



Knox County Tennessee

Popular Annual Financial Report

**For The
Fiscal Year Ended
JUNE 30, 2010**





OFFICE OF COUNTY MAYOR

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

Introduction from Knox County Mayor and Senior Director of Finance

Citizens of Knox County:

We are pleased to present the inaugural Popular Annual Financial Report for the fiscal year ended June 30, 2010. We hope that you will find this report easily understandable and useful. Our intent is that by providing the citizens of Knox County with this brief synopsis of the County's operations that we can help you to be even better informed. This is part of our ongoing efforts to provide you with the open, transparent government that you deserve.

We hope that you will find this report interesting and informative. Please feel free to share with us any questions, concerns or recommendations that you may have. We welcome your input and look forward to making this report to you an annual tradition.

A handwritten signature in blue ink, appearing to read "Tim Burchett".

Tim Burchett
Knox County Mayor

A handwritten signature in blue ink, appearing to read "John Troyer".

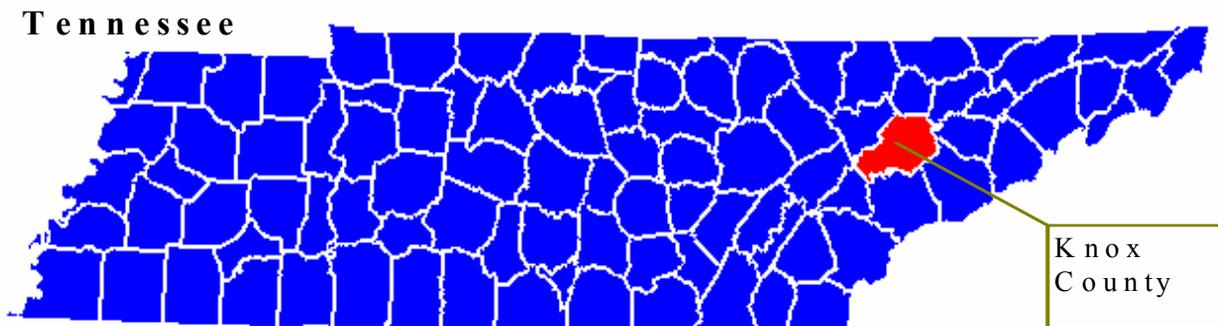
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Introduction to the Popular Annual Financial Report

The purpose of this Popular Annual Financial Report (PAFR) is to serve as an easy-to-read synopsis of Knox County's financial information. On an annual basis, the County prepares a Comprehensive Annual Financial Report (CAFR), which contains detailed financial information about the finances of the County. That report contains detailed information required to be reported by generally accepted accounting principles and it conforms to the requirements for CAFR contents as prescribed by the Government Finance Officers Association (GFOA). We encourage you to read the CAFR, which contains detailed and audited financial statements, notes, schedules and other information. This PAFR contains information that has been summarized from the CAFR, and is intended to be a supplement to, rather than a replacement for, the CAFR. As a brief, non-technical summary of financial information, this report does not conform to accounting principles generally accepted in the United States of America (GAAP). The report focuses on the governmental activities of the County and of the Knox County Schools, which are funded largely by County taxpayers.

This report is presented in a format that is intended to be easy to understand, without excessive levels of details and technical accounting jargon. Our intent is that the non-financial reader may more easily understand the County's financial activities.

About Knox County



Knox County is the third most populated 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 estimates that, as of 2009, 435,725 citizens reside within the total land area of approximately 526 square miles that make up Knox County. (See [MPC: Population Data](#) 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 population in 2009 was estimated at 185,100. It is the largest incorporated municipality in the County. Farragut, the only other municipality in the County, has an estimated population of 20,689. Knoxville has a land area of approximately 93 square miles within its corporate limits and is located on the Tennessee River near the geographic center of East Tennessee.

Manufacturing, Commerce, and Business Climate

The County is located in the northeastern portion of the State and, along with Anderson, Blount, Loudon, and Union counties, is part of the Knoxville Metropolitan Statistical Area (MSA). The County metropolitan 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. For many years the County has been known as one of the South's leading wholesale markets. Based on 2009 estimates, there were more than 919 wholesale distribution houses, 1,653 retail establishments, and over 5,318 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 nearly 750 manufacturing firms, which produce a large variety of items including medical devices, electronic components, chemicals, manufactured housing, apparel, and automobile parts.

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 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.

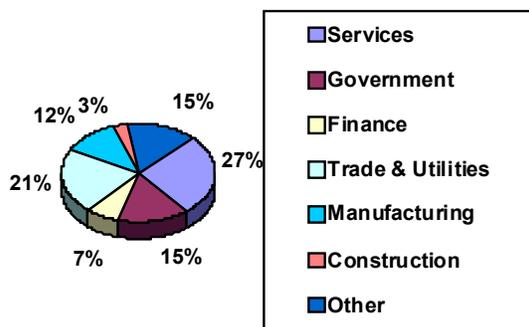
State Economic Perspective

Tennessee is a traditionally business-friendly, low-tax state. Tennessee's fate hinges on the path taken by the global and national economies in the quarters ahead.

