Hazlett, Lewis & Bieter, PLLC
Certified Public Accountants and Business Advisors

Report of Independent Certified Public Accountants

on Financial Statements, Supplementary Information, and

Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
City of Chattanooga, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, which represent 43 percent and 60 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, is based solely on the report 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Market Court, Suite 300 • 537 Market Street • Chattanooga, Tennessee 37402-1239 • Telephone (423) 756-6133
Fax: (423) 756-2727 • E-mail: hlb@hlbcpa.com • Web: http://www.hlbcpa.com

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2008, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages iii through xiv of the Financial Section and the required supplementary information on pages 53-54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, and financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hazlett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
January 8, 2008

Management's Discussion and Analysis

In this section of the City of Chattanooga's annual financial report we offer readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2007. Please consider the information presented here in conjunction with the transmittal letter found at the front of this report and with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by $1.9 billion (net assets), an increase of $13.6 million. Of this amount, $99.2 million may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets), a $17.9 million increase over last year.

- While the net assets of our business-type activities increased $12.3 million, or 2.5 percent, the net assets of our governmental activities increased $1.3 million, or .1 percent. During the year, the City generated $230.5 million in taxes and other revenues for governmental programs. This compares with $229.3 million of expenses for these programs.

- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year our governmental activities recognized depreciation expense of $37.8 million including $24.2 million on infrastructure assets alone.

- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $98.3 million, an increase of $10.1 million from last year. This increase is the result of several factors:

    - The capital projects fund had $29.6 million in new bond and note proceeds contributing to the increased combined fund balance.

    - Property tax and state income tax revenues were higher than expected reflecting strong real estate values and healthy individual investment returns. County-wide and state sales taxes were higher than expected reflecting a strong retail environment.

    - As discussed in more detail in the governmental fund analysis, expenditures also increased led by personnel costs, the first principal payment on a capital lease and a first step toward funding post employment benefits other than pension (OPEB).

- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was $45.0 million, down $111,000 or 0.2 percent from prior year. This represents 24.2 percent of total General Fund expenditures and transfers out.

- The City's primary governmental debt increased $53.1 million, 11.7 percent, during the current fiscal year. Business-type activity debt increased $34.2 million from $191.7 million to $225.9 million primarily due to revenue bonds issued by EPB. Governmental activities debt increased $18.9 million from $260.3 million to $279.2 million due to draw down of $8.9 million of previously authorized but unissued debt with the Tennessee Municipal Bond Fund and Fannie Mae Loan and issuance of $20.7 million in new general obligation bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-wide financial statements:

The first two statements are government-wide financial statements. They are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Assets** -- presents information about the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- **Statement of Activities** -- presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account 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 years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and 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 City include general government, public safety, public works, parks and recreation and social services. The business-type activities include the City's electric, sewer and storm water systems, as well as solid waste disposal and housing management operations.

The government-wide financial statements include not only the City itself (known as the primary government) but also three legally separate entities (known as component units). The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation, although legally separate from the City, are important because the City is financially accountable for them.

Complete financial statements of the component units may be obtained from: (1) Chattanooga Metropolitan Airport Authority, P. O. Box 22444, Chattanooga, TN 37422; (2) CARTA, 1617 Wilcox Boulevard, Chattanooga, TN 37406 and (3) The Chattanooga Downtown Redevelopment Corporation, 101 East 11th Street, Suite 101, Chattanooga, Tennessee 37402.

The government-wide financial statements begin on page 1 of this report.

Fund financial statements:

The fund financial statements provide more detailed information about the most significant funds—not the City as a whole. Some funds are required by State or Federal law or by bond covenants; other funds are established by the City to help it manage money for specific purposes (i.e. economic development projects) or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used (i.e. grants received from the U. S Department of Housing and Urban Development).

All the funds of the City can be divided into three types of funds: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

- **Governmental funds** -- The City's basic services are included in governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statements that explain the differences between the long-term view and the short-term view.

  The City maintains a general fund, multiple special revenue funds, a debt service fund, a capital projects fund and two permanent funds as governmental funds. Information is presented separately in the governmental statements for the General Fund and the capital projects fund since both of these are considered major funds. Data for the other funds is combined into a single column with individual fund data for each of these nonmajor governmental funds provided in the other supplementary information section of this report.

  The City of Chattanooga adopts an annual budget for the General Fund, special revenue funds and the debt service fund. Budgetary comparisons are provided for these funds to demonstrate compliance with the budget: the General Fund budgetary comparison is found in the fund statements of this report and comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Both the capital projects fund and the permanent funds are excluded from budgetary reporting since neither adopts an annual budget.

  The governmental fund financial statements begin on page 4 of this report.

- **Proprietary funds** -- Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Chattanooga maintains two different types of proprietary funds: enterprise funds and an internal service fund.

  <u>Enterprise funds</u> are the same as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Storm Water Management and Solid Waste are considered major funds. The only other fund, Housing Management, is also shown on the face of the proprietary fund financial statements.

  <u>Internal service funds</u> provide services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing in the internal service fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

  The proprietary fund statements begin on page 9 of this report.

- **Fiduciary funds** -- These funds are used to account for resources held for the benefit of others outside the government. The City maintains two pension trust funds for pension plans as the only fiduciary funds. The City is responsible for ensuring that the assets are used for their intended purposes, however, we exclude these activities from the City's government-wide financial statements since these assets cannot be used to finance City operations. The City's fiduciary activities are reported in statements of fiduciary net assets and changes in fiduciary net assets in the fund financial statements.

The fiduciary fund financial statements begin on page 14 of this report.

As previously stated, the City includes three legally separate component units in the government-wide financial statements. Financial information is provided for each component unit beginning on page 16 of this report.

Notes to the financial statements: The financial statements also include notes that provide additional information that is essential to a full understanding of the government-wide and fund financial statements.

The notes to the financial statements begin on page 18 of this report.

Supplementary information: In addition to the basic financial statements discussed above, this report also contains supplementary information.

- **Required supplementary information** -- Information about the City's progress in funding its obligation to provide pension benefits to its employees.

- **Other supplementary information** – This includes the combining statements for nonmajor governmental funds and discretely presented component units. It also includes a more detailed budget to actual comparison for General Fund and budget to actual comparisons for special revenue funds and the debt service fund.

Both the required and other supplementary information can be found following the notes to the financial statements beginning on page 53.

Financial Analysis of the City as a Whole

Net Assets: Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $1.9 billion at the close of the most recent fiscal year, an increase of $13.6 million, or .7 percent, from last year.

By far the largest portion of the City's net assets, 92.8 percent, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

A portion of the City's net assets, $35.6 million or 1.9 percent, represents resources that are restricted in how they may be used. The remaining balance of $99.2 million may be used to meet the City's ongoing obligations, a $17.9 million increase.

At the end of the fiscal year, the City of Chattanooga is able to report a positive net asset balance for the government as a whole, as well as for its governmental and business-type activities.

