching contributions for the 457 Plan are deposited into the participants 401(a) account.

In January 2008, the Pension Board added two additional outside 457 vendors as investment alternatives. Knoxville Teachers Credit Union (Board employees only) and Security Benefit were added January 1, 2008 and volunteer contributions made by participants in the Asset Accumulation Plan would also be eligible for the match offered by the employer. In September 2008, Nationwide, a third 457 vendor was added to the Program. Security Benefit was terminated as a 457(b) provider as of November 2015. Each vendor prepares separate financial reports and is not included in the Knox County Voluntary 457 Plan Trust.

Effective July 1, 2008 the option of contributing to a 457(b) Plan was expanded to those active participants in the closed Defined Benefit (DB) Plan. The employer match for the closed DB Plan participants is a maximum of 3% of pay. Closed DB participants are eligible for the same 457 Plans/Vendors that are offered under the Asset Accumulation Plan. Beginning July 2015, participants in UOPP and STAR were allowed to make contributions to the County's 457(b), but the County makes no matching contributions.

As of June 30, 2016, there were 991 Plan members in the Knox County Voluntary 457(b) Plan. During the year, member contributions amounted to \$2,094,590 and the County and Board contributed \$1,608,252.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**E. Defined Contribution Plans (Continued)**

**Medical Expense Retirement Plan (MERP)**

The *Medical Expense Retirement Plan*, a voluntary defined contribution plan, was established by the County under Section 401(a)(9) of the Internal Revenue Code. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Voluntary participation begins upon enrollment; eligible employees may begin participation on the first day of employment. The Plan was specifically created to assist employees in planning and investing for anticipated medical expenses upon retirement. Plan provisions and contribution requirements are established and may be amended by the Knox County Retirement and Pension Board.

The main features of the Plan are as follows:

- (1) A participant reaching age 40 and completing at least five years of credited service received a one-time lump sum distribution for each year of eligible service from the Knox County Retirement & Pension Board, and
- (2) A participant making contributions through payroll deductions to the Medical Expense Retirement Plan would be eligible for a percent match contribution from the Knox County Retirement & Pension Board based on the percent approved by the Board for the year in question.
- (3) Beginning in FY 2015, the employer match for active employees of 50% up to a calendar year employer maximum of \$208. The Pension Board committed to this funding for five years.

At June 30, 2016, the Medical Expense Retirement Plan had 1,403 members and 678 of them contributed funds to the plan. During the year employer and member contributions amounted to \$105,251 and \$220,302, respectively.



KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**E. Defined Contribution Plans (Continued)**

**Sheriff's Total Accumulation Retirement Plan (STAR)**

In November 2012, the Knox County voters approved the closing of the Uniform Officers Pension Plan (UOPP) to all new officers and to have the Pension Board design another plan for officers employed by the Knox County Sheriff's Department. Effective January 1, 2014, the UOPP Plan was closed to all new-hires or re-hires. The new officer plan is called the *Sheriff's Total Accumulation Retirement Plan (STAR)*. STAR is a Defined Contribution Plan where the officer contributes 6% of pay and the County contributes a total of 12% of pay. Vesting by the officer is 10 year cliff vesting on the first 10% employer contribution and 15 year cliff vesting on the remaining 2% employer contribution. Employees have the responsibility of investing their contribution plus the 10% employer contribution from an array of investment options. The Pension Board manages the investment of the additional 2% of the employer contributions.

At June 30, 2016, the STAR Plan had 203 members. During the year employees contributed \$265,285 and the employer contributed \$442,155 for the basic 10% contribution and \$88,424 for the 2% supplemental contribution.

**F. Multiple-Employer Defined Contribution Plans**

**State of Tennessee 401(k) Plan - Teachers Hired Before July 1, 2014**

The TCRS Teacher Legacy Defined Benefit Plan (see Note V-D) allows Knox County Board of Education (Board) teachers and other certified personnel hired before July 1, 2014, to participate in the State of Tennessee 401(k) Plan as administered by the Tennessee Department of Treasury. Participation in this plan is optional and is 100% funded by participant's elective contributions. The Board does not make employer contributions to this plan. Plan benefits are dependent solely on amounts contributed by participants plus investment earnings. Employees are eligible to participate on the first day of employment.

At June 30, 2016 there were 17 active participants. During the year participant contributions amounted to \$13,389.

KNOX COUNTY, TENNESSEE  
**Notes to Financial Statements**  
*June 30, 2016*

**NOTE V: EMPLOYEE RETIREMENT PLANS (Continued)**

**F. Multiple-Employer Defined Contribution Plans (Continued)**

**State of Tennessee 401(k) Plan - Teachers Hired After July 1, 2014**

The TCRS Teacher Retirement Defined Benefit Plan (see Note V-D) requires all Knox County Board of Education (Board) teachers and other certified personnel hired after July 1, 2014, to participate in the State of Tennessee 401(k) Plan as administered by the Tennessee Department of Treasury. Participation is mandatory and begins on the first day of employment. The Board is required to make mandatory employer contributions of 5.0% of the participant's compensation. Elective employee deferrals are optional but can be up to the annual maximum amount permitted by the Internal Revenue Service. Participants are 100% immediately vested in the employer contributions. Plan benefits depend solely on amounts contributed to the plan plus investment earnings.

At June 30, 2016 there were 888 active participants. During the year the Board employer and participant contributions amounted to \$1,411,491 and \$231,034, respectively.

Copies of the complete financial statements of the County for the current Fiscal Year are available at <http://www.comptroller.tn.gov/la/CountySelect.asp>.