According to the analysis reported in the *2010 Tennessee Economic Report* published by the University of Tennessee (<http://cber.utk.edu/erg/erg2010.pdf>), the state's nominal personal income is expected to grow by 2.1 percent for 2010, improving to 3.5 percent in 2011. Taxable sales are projected to increase by 2.1 percent in 2010. Tennessee's unemployment rate has drifted upward since achieving a record low rate of 4.5 percent in the first quarter of 2007. The state unemployment rate is expected to average 10.4 percent in 2010, and remain at more than 10 percent in 2011.

Employment Information

NON-AGRICULTURAL EMPLOYMENT

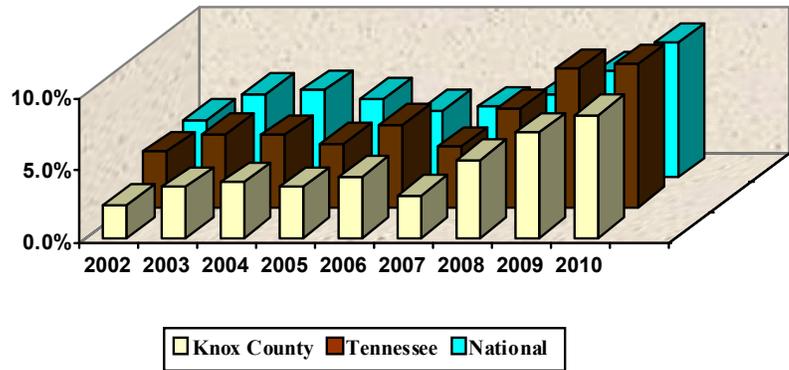


Knox County has demonstrated a very healthy diversity in employment. Services and trade are the two largest employment sectors in the County metropolitan area, followed by Government.

Economic Data

Historically, Knox County's unemployment rate has been low relative to the state and national rates. This relationship has held, although rates have increased in this current recession. For the month of June 2010, the seasonally unadjusted unemployment rates for the County, state and nation stood at 7.8%, 10.1% and 9.5%, respectively.

UNEMPLOYMENT DATA



Overview of Knox County Finances

The following information is derived from the County's Statement of Net Assets and Statement of Activities for the year ended June 30, 2010, with comparative information shown for the year ended June 30, 2009. The Statement of Net Assets shows information about assets (what we have) and liabilities (what we owe). The difference, net assets, represents one way to measure the County's financial condition. The information shown below contains information related to the "governmental activities" of the County and the Board of Education. Governmental activities are normally supported largely by taxes and revenues from other governments (primarily the State), and consist of the functions that may be thought of as the core County functions, including education, public safety, parks and recreation, libraries, engineering and public works, as well as general government and debt service. The amounts shown do not include balances related to the Three Ridges Golf Course Fund or the Knox County Emergency Communications District, which are business-type activities that are financed primarily from user fees and charges. The balances related to the Knox County Railroad Authority, a minor component unit of the County, are also excluded. The excluded balances for each of the three entities are not significant, totaling less than 1% of both total assets and total expenses reported in the CAFR.

The County and the Board have various balances and transactions between the two entities that are reflected in the financial statements reported in the CAFR. All of the significant amounts have been eliminated from the combined amounts discussed in this report.

Revenues (Where the Money Comes From)

Revenues for the County's and Board's governmental activities are derived primarily from local taxes (mostly property taxes and sales taxes) and revenues received from the State of Tennessee. The largest of these other sources is the revenue from the Basic Education Program, which is used 100% for education purposes. Unfortunately, all of these three largest revenue sources decreased in 2010 due to the economic recession. The Other Revenue category also experienced a significant decrease, primarily due to the reduction of interest earnings resulting from lower interest rates, also due to economic conditions. Total revenues did increase because of the funds received from the federal government's American Recovery and Reinvestment Act programs. Table 1, shown below, contains a recap of the revenues for 2010 and 2009. Major revenue sources include the following:

Property Taxes are levied on property located in the County, and assessed to property owners based on an established percentage of estimated fair market value of the property. These taxes are allocated to general government purposes, education, and debt service. For 2010, the allocation of property taxes was as follows:

County General Fund:	41.1%
Schools General Fund:	45.8%
Debt Service Fund:	13.1%

Sales taxes are collected based on sales of goods and services in the County.

Lodging taxes are collected from operators of hotels and motels on their guests. These revenues are used to promote tourism and related economic activity in the County.

Business taxes consist of the annual amount imposed on each business, plus the gross receipts tax that is collected on sales. These taxes are used for general government purposes.