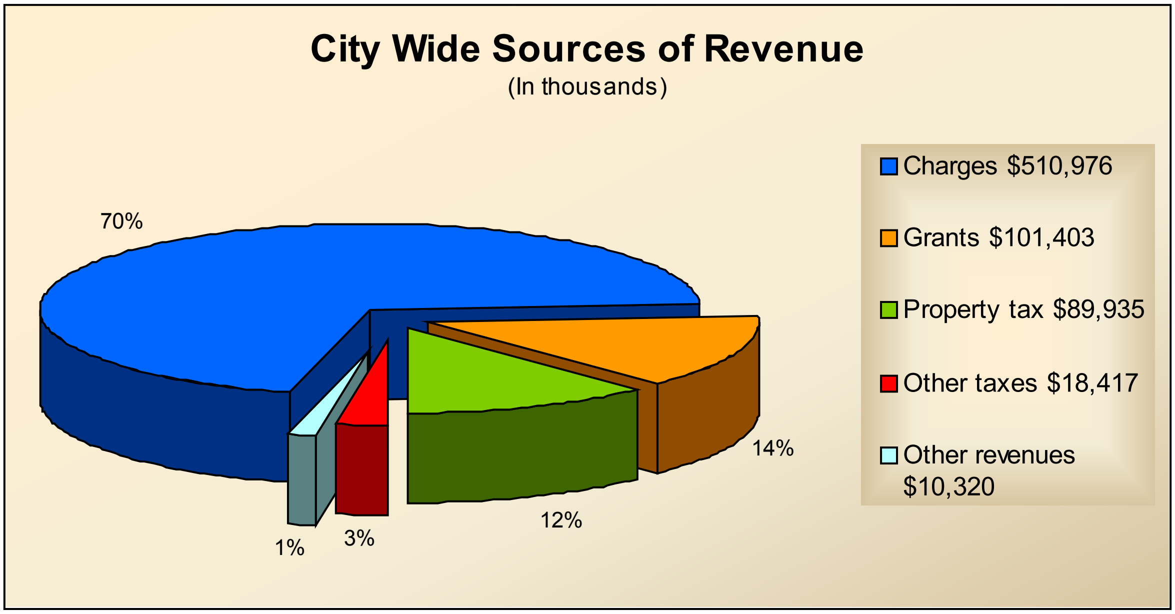
City of Chattanooga's Net Assets
(in thousands)

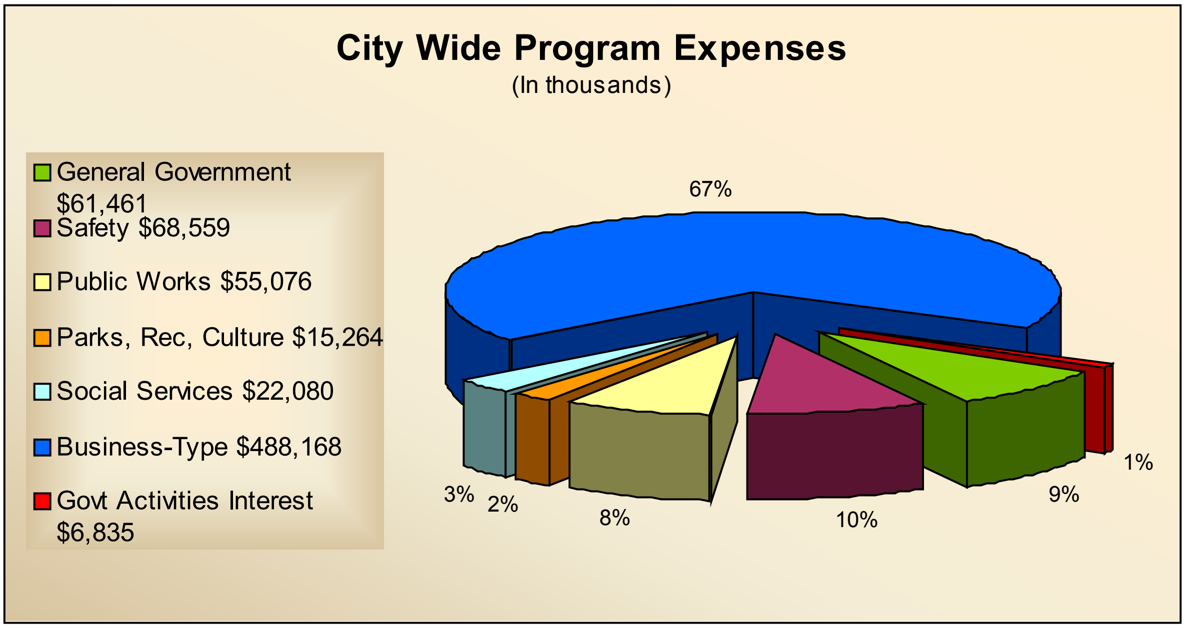
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 247,219	$ 223,630	$ 188,262	$ 160,667	$ 435,481	$ 384,297
Capital assets	1,535,711	1,527,771	678,702	664,829	2,214,413	2,192,600
Total assets	1,782,930	1,751,401	866,964	825,496	2,649,894	2,576,897
Long-term debt outstanding	296,747	276,855	227,236	193,624	523,983	470,479
Other liabilities	115,204	104,870	130,267	134,717	245,471	239,587
Total liabilities	411,951	381,725	357,503	328,341	769,454	710,066
Net assets:						
Invested in capital assets, net of debt	1,267,303	1,269,926	478,367	491,352	1,745,670	1,761,278
Restricted	16,780	6,313	18,789	17,945	35,569	24,258
Unrestricted	86,896	93,438	12,305	(12,142)	99,201	81,296
Total net assets	$1,370,979	$1,369,677	$ 509,461	$ 497,155	$1,880,440	$1,866,832

Changes in Net Assets: Net assets of the City's governmental activities were $1.4 billion, a $1.3 million increase from the prior year. Of that balance $1.3 billion are either restricted as to how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore $86.9 million remains to meet the City's ongoing obligations to citizens and creditors, a $6.5 million decrease.

During the current year the net assets of the business-type activities increased $12.3 million or 2.5 percent to $509.5 million. These net assets are dedicated solely to finance the continuing operations of the electric, sewer, and storm water systems, solid waste disposal and housing management operations.

The following graphs summarize the sources of the City's total revenues of $731.1 million and total program expenses of $717.4 million. These graphs combine governmental and business-type information.





In order to provide a complete picture of the changes in net assets of the City, information is provided separately for the net assets of governmental and business-type activities. See the table on the next page.