Wheel taxes are collected from each motor vehicle registration.

Charges for services include licenses, permits, fines and forfeitures, and various other user fees.

Operating grants and contributions primarily consists of amounts received from the federal and state governments for various programs.

State shared revenues include revenues collected by the state (the Hall income tax on certain types of investment income, liquor and beer taxes, and other similar amounts), a portion of which is remitted to local governments.

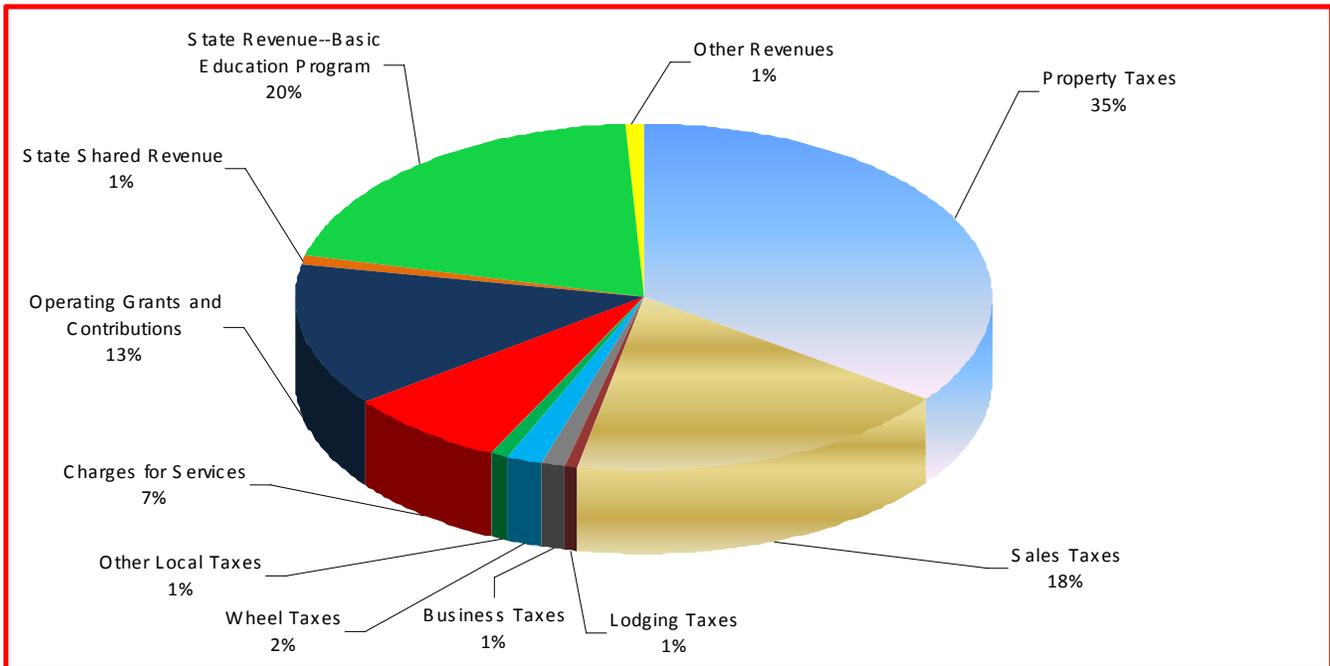
Basic Education Program revenue is received from the state, which determines the amount to be received by each school system based on a formula.

Other revenues include interest and various miscellaneous sources.

Table 1: Knox County Revenues

	Year Ended June 30:		2010 % of total	Change from 2009 to 2010:	
	2010	2009		Increase (Decrease) Amount	% Change
Taxes:					
Property Taxes	\$ 241,392,831	\$ 247,932,695	35%	\$ (6,539,864)	-2.6%
Sales Taxes	124,478,243	125,284,369	18%	(806,126)	-0.6%
Lodging Taxes	4,830,079	4,815,765	1%	14,314	0.3%
Business Taxes	6,332,408	7,440,271	1%	(1,107,863)	-14.9%
Wheel Taxes	11,966,128	12,060,867	2%	(94,739)	-0.8%
Other Local Taxes	5,734,783	4,872,488	1%	862,295	17.7%
Total Taxes	394,734,472	402,406,455		(7,671,983)	
Program Revenues:					
Charges for Services	51,595,096	49,031,760	7%	2,563,336	5.2%
Operating Grants and Contributions	91,541,128	68,042,574	13%	23,498,554	34.5%
Total Program Revenues	143,136,224	117,074,334		26,061,890	
Other Revenues:					
State Shared Revenue	7,441,094	7,441,094	1%	-	0.0%
State Revenue--Basic Education Program	139,899,700	144,111,400	20%	(4,211,700)	-2.9%
Other Revenues	5,089,808	11,866,125	1%	(6,776,317)	-57.1%
Total Other Revenues	152,430,602	163,418,619		(10,988,017)	-6.7%
Total Revenues	\$ 690,301,298	\$ 682,899,408	100%	\$ 7,401,890	1.1%

Knox County Revenues 2010



Expenses (Where the Money Goes)

Table 2 shows the uses of the County's and Board's resources in governmental activities. The expenses are categorized by function, or where the money is spent. The functions include:

Finance and Administration includes services provided by County Commission, Mayor, Internal Audit, Election Commission, Codes Administration, Finance, Purchasing, Human Resources, Property Assessor, Information Technology, and others.

Administration of Justice includes various courts, Attorney General, Public Defender, Probation/Pre-trial Release, and others.

Public Safety includes Sheriff, Correctional Facilities, Juvenile Services, Fire Prevention, and others.

Public Health and Welfare includes operations and activities of County Health Department and solid waste and recycling activities.

Social and Cultural Activities includes parks and recreations, libraries, senior centers, and others.

Other General Government includes agricultural extension services, veterans' services, audit services, insurance, and miscellaneous other services.

Engineering and Public Works includes various activities necessary to maintain roads and highways in the county.

Education includes the activities of the Knox County Board of Education, which operates the Knox County Schools. Expenses include amounts for instructional and support services for the school system, which primarily serves County students in elementary school through high school age groups.

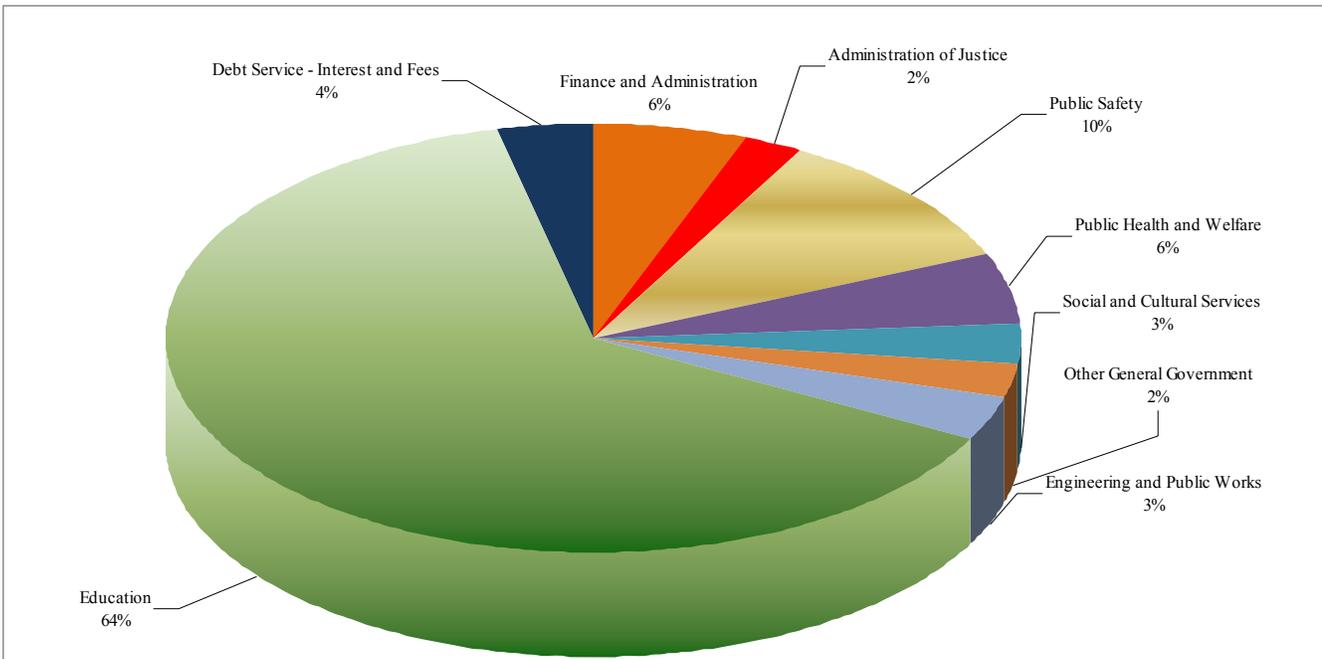
Debt Service – Interest and Fees includes interest on the County's long-term obligations along with fees and expenses related to those obligations.

Education is the largest single function by far, comprising 63.6% of total expenses, followed by Public Safety at 10.4%. Combined, these two functions comprise nearly 75% of total expenses. Expenses for those two categories increased by \$11 million in 2010. Public Safety's increase of \$2.7 million was 3.79% of the 2009 expenses, the largest percentage increase of any category. Overall expenses increased by \$3 million due to offsetting expense reductions in other categories totaling \$8 million. The major factors of the decrease were the reduction in debt service, achieved as a result of interest savings on variable rate debt, combined with careful management of other expenses.