City of Chattanooga's Changes in Net Assets

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	$ 17,596	$ 16,868	$ 493,380	$ 471,063	$ 510,976	$ 487,931
Grants and contributions	47,300	43,838	2,029	3,455	49,329	47,293
General revenues:						
Property taxes	89,935	87,485	-	-	89,935	87,485
Other taxes	18,417	17,772	-	-	18,417	17,772
Investment income	5,193	3,441	5,002	3,016	10,195	6,457
Miscellaneous	11	-	108	817	119	817
Unrestricted grants	52,074	49,166	-	-	52,074	49,166
Change in equity interest	6	8,790	-	-	6	8,790
Total revenues	230,532	227,360	500,519	478,351	731,051	705,711
Expenses						
Governmental activities:						
General government	61,461	60,153	-	-	61,461	60,153
Public safety	68,559	64,368	-	-	68,559	64,368
Public works	55,076	55,077	-	-	55,076	55,077
Parks, recreation, culture	15,264	13,785	-	-	15,264	13,785
Social services	22,080	19,199	-	-	22,080	19,199
Interest on long-term debt	6,835	6,493	-	-	6,835	6,493
Business-type activities:						
Electric utility	-	-	441,556	417,792	441,556	417,792
Sewer	-	-	35,308	35,395	35,308	35,395
Solid waste	-	-	4,956	4,678	4,956	4,678
Storm water	-	-	4,938	4,476	4,938	4,476
Housing management	-	-	1,410	1,552	1,410	1,552
Total expenses	229,275	219,075	488,168	463,893	717,443	682,968
Excess (deficiency) before special item and transfers	1,257	8,285	12,351	14,458	13,608	22,743
Transfers	45	2,458	(45)	(2,458)	-	-
Increase (decrease) in net assets	1,302	10,743	12,306	12,000	13,608	22,743
Net assets, beginning	1,369,677	1,358,934	497,155	485,155	1,866,832	1,844,089
Net assets, ending	$1,370,979	$1,369,677	$ 509,461	$ 497,155	$1,880,440	$1,866,832

Governmental Activities: Current fiscal year revenues for the City's governmental activities were $230.5 million compared to $227.4 million last year, up 1.4 percent. Current year expenses were $229.3 million compared to $219.1 million last year, a 4.7 percent increase.

The areas of general revenue experiencing the largest change for the year were property tax, sales tax, investments and equity interest. Operating grants also experienced a large increase.

- The single largest source of governmental activity revenue, property taxes, increased by $2.4 million, or 2.8 percent resulting from higher property tax assessments reflecting an increase in property values throughout the City.

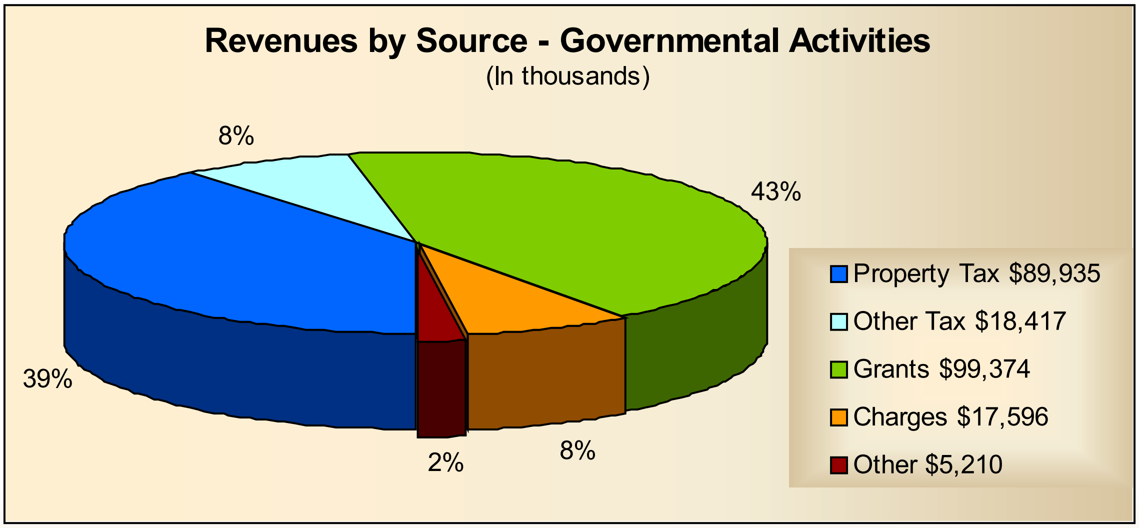
- County-wide sales tax increased $1.5 million, or 4.3 percent as a result of strong consumer spending.

- Investment income increased 50.9 percent, $1.8 million. This increase reflects both the availability of more dollars to invest as a result of bond money and the improved interest rate environment.

- Equity interest in the Chattanooga Hamilton County Convention and Trade Center increased $6,000. However this is an $8.8 million decrease since the equity interest was originally included in the prior fiscal year. Under terms of this joint venture Chattanooga and Hamilton County were to receive an equity interest in the portion of the center financed with these bonds after the debt is paid-in-full. The dollar value was based on the share of debt service paid; the City's 2/3 equity ($8.8 million) was added to the governmental activities in fiscal year 06. This amount will be adjusted each following year.

- Federal funds for home investment, community development and low income energy assistance increased operating grants by $1.8 million, $700,000 and $632,000 respectively.

The graph below shows the source of governmental activities revenue.



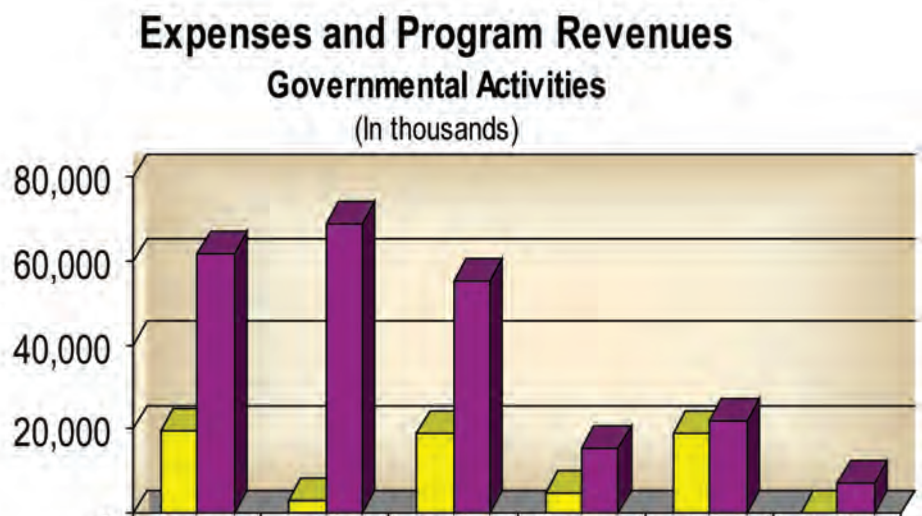
Public Safety and Social Services experienced the largest change in expenses for the year.

- Public Safety personnel costs rose $4.1 million. This included a $1.6 million, 4.6 percent, increase in wages, $376,000 increased sworn pension funding and $650,000 funding for the on-site medical clinics. The second largest component of the personnel increase was a $1.2 million premium to begin funding other post employment benefits.

- Operations increased $2.1 million for Public Safety. $1.2 million of this was equipment purchases funded through Metropolitan Medical Response, Homeland Security and Tennessee Homeland Security grants. An additional $580,000 was incurred as part of the new fleet leasing program.