Table 2: Knox County Expenses

	Year Ended June 30:		2010 % of total	Change from 2009 to 2010:	
	2010	2009		Increase (Decrease) Amount	% Change
Expenses--Governmental activities:					
Finance and Administration	\$ 42,195,745	\$ 41,738,286	6%	\$ 457,459	1.1%
Administration of Justice	15,691,782	15,651,510	2%	40,272	0.3%
Public Safety	74,436,026	71,715,147	10%	2,720,879	3.8%
Public Health and Welfare	38,623,222	38,630,559	6%	(7,337)	0.0%
Social and Cultural Services	21,594,069	21,651,989	3%	(57,920)	-0.3%
Other General Government	17,307,539	21,450,690	2%	(4,143,151)	-19.3%
Engineering and Public Works	24,009,373	23,630,899	3%	378,474	1.6%
Education	453,998,119	445,718,690	64%	8,279,429	1.9%
Debt Service - Interest and Fees	25,524,229	30,093,010	4%	(4,568,781)	-15.2%
Total governmental activities	\$ 713,380,104	\$ 710,280,780	100%	\$ 3,099,324	0.4%

Knox County Expenses 2010



Assets, Liabilities and Net Assets

Table 3 below shows the condensed statement of net assets for the County’s and Board of Education’s combined governmental activities as of June 30, 2010 and 2009. Current and other assets consist primarily of cash, investments and amounts receivable from others at year end. The reduction from 2009 to 2010 is largely due to the spending down during 2010 of amounts that had been on hand at June 30, 2009 for various restricted purposes, primarily for the acquisition of capital assets. The majority (nearly two-thirds) of total assets consists of capital assets, which include long-lived assets such as land, buildings, machinery and equipment, and infrastructure (roads, streetlights, and other similar immovable assets).

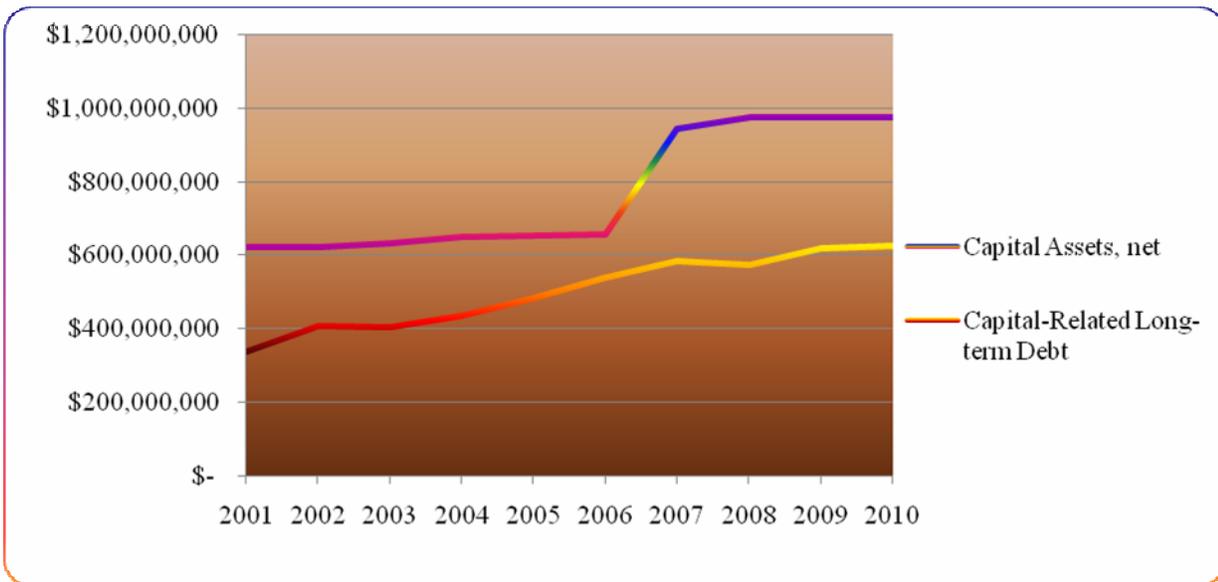
Many of the capital assets, which have long useful lives, are acquired by use of the proceeds from issuing long-term obligations. Long-term obligations consist of bonds and notes payable and capital lease obligations. All County long-term obligations are general obligation debt, meaning that they are backed by the full faith and credit of the County. All County long-term obligations have been issued for capital purposes (with the single exception of bonds issued to fund the obligations of the Uniformed Officers Pension Plan), and no debt proceeds are used for current operating purposes. Because the Board of Education is restricted by law from issuing its own debt, the County issues debt on behalf of the Board, which then acquires the capital assets.

Long-term liabilities increased by \$35 million. The increase was primarily because the County entered into \$25 million in capital lease agreements to acquire energy management equipment. The future energy savings from the upgrades are guaranteed to be at least as much as the payments for the new leased equipment. This initiative is part of the County’s continuing efforts to “go green.” The remaining increase resulted primarily from additional bonds issued to acquire capital assets in accordance with the County’s approved Capital Improvement Plan, less payments made on debt.

Total net assets decreased by \$27 million in 2010. We plan for the results of operations to “break even” prior to depreciation expense on capital assets. Depreciation expense totaled \$36.1 million, and without depreciation we would have experienced an increase in net assets for the year of \$9.1 million.

Table 3: Knox County Net Assets

	Governmental Activities, June 30:		Increase (Decrease)	
	2010	2009	Amount	% Change
Current and Other Assets	\$ 526,052,790	\$ 529,498,150	\$ (3,445,360)	-0.7%
Capital Assets	974,389,490	973,050,201	1,339,289	0.1%
Total Assets	1,500,442,280	1,502,548,351	(2,106,071)	-0.1%
Long-term Liabilities	722,609,542	687,262,091	35,347,451	5.1%
Other Liabilities	332,016,249	342,446,948	(10,430,699)	-3.0%
Total Liabilities	1,054,625,791	1,029,709,039	24,916,752	2.4%
Net Assets:				
Invested in Capital Assets, net of related debt	354,305,999	363,246,678	(8,940,679)	-2.5%
Restricted	40,323,405	54,875,064	(14,551,659)	-26.5%
Unrestricted	51,187,085	54,717,570	(3,530,485)	-6.5%
Total Net Assets	\$ 445,816,489	\$ 472,839,312	\$ (27,022,823)	-5.7%



This graph shows the relationship between the County’s and Board’s assets and the balances of the related debt that financed them. Balances are shown as of June 30 for each year shown. Capital assets are shown net of the related depreciation. Capital-related debt includes bonds, notes and capital leases. Capital asset totals exceed the debt balances because some capital assets, particularly items with shorter expected lives such as certain equipment, are acquired using other resources. Although the relationship between the asset balances and the debt balances may fluctuate (for example, typically amounts are borrowed up front to finance capital assets that are placed in service at a later date), it may be seen from this graph that amounts borrowed result in corresponding increases in the amounts of capital assets used in operations.

Budgetary Information and Fund Balance:

Knox County’s budgetary process consists of two distinct phases: planning for annual operations, and planning for capital projects.

Budgeting for Annual Operations:

The funds included in the governmental activities of the County and the Board of Education are generally governed by legally adopted annual budgets. These budgets are approved by the Knox County Commission (the Board’s budget is approved in total by the Commission, and the Board controls its budget at the detail level) and result in constraints over the use of resources. As noted earlier, the major resources include local taxes (primarily property taxes and sales taxes) and shared revenues from the State of Tennessee. The County Commission adopts a property tax rate at the same time that the annual budget is adopted. Table 4 shows the budgets adopted for the fiscal years ended June 30, 2009 and 2010, with the adopted budget for the next fiscal year that will end June 30, 2011. The amounts shown are for the County General Fund, the Board’s separate General Fund, and the Debt Service Fund, which are the funds that receive revenues from property taxes and the largest funds that are annually budgeted. Over this three-year period, the County General Fund budget has decreased in total and in six of the nine functional areas shown. The Public Safety budget increased by \$4.1 million and the budgets for Social/Cultural/Recreational and Other General Government increased by less than \$500,000 each. The budgets for the school system operations and debt service increased, reflecting increases needed for student instruction and for retiring the amount of outstanding debt.

Table 4: Knox County Budgeted Funds Receiving Property Taxes

	Adopted 2008-2009	Adopted 2009-2010	Adopted 2010-2011	Change from 2008-2011	Tax Rate	
					FY10	FY11
Knox County General Fund:						
General Administration	\$ 14,450,977	\$ 13,959,023	\$ 12,766,107	\$ (1,684,870)		
Finance	13,959,424	13,712,016	13,884,006	(75,418)		
Administration of Justice	13,973,136	13,679,219	12,917,831	(1,055,305)		
Public Safety	66,227,289	68,608,091	70,370,234	4,142,945		
Public Health and Welfare	28,101,793	26,608,406	25,776,806	(2,324,987)		
Social/Cultural/Recreational	4,774,032	4,787,132	4,820,082	46,050		
Agricultural & Natural Resources	473,558	479,457	443,964	(29,594)		
Other General Government	8,489,274	7,869,289	8,912,823	423,549		
Net Operating Transfers	3,064,015	3,127,165	1,682,095	(1,381,920)		
Total County General Fund	153,513,498	152,829,798	151,573,948	(1,939,550)	\$0.97	\$0.97
Board of Education General Fund:						
General Purpose Schools	370,000,000	375,250,000	378,705,000	8,705,000	\$1.08	\$1.08
Knox County Debt Service Fund						
	62,000,000	66,000,000	66,750,000	4,750,000	\$0.31	\$0.31
Total	\$ 585,513,498	\$ 594,079,798	\$ 597,028,948	\$ 11,515,450	\$2.36	\$2.36