- The Social Services area increased services to the community. The largest increase was $1.5 million in home rehabilitation projects.

The graph below provides the program revenue and expenses for each governmental activity. It also provides the net cost that must be provided from general revenues.



	General Government	Public Safety	Public Works	Parks and Recreation	Social Services	Interest on Long-Term Debt
Revenue	19,326	2,919	18,964	4,701	18,986	-
Expense	61,461	68,559	55,076	15,264	22,080	6,835
Net Cost	42,135	65,640	36,112	10,563	3,094	6,835

Business-type Activities: Revenues for the City's business-type activities were $501.8 million for the year just completed; this is a $23.4 million increase or 4.9 percent. The increase in revenue was offset by a $24.3 million, 5.2 percent, increase in expenses, to $488.2 million. All business-type activities are briefly covered below.

Electric Power Board

- The largest source of business-type activity revenue is generated from the Electric Power Board. Operating revenue from customers increased by $19.9 million, 4.7 percent, due mainly to the impact of rate increases passed on from TVA. This increase in revenue was offset by a $21.6 million, 5.2 percent, increase in operating costs including a $17.9 million increase in purchased power costs.

- Total net assets of the Electric Power Board increased $2.8 million to $248.5 million for fiscal year 2007, an increase of 1.1 percent.

- Net assets invested in capital and restricted for use total $244.2 million leaving $4.3 million available to finance day-to-day operations (unrestricted net assets). Net assets invested in capital, net of related debt decreased from prior year due to a $40 million revenue bond issue.

Interceptor Sewer System

- Net assets of the Interceptor Sewer System increased $5.7 million, 2.4 percent, to $239.8 million.

- Operating revenues rose $2.7 million or 7.4 percent primarily as a result of rate increases, while operating expenses were virtually unchanged. Rates were adjusted October 1 from 4.04 to 4.30 and adjusted April 1 to 4.55.

- Unrestricted net assets, those that can be used to finance on-going operations, increased $4.9 million to $37.1 million. An additional $2.5 million is restricted for future capital spending.

Solid Waste

- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. As a result of an aggressive program to meet these requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2007 net assets increased by $2.7 million. This follows a $2.0 million increase in fiscal year 2005 and a $1.3 million increase in fiscal year 2006.

- To date the City has accrued liabilities of $4.7 million for a closed landfill and $5.5 million for a landfill currently in operation, a 2.0 percent increase over last year. Many of these costs are being financed through general obligation bonds.

- The major customer of the landfill is the City itself. During the current fiscal year tipping fees from the City of Chattanooga were $5.5 million, 91.4 percent of total tipping fees.

Stormwater Management

- The Stormwater Fund, established to comply with EPA guidelines, now has $29.8 million in net assets, an increase of $1.4 million, 5.1 percent, from last year.

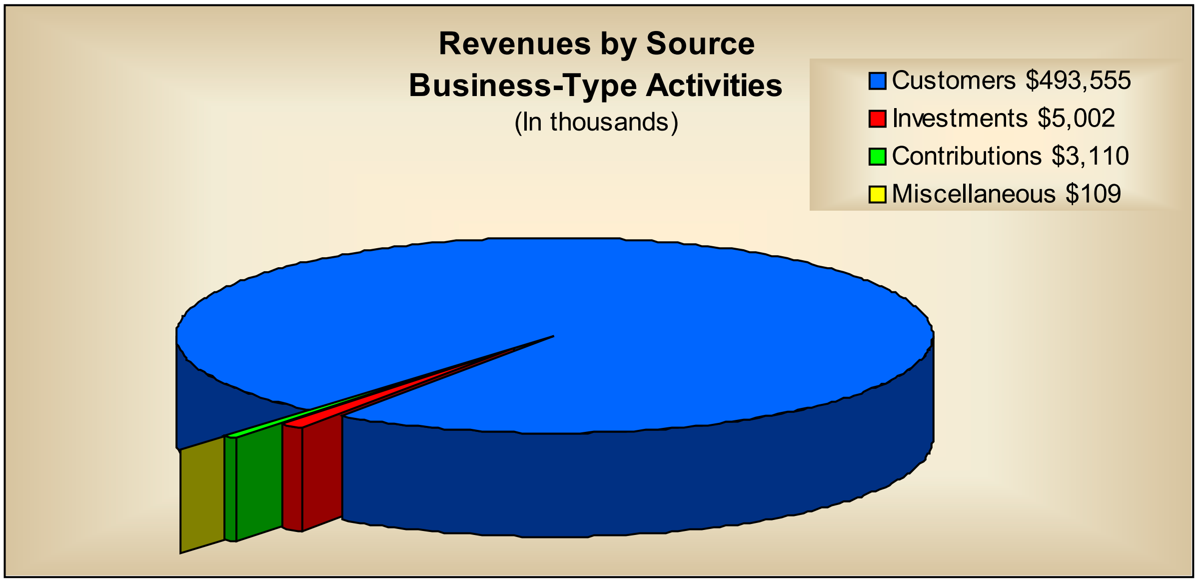
- $24.3 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City. This is a $2.2 million, 9.8 percent increase.

- Net assets available to fund day-to-day operations decreased from $5.6 million to $4.9 million due to capital improvements funded from net assets.

Housing Management

- The Housing Management Fund reported $1.2 million in rental income, a decrease of 3.0 percent from last year. During the same period operating expenses decreased 7.2 percent to $1.1 million.
- The fund ended the year with net assets of $3.8 million, a decrease of $239,000, or 5.9 percent. All of the net assets are invested in capital leaving a deficit of $213,000 in assets available to meet on-going operations.
- During fiscal year 2007 one of the three apartment buildings was sold resulting in a $102,500 loss.

The following graph presents the major sources of revenue for business-type activities. Also presented is a chart showing the operating expense of each business-type activity as compared to operating revenue generated.



Operating Expenses and Revenues
Business-Type Activities
(in thousands)

	Electric	Sewer	Solid Waste	Storm Water	Housing
Revenue	$ 441,881	$ 39,217	$ 5,666	$ 5,622	$ 1,168
Expense	435,127	30,611	3,729	4,246	1,132
Operating income (loss)	$ 6,754	$ 8,606	$ 1,937	$ 1,376	$ 36

Financial Analysis of the City's Funds

The City of Chattanooga uses fund accounting to help it control and manage money for particular purposes or to demonstrate compliance with legal requirements. The following provides a more detailed analysis of the City's funds.

Governmental Funds: Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of $98.3 million at the end of the fiscal year. 55.4 percent of this amount ($54.4 million) is available for day-to-day operations (unreserved fund balance). All of the governmental funds reported a positive ending fund balance. Information about the major governmental funds is presented below.

General Fund: This is the chief operating fund of the City of Chattanooga. Total fund balance of the City's General Fund decreased by 1.6 percent or $912,000 to $55.1 million during the fiscal year. Unreserved fund balance was $51.5 million, of which $6.5 million is designated for future spending. During the fiscal year unreserved, undesignated fund balance decreased $160,000. Key factors are as follows:

- Total revenues increased $7.8 million, 4.5 percent, from the prior year with most categories of revenue seeing an increase.

  - During the current fiscal year property tax increased $2.4 million, 2.8 percent over last year as a result of increasing property values.

  - Licenses and permits were $482,000 higher, 11.3 percent, primarily due to an increase in construction related permits.

  - Intergovernmental revenues increased $3.2 million or 5.6 percent over the prior year with county-wide sales tax being the largest component. County-wide sales tax increased $1.1 million, 4.4 percent, while state sales tax increased $800,000 or 7.7 percent. State income tax increased 34.3 percent or $1.1 million. These increases are directly related to consumer spending and increased investment returns for Chattanooga investors.

  - Charges for services increased 13.8 percent or $542,000. During the year revenue from the City's golf courses increased $202,000, 12.7 percent, as a result of increased annual passes and a competing course becoming a private course. Plan checking fees had a $174,000, 99.7 percent, increase; these percentages of permit fees reflect the major building projects currently under construction in the City.

  - Fines, Forfeitures and Penalties were down almost $48,000 or 3.3 percent as a result of more tickets being paid on a timely basis resulting in lower fines.

  - Interest income increased $1.6 million, 56.7 percent, due to the improved interest rate environment.

  - Miscellaneous revenue decreased $749,000 or 13.1 percent due to the sale of an old hospital building for $1.1 million in fiscal year 2006.

- Total expenditures increased almost $11.0 million, 7.4 percent, from the previous year.

  - Salary costs rose by $3.4 million or 4.8 percent over last year due to less turnover and salary increases. Fringe benefit costs also increased as a result of increases in salary and pension contributions; the increase was an additional $2.1 million, 10.4 percent.

  - General Fund's share of lease payments due under a lease agreement with the Chattanooga Downtown Redevelopment Corporation increased $3.1 million. The increase reflects the first principal payment of $2.6 million and the loss of incremental state sales tax generated in the tourist development zone.

  - Another major change in expenditures was the $2.0 million OPEB premium charge to General Fund departments to begin complying with GASB Statement No. 45. Effective fiscal year 2008 the City must comply with the Governmental Accounting Standards Board "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions". This accrual was the first step in compliance. See Note 10 to the financial statements for additional information.

Capital Projects Fund: This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported $20.2 million in fund balance all of which was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; new debt increases fund balance while construction decreases it. For fiscal year 2007 there was an $8.7 million increase. Analysis of project income and expenditures follows.

- Cash inflows for the year include $21.1 million in general obligation bond proceeds, $15.1 million in refunding bond proceeds, $8.9 million in notes payable proceeds, $1.6 million received from federal, state and county governments, $9.6 million in transfers from General Fund and a combined $5.8 million from the Solidwaste and Stormwater funds related to the bond sales.

- Current year expenditures of $31.2 million include $8.2 million for street improvements, $7.9 million for renovation of City Hall, $3.5 million for start-up costs of the vehicle lease program and a $2.7 million payment for the EPB building. An additional $14.9 million was paid to an escrow agent to advance refund outstanding bonds.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, had combined net assets of $516.8 million.

- $15.4 million is available to meet on-going obligations. The majority of net assets, $482.6 million, are invested in capital assets with an additional $18.8 million restricted for future use.

- Net assets of the enterprise funds rose $12.3 million, 2.5 percent. Factors concerning the finances of the enterprise funds have already been addressed in the discussion of the City's business-type activities.

- The internal service fund serves City government by providing fuel, vehicle maintenance, fleet leasing and by accounting for the City's self-insurance. Fund balance for this fund increased $5.4 million primarily as a result of the fleet leasing program adding $4.2 million to capital assets.

- Because the internal service fund primarily serves the governmental funds, its information is included in governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights: The City's budget ordinance provides for the basic functions of City government, encompassing all major departments and agencies of the City. There were no differences between original and final budgets since reallocations by the City Finance Officer within the General Fund are authorized in the budget ordinance.

- When comparing final budgeted revenues to actual, there was a $7.7 million surplus for the year with all major revenue categories higher than budget. Property tax collections for fiscal year 2007 exceeded budget expectations; the same is true of the city allocation of the state income tax. As a result, taxes and intergovernmental revenues exceeded budget by $1.5 million and $2.1 million, respectively. Investment income was $2.3 million more than anticipated. The City employs conservative estimates when developing budget. This combined with increased investment returns resulted in better than expected state income tax and investment income.

- Expenditures were less than budgetary estimates by $2.2 million. All departments were below budget as a result of the city's performance management program. Salaries and benefits were under budget by $222,000; even after a $2.0 million unbudgeted initial accrued contribution to the new OPEB trust as a result of budgeting for vacancies.

- The General Fund budget anticipated use of $11.0 million of fund balance during the year; instead only $912,000 was used. This surplus will be used for capital.

Capital Asset and Debt Administration

Capital Assets: At the end of this year, the City had $2.2 billion (net of accumulated depreciation) invested in capital assets, an increase of $21.8 million or 1.0 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The following table shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Non-depreciable:						
Land & Easements	$ 999,373	$ 989,000	$ 14,722	$ 14,072	$1,014,095	$1,003,072
Work in progress	23,287	20,830	19,599	49,534	42,886	70,364
Depreciable:						
Buildings	117,534	111,709	93,912	62,173	211,446	173,882
Equipment	28,465	26,257	245,052	231,387	273,517	257,644
Improvements	8,754	7,987	-	-	8,754	7,987
Infrastructure	358,298	371,988	305,418	307,663	663,716	679,651
Total	$1,535,711	$1,527,771	$ 678,703	$ 664,829	$2,214,414	$2,192,600

Highlights for this year's major capital asset additions:

- Land purchases include $7.7 million for the donated roadbeds plus land for road widening projects.
- The major additions to work-in-progress are $2.7 million for continued work on the Hope VI project, $7.2 renovation costs for City Hall and $700,000 on waterfront development.
- Buildings include a transfer of $10.1 million from work-in-progress.
- Equipment purchases include $3.1 million for vehicles for all City departments and $2.4 million for public works equipment.
- Street improvements of $3.1 million were the major additions to infrastructure. An additional $11.9 million of donated road beds and streets were accepted from contractors.
- The Electric Power Board invested $36.1 million in plant assets for the year. This includes $20.4 million in power distribution systems and $3.6 million for communications improvements.
- $4.3 million was capitalized as new infrastructure for the Interceptor Sewer System.
- The City Landfill capitalized $7.2 million in work-in-progress for lining the expansion of the landfill.

The capital budget for fiscal year 2008 anticipates spending over $45.2 million for various capital projects including $14.2 million for expansion and upgrade of the City's parks and park facilities, $15.8 million for various public works projects such as street improvements, curbs, gutters and sidewalks, $1.1 million for fire and police equipment and building improvements, $3.6 million for computer software replacement and upgrades, $2.6 million for city vehicles, $1.9 million for solid waste disposal and recycling and $1.7 million for various water quality projects. $19.6 million in bonds has been approved to help finance a portion of these projects.