Knox County’s property tax rate of \$2.36 for the fiscal year ending June 30, 2011 is the lowest of the four largest counties in Tennessee. The rates for each of these counties are:

Shelby	\$4.06
Davidson	\$3.56
Hamilton	\$2.77
Knox	\$2.36

Budgeting for Capital Purposes:

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 funded primarily by proceeds from general obligation debt. Issuing long-term debt for capital purposes helps to match the usefulness of capital assets over a long time period with the related debt payments being made.

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:

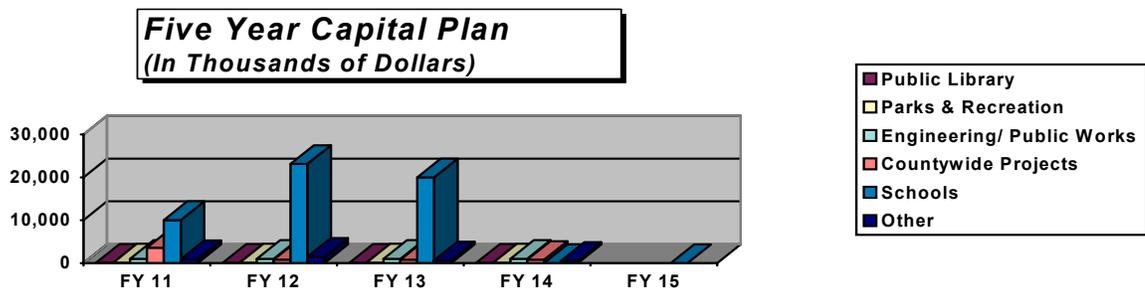
General Construction/Renovation:
 General Project Management
 Various Library Upgrades
 Technology Upgrades
 Powell Middle School
 City County Improvements/Developments
 Many Parks and Greenways Improvements
 Health Department Renovations
 Energy Management Project

Road Construction/Improvements:
 Ball Camp Pike
 Various Stormwater Improvements
 Gallaher View Road
 General Road Improvements
 Convenience Centers

School Construction/Renovation:
 Physical Plant Upgrades
 Energy Management Project

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

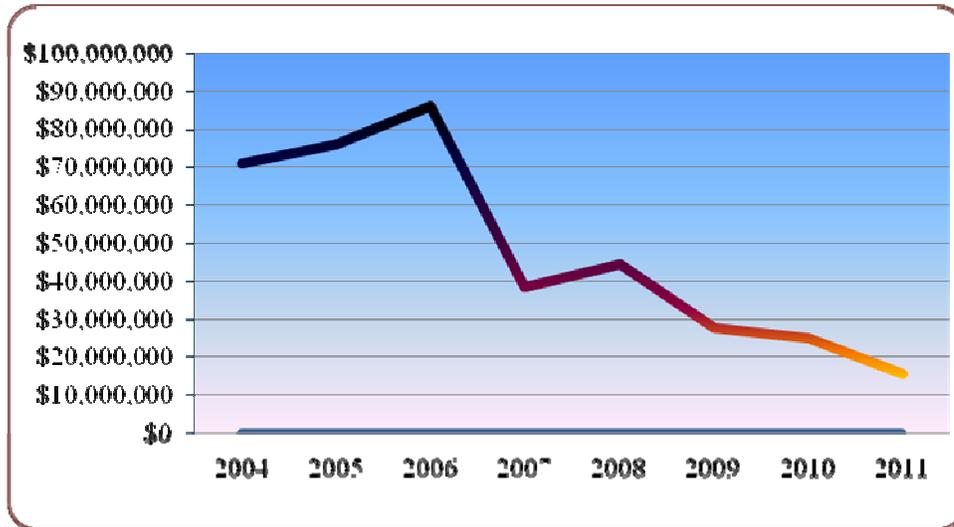
Project Description	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	TOTAL
Libraries	\$ 100	\$ 100	\$ 100	\$ 100	\$ -	\$ 400
Countywide Projects	3,577	777	777	777	-	5,908
Parks & Recreation	150	150	150	150	-	600
Engineering & Public Works	1,000	1,000	1,000	1,000	-	4,000
Building Upgrades through PBA	926	1,483	653	500	-	3,562
Schools	10,000	23,100	20,000	-	-	53,100
Total – Approved Projects	\$ 15,753	\$ 26,610	\$ 22,680	\$ 2,527	\$ -	\$ 67,570