More detailed information about the City's capital assets is presented in the Note 7 to the financial statements.

Debt Administration: At year-end the City had $505.1 million in long-term debt outstanding. This is a $53.1 million increase, 11.7 percent, from last year. Detail is shown in the table and narrative that follow.

City of Chattanooga's Long-term Debt

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the City)	$ 136,099	$120,680	$106,881	$113,410	$242,980	$234,090
Revenue bonds (backed by specific revenues)	-	-	71,430	32,000	71,430	32,000
Notes payable	27,592	21,357	47,392	46,070	74,984	67,427
Capital leases	115,514	118,276	194	214	115,708	118,490
Total	$ 279,205	$260,313	$225,897	$191,694	$505,102	$452,007

- The City of Chattanooga maintains an "AA" rating from both Standard & Poor's and Fitch Investor's Service for general obligation debt.

- City Charter limits the amount of general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is $396.8 million. The City's general obligation debt, net of self-supporting debt of $97.6 million is well within that limit.

During the year the City issued the following new debt:

- The EPB issued $40.0 million in revenue bonds to be repaid by operations of EPB, a business-type activity.

- $26.4 million of bonds were issued for municipal public improvements. $20.7 relates to governmental activities while $5.7 million will be paid from the business-type activity Solid Waste operations.

- The City issued refunding bond totaling $17.7 million to advance refund existing debt. $14.5 million for governmental activities; $3.2 million for Solid Waste and Storm Water operations, both business-type activities.

- Additional draws of $779,000 were made on a Fannie Mae loan approved in fiscal year 2004 to fund the Hope VI project, a governmental activity. The loan will be repaid by Community Development Block Grant program revenue. Currently $2.8 million is outstanding.

- Additional draws of $9.1 million were made on two state revolving loan funds; $8.1 million was for governmental activities capital with an additional $970,000 for Solid Waste, a business-type activity. At year-end there was $22.4 million outstanding.

- $3.1 million additional draws on a state revolving loan fund for sewer improvements. The total loan amount is $40.7 million. The loan will be paid from revenue from Interceptor Sewer operations, a business-type activity.

More detailed information about the City's long-term liabilities is presented in the Note 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the General Fund budget for 2008:

- Conservative forecasts are for local and state tax collections to continue improving.

- Interest rates are holding steady with an increased availability of funds to invest.

- Competitive pay for employees, employee health care, retiree benefits and other post-employment benefits as well as increasing fuel and energy costs present a continuing challenge.

- The local unemployment rate of 4.4 percent remains significantly below the state average of 5.2 percent and the national average of 4.6 percent.

Anticipated revenues in the General Fund budget are $186.1 million, up 3.96 percent from the 2007 budget. Property tax, county-wide sales tax and state income tax collections are projected to grow by 2.68 percent, 4.88 percent and 3.02 percent, respectively, based on a stable economy. Interest earnings are estimated to increase 34.31 percent due to an increase in available funds and relatively stable interest rates.

Budgeted expenditures are expected to increase by 3.96 percent from $179.0 million to $186.1 million. Salaries and fringe benefits are expected to increase by 6.02 percent primarily due to rising sworn pension costs and medical costs while operations are estimated to increase 3.18 percent. The City will continue the vacancy control policy to manage the costs associated with salaries and benefits.

A modest increase in net assets for the City's business-type activities is expected during FY 2008.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department
101 East 11th Street; Suite 101
Chattanooga, Tennessee 37402
(423) 757-5232
www.chattanooga.gov

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 34,966,067	$ 81,503,680	$ 116,469,747	$ 7,484,191
Investments	54,899,634	24,361,499	79,261,133	710,067
Receivables, net of allowance for uncollectibles	121,854,637	51,524,408	173,379,045	4,072,947
Net investment in capital lease	-	-	-	113,738,737
Internal balances	94,600	(94,600)	-	-
Due from component units	375,000	-	375,000	-
Deferred charges	1,491,347	2,358,210	3,849,557	2,249,793
Inventories	1,693,823	7,532,378	9,226,201	339,621
Prepaid items	28,324	999,000	1,027,324	603,332
Other assets	-	3,652,191	3,652,191	-
Restricted assets:				
Cash and cash equivalents	-	-	-	2,251,168
Investments	11,864,495	16,192,372	28,056,867	13,946,680
Endowment investments	3,517,777	-	3,517,777	-
Receivables	-	232,222	232,222	116,117
Net pension assets	7,637,222	-	7,637,222	46,647
Equity interest in joint venture	8,796,341	-	8,796,341	-
Land and other nondepreciable assets	1,022,659,651	34,321,222	1,056,980,873	27,161,372
Other capital assets, net of accumulated depreciation	513,051,352	644,381,482	1,157,432,834	59,372,513
Total assets	1,782,930,270	866,964,064	2,649,894,334	232,093,185
LIABILITIES				
Accounts payable and accrued liabilities	24,230,656	86,934,132	111,164,788	4,963,600
Customer deposits	-	15,155,000	15,155,000	-
Due to primary government	-	-	-	375,000
Contracts payable	958,249	182,264	1,140,513	1,091,542
Unearned revenue	90,014,361	-	90,014,361	-
Accrued closure and post-closure care	-	10,211,072	10,211,072	-
Accrued postretirement benefits	-	9,467,000	9,467,000	-
Other liabilities	-	8,317,191	8,317,191	-
Long-term liabilities:				
Due within one year	15,820,401	15,838,048	31,658,449	3,375,000
Due in more than one year	280,927,314	211,397,869	492,325,183	136,604,249
Total liabilities	411,950,981	357,502,576	769,453,557	146,409,391
NET ASSETS				
Invested in capital assets, net of related debt	1,267,302,733	478,366,634	1,745,669,367	73,307,476
Restricted for:				
Capital projects	11,864,495	-	11,864,495	-
Debt service	1,322,803	-	1,322,803	15,287,771
Renewal and replacement	-	18,789,364	18,789,364	778,744
Permanent endowments:				
Expendable	47,070	-	47,070	-
Nonexpendable	3,546,009	-	3,546,009	-
Unrestricted	86,896,179	12,305,490	99,201,669	(3,690,197)
Total net assets	$1,370,979,289	$509,461,488	$1,880,440,777	$ 85,683,794

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 61,461,251	$ 11,913,650	$ 6,159,480	$ 1,253,209
Public safety	68,559,200	298,434	1,114,528	1,505,903
Public works	55,075,495	1,901,136	4,792,808	12,269,710
Parks, recreation, education, arts & culture	15,263,490	3,366,016	910,448	424,845
Social services	22,080,281	117,114	18,868,770	-
Interest on long-term debt	6,835,471	-	-	-
Total governmental activities	229,275,188	17,596,350	31,846,034	15,453,667
Business-type activities:				
Electric utility	441,556,000	441,881,000	-	1,853,750
Sewer	35,307,852	39,217,346	-	-
Solid waste/sanitation	4,956,281	5,563,236	103,007	-
Storm water	4,937,896	5,549,732	72,668	-
Housing management	1,410,217	1,168,471	-	-
Total business-type activities	488,168,246	493,379,785	175,675	1,853,750
TOTAL PRIMARY GOVERNMENT	$ 717,443,434	$ 510,976,135	$ 32,021,709	$ 17,307,417
Component units:				
Airport authority	$ 8,435,631	$ 6,621,968	$ 208,233	$ 6,428,543
Transportation authority	17,794,209	4,458,238	6,677,022	4,794,061
Downtown redevelopment	17,807,994	19,599,865	-	-
TOTAL COMPONENT UNITS	$ 44,037,834	$ 30,680,071	$ 6,885,255	$ 11,222,604

General revenues:
- Property taxes
- Liquor and beer taxes
- Other taxes
- Grants and contributions not allocated to specific programs:
  - County-wide sales taxes
  - City allocation of state sales taxes
  - City allocation of state income taxes
  - Tourist Development Zone taxes
- Unrestricted investment earnings
- Miscellaneous
- Gain on equity interest in joint venture

Endowment contributions

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (42,134,912)	$ -	$ (42,134,912)	$ -
(65,640,335)	-	(65,640,335)	-
(36,111,841)	-	(36,111,841)	-
(10,562,181)	-	(10,562,181)	-
(3,094,397)	-	(3,094,397)	-
(6,835,471)	-	(6,835,471)	-
(164,379,137)	-	(164,379,137)	-
-	2,178,750	2,178,750	-
-	3,909,494	3,909,494	-
-	709,962	709,962	-
-	684,504	684,504	-
-	(241,746)	(241,746)	-
-	7,240,964	7,240,964	-
(164,379,137)	7,240,964	(157,138,173)	-
-	-	-	4,823,113
-	-	-	(1,864,888)
-	-	-	1,791,871
-	-	-	4,750,096
89,934,837	-	89,934,837	-
6,589,468	-	6,589,468	-
11,827,452	-	11,827,452	-
36,720,931	-	36,720,931	-
11,180,175	-	11,180,175	-
4,125,590	-	4,125,590	-
47,635	-	47,635	-
5,192,979	5,001,647	10,194,626	801,460
-	108,928	108,928	1,190,282
6,362	-	6,362	-
11,044	-	11,044	-
44,999	(44,999)	-	-
165,681,472	5,065,576	170,747,048	1,991,742
1,302,335	12,306,540	13,608,875	6,741,838
1,369,676,954	497,154,948	1,866,831,902	78,941,956
$ 1,370,979,289	$ 509,461,488	$ 1,880,440,777	$ 85,683,794

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 4,644,974	$ 8,673,598	$15,623,848	$ 28,942,420
Investments	52,005,371	13,771,662	4,504,873	70,281,906
Receivables, net of allowance for uncollectibles:				
Taxes	89,482,085	-	-	89,482,085
Accounts	-	456,218	35,136	491,354
Notes	1,322,989	752,704	-	2,075,693
Other	5,350,254	-	-	5,350,254
Due from other funds	-	94,600	1,714,585	1,809,185
Due from component units	375,000	-	-	375,000
Due from other governments	18,001,618	770,116	5,525,084	24,296,818
Inventories	774,093	-	-	774,093
Prepaid items	28,324	-	-	28,324
Total assets	$171,984,708	$24,518,898	$27,403,526	$223,907,132
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 11,850,699	$ 3,099,407	$ 2,180,427	$ 17,130,533
Due to other funds	2,107,585	-	-	2,107,585
Due to other governments	1,153,014	310,941	-	1,463,955
Deferred revenue	101,743,061	-	2,249,033	103,992,094
Contracts payable	-	946,749	11,500	958,249
Total liabilities	116,854,359	4,357,097	4,440,960	125,652,416
Fund balances:				
Reserved for:				
Encumbrances	1,488,849	-	468,560	1,957,409
Library endowment	-	-	3,546,009	3,546,009
Inventories	774,093	-	-	774,093
Prepaid items	8,000	-	-	8,000
Capital improvements	-	20,161,801	-	20,161,801
Notes receivable	1,322,989	-	-	1,322,989
Debt service escrow	-	-	1,322,803	1,322,803
Unreserved, designated for:				
Debt service	-	-	7,548,761	7,548,761
Special revenue	-	-	718,405	718,405
Subsequent years' expenditures	6,509,160	-	-	6,509,160
Unreserved, undesignated, reported in:				
General fund	45,027,258	-	-	45,027,258
Special revenue	-	-	9,310,958	9,310,958
Permanent funds	-	-	47,070	47,070
Total fund balances	55,130,349	20,161,801	22,962,566	98,254,716
Total liabilities and fund balances	$171,984,708	$24,518,898	$27,403,526	$223,907,132

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

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007

Differences in amounts reported for governmental activities in the statement of net assets on page 1:

Fund balances - total governmental funds		$ 98,254,716
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.		1,531,458,561
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		13,977,733
The General Pension Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.		7,637,222
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial asset and, therefore, is not reported in the funds.		8,796,341
Internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		7,343,653
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:		
General obligation serial bonds	$ (136,098,716)	
Add net deferred refunding and original premiums and discounts	(1,067,888)	
Less deferred charges	1,491,347	
Notes payable	(27,592,266)	
Capital leases	(115,513,895)	
Compensated absences	(16,014,950)	
Accrued interest payable	(1,692,569)	
		(296,488,937)
Net assets of governmental activities		$1,370,979,289

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$102,315,279	$ -	$ 3,747,137	$106,062,416
Licenses and permits	4,754,390	-	-	4,754,390
Intergovernmental	59,519,871	1,565,983	26,683,000	87,768,854
Charges for services	4,478,508	-	281,572	4,760,080
Fines, forfeitures, and penalties	1,424,431	-	-	1,424,431
Investment income	4,531,197	705,326	663,156	5,899,679
Contributions and donations	89,000	449,600	105,961	644,561
Miscellaneous	4,909,750	780,513	1,972,955	7,663,218
Total revenues	182,022,426	3,501,422	33,453,781	218,977,629
EXPENDITURES				
Current:				
General government	46,363,405	-	19,491,528	65,854,933
Public safety	69,072,377	-	246,885	69,319,262
Public works	29,092,374	-	4,527,265	33,619,639
Parks, recreation, education, arts & culture	14,735,418	-	-	14,735,418
Community development	-	-	5,405,373	5,405,373
Capital outlay/capital assets	-	30,808,232	622,514	31,430,746
Debt service:				
Principal retirement	-	-	8,453,319	8,453,319
Interest and fiscal charges	-	381,073	6,834,011	7,215,084
Total expenditures	159,263,574	31,189,305	45,580,895	236,033,774
Excess (deficiency) of revenues over (under) expenditures	22,758,852	(27,687,883)	(12,127,114)	(17,056,145)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,203,961	15,420,489	19,258,371	37,882,821
Transfers out	(26,875,174)	(9,271,612)	(4,765,083)	(40,911,869)
Proceeds of bonds and notes	-	29,634,991	-	29,634,991
Refunding bonds issued	-	14,520,000	-	14,520,000
Premium on refunding bonds	-	969,489	-	969,489
Payment to refunded bonds escrow agent	-	(14,906,348)	-	(14,906,348)
Total other financing sources (uses)	(23,671,213)	36,367,009	14,493,288	27,189,084
Net change in fund balance	(912,361)	8,679,126	2,366,174	10,132,939
FUND BALANCE, beginning	56,042,710	11,482,675	20,596,392	88,121,777
FUND BALANCE, ending	$ 55,130,349	$ 20,161,801	$22,962,566	$ 98,254,716