As noted above, on an annual basis a capital improvement plan is prepared for the upcoming fiscal year plus the next four fiscal years as a guide to planning, scheduling and anticipating financing needs for the total five-year period. Because it is expected that in future economic conditions and other circumstances will change future needs, the County does not appropriate amounts for projects beyond the immediately upcoming fiscal year. The following graph shows the amounts approved by County Commission for the immediately upcoming fiscal year included in the annual capital plans from fiscal years 2004 through 2011. As part of the County’s ongoing plan to hold the line on capital expenditures, thus reducing the amounts required to be borrowed to fund those expenditures, management has reduced the levels of approved capital projects over the past several years. The amounts shown for fiscal years 2005 and 2006

include funding for a new high school, built because of growth in the County. Subsequent years have decreased and the fiscal year ending June 30, 2011 includes approved funding for less than \$16 million of new project expenditures.

Knox County Capital Plans



Fund Balances:

In a government, the General Fund is used to account for activities that are not required to be accounted for in another fund due to legal requirements or sound financial management. For example, in the County separate funds are used to account for debt service activities, and both the County and the Board use separate funds to account for most federal and state grant activities. The Knox County government maintains a General Fund, and the Board of Education maintains its own General Fund, designated as the “General Purpose School” fund. Within each fund, the fund balance (assets less liabilities) is divided into a reserved portion, which is not available for spending for general purposes, and an unrestricted portion. Unrestricted fund balance may have a portion designated, which means that a portion of the unreserved fund balance is earmarked for future use. The portion of fund balance remaining after all reserved and designated amounts have been deducted is considered unreserved and undesignated, and represents amounts that would be available for future needs, including unforeseen risks, and that would help allow a government to maintain stable tax rates and appropriate service levels. Maintaining an appropriate level of fund balance requires striking a balance between keeping an adequate amount available for future needs while not keeping excess amounts on hand that could be used for current operations, thus reducing the need to obtain amounts from taxpayers in amounts higher than really needed.

Table 5 shows the relationship between unreserved, undesignated fund balance in both the County General Fund and the Board’s General Purpose School Fund over the past ten years. For the County General Fund, unreserved/undesignated fund balance averages around 30% of annual expenditures. At June 30, 2010 the amount of \$42,041,215 is 28.11% of fiscal year 2010 expenditures. Put another way, this amount represents expenditures for nearly 3.5 months. The corresponding amount for the General Purpose School Fund averages 5% to 6% of expenditures. State law allows that amounts exceeding 3% of annual budgeted operating expenditures may be appropriated for operations while the 3% should be retained in the fund. The General Purpose School Fund balance comfortably exceeds the amount to be retained.

Table 5: General Fund Balance

	Unreserved, Undesignated Fund Balance	Total Expenditures	Undesignated Fund Balance as Percentage of Fund Expenditures
Knox County General Fund:			
2001	25,791,119	104,851,690	24.60%
2002	34,928,595	107,946,686	32.36%
2003	32,778,450	113,878,729	28.78%
2004	35,101,652	119,565,228	29.36%
2005	36,751,230	127,494,463	28.83%
2006	39,408,516	131,463,280	29.98%
2007	43,467,482	141,544,934	30.71%
2008	39,843,207	150,089,687	26.55%
2009	41,344,844	148,389,576	27.86%
2010	42,041,215	149,537,519	28.11%
General Purpose School Fund			
2001	14,028,787	270,112,809	5.19%
2002	18,988,183	277,881,773	6.83%
2003	18,423,489	286,997,550	6.42%
2004	16,581,182	294,964,471	5.62%
2005	14,617,252	314,629,987	4.65%
2006	20,571,147	317,645,202	6.48%
2007	18,802,768	335,111,462	5.61%
2008	19,084,048	361,109,150	5.28%
2009	22,001,277	368,937,912	5.96%
2010	20,094,621	367,190,790	5.47%

Bond Ratings

Bond ratings are a measure of the soundness of the financial condition of a government, and higher ratings on a government's debt result in lower borrowing costs. Knox County's debt is rated AA+ by Standard & Poor's and Aa1 by Moody's. These ratings are investment grade and only one step below the highest possible rating available from each rating agency. Both rating agencies view the outlook for their ratings as stable. Standard & Poor's upgraded the County's rating to AA+ during fiscal year 2009, and affirmed it subsequently. Moody's upgraded the County's rating to Aa1 during fiscal 2010. These ratings are the highest ever on County debt. The ratings agencies cited various factors that have contributed to these high ratings:

- Economically sizable and stable economic base and diverse economy
- The County's consistent track record of conservative financial management
- Very strong financial position with a very strong general fund balance in relation to expenditures
- Overall moderate debt burden combined with manageable capital needs.

Conclusion

We appreciate your interest in the financial information of Knox County. For additional information about Knox County Government, please see the County website at <http://www.knoxcounty.org/>