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

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:

Net change in fund balances - total governmental funds	$ 10,132,939
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.	30,241,341
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(37,424,026)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of streets contributed by developers.	11,879,400
The net effect of various transactions involving capital assets is to decrease net assets.	(624,005)
The gain on equity interest in joint venture is reported in the statement of activities. This gain does not provide current financial resources and is not reflected in the governmental funds.	6,362
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(19,135,909)
The net revenues of internal service funds are reported with governmental activities.	5,366,248
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	(108,017)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources.	968,002
Change in net assets of governmental activities	$ 1,302,335

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Over (Under)
REVENUES				
Taxes	$100,842,170	$100,842,170	$102,315,279	$ 1,473,109
Licenses and permits	4,185,520	4,185,520	4,754,390	568,870
Intergovernmental	57,393,811	57,393,811	59,519,871	2,126,060
Charges for services	3,962,389	3,962,389	4,478,508	516,119
Fines, forfeitures, and penalties	1,432,500	1,432,500	1,424,431	(8,069)
Investment income	2,223,578	2,223,578	4,531,197	2,307,619
Contributions and donations	53,275	53,275	89,000	35,725
Miscellaneous	4,212,675	4,212,675	4,909,750	697,075
Total revenues	174,305,918	174,305,918	182,022,426	7,716,508
EXPENDITURES				
General government	44,615,700	44,615,700	42,870,926	(1,744,774)
Finance and Administration	3,775,529	3,775,529	3,580,564	(194,965)
Police	42,354,062	42,354,062	42,258,127	(95,935)
Fire	26,876,684	26,876,684	26,875,839	(845)
Public Works	29,305,500	29,305,500	29,165,198	(140,302)
Parks, recreation, education, arts & culture	14,791,924	14,791,924	14,791,474	(450)
Total expenditures	161,719,399	161,719,399	159,542,128	(2,177,271)
Excess of revenues over expenditures	12,586,519	12,586,519	22,480,298	9,893,779
OTHER FINANCING SOURCES (USES)				
Transfers In	3,320,961	3,320,961	3,203,961	(117,000)
Transfers out	(26,905,469)	(26,905,469)	(26,875,174)	30,295
Total other financing sources (uses)	(23,584,508)	(23,584,508)	(23,671,213)	(86,705)
Net change in fund balance	$ (10,997,989)	$ (10,997,989)	(1,190,915)	$ 9,807,074
Adjustment for encumbrances			278,554	
Net change in fund balance (GAAP basis)			(912,361)	
FUND BALANCE at beginning of year (GAAP basis)			56,042,710	
FUND BALANCE at end of year (GAAP basis)			$ 55,130,349	

EXPLANATION OF DIFFERENCES:

REVENUES	
Actual amounts (budgetary basis) from the budgetary comparison schedule	$182,022,426
Differences - none	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$182,022,426
EXPENDITURES	
Actual amounts (budgetary basis) from the budgetary comparison schedule	$159,542,128
Adjustment for encumbrances	(278,554)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$159,263,574

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS
June 30, 2007

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 62,930,000	$ 9,645,852	$ 3,700,785	$ 4,939,151	$ 287,892	$ 81,503,680	$ 6,023,647
Investments	-	23,821,530	-	539,969	-	24,361,499	-
Receivables:							
Customer service	46,886,000	4,613,532	46,860	685,048	-	52,231,440	71,551
Other	267,000	153,727	-	7,420	-	428,147	-
Less allowance for doubtful accounts	(837,000)	(400)	(95)	(382,684)	-	(1,220,179)	-
Inventories	6,973,000	559,378	-	-	-	7,532,378	919,730
Prepaid items	999,000	-	-	-	-	999,000	-
Due from other funds	-	-	-	-	-	-	393,000
Due from other governments	-	-	85,000	-	-	85,000	86,882
Other current assets	723,000	-	-	-	55,191	778,191	-
Total current assets	117,941,000	38,793,619	3,832,550	5,788,904	343,083	166,699,156	7,494,810
NONCURRENT ASSETS							
Restricted assets:							
Investments	-	1,483,088	14,709,284	-	-	16,192,372	-
Accounts receivable	-	-	232,222	-	-	232,222	-
Total restricted assets	-	1,483,088	14,941,506	-	-	16,424,594	-
Capital assets:							
Land	4,080,000	7,992,355	1,517,514	1,062,330	69,489	14,721,688	-
Buildings	47,809,000	41,303,711	1,813,922	-	8,489,666	99,416,299	592,591
Vehicles and machinery	418,852,000	31,052,158	5,336,492	1,385,875	957	456,627,482	5,457,905
Construction in progress	12,379,000	-	7,220,534	-	-	19,599,534	-
Sewer system	-	407,328,615	-	-	-	407,328,615	-
Storm water system	-	-	-	45,332,636	-	45,332,636	-
Telecommunications system	29,006,000	-	-	-	-	29,006,000	-
	512,126,000	487,676,839	15,888,462	47,780,841	8,560,112	1,072,032,254	6,050,496
Less accumulated depreciation	(199,823,000)	(177,695,604)	(5,722,713)	(8,446,616)	(1,641,617)	(393,329,550)	(1,798,054)
Net capital assets	312,303,000	309,981,235	10,165,749	39,334,225	6,918,495	678,702,704	4,252,442
Other assets:							
Deferred charges	868,000	999,848	339,344	151,018	-	2,358,210	-
TVA discounted energy units	2,874,000	-	-	-	-	2,874,000	-
Total other assets	3,742,000	999,848	339,344	151,018	-	5,232,210	-
Total noncurrent assets	316,045,000	312,464,171	25,446,599	39,485,243	6,918,495	700,359,508	4,252,442
Total assets	$ 433,986,000	$ 351,257,790	$ 29,279,149	$ 45,274,147	$ 7,261,578	$ 867,058,664	$ 11,747,252

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

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	Governmental Activities - Internal Service Fund
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	$ 2,276,000	$ 11,309,374	$ 1,354,541	$ 898,133	$ -	$ 15,838,048	$ 151,057
Accounts payable and accrued liabilities	79,155,000	1,676,825	2,219,427	470,656	3,412,224	86,934,132	426,599
Accrued claims	-		-	-	-	-	3,517,000
Customer deposits	1,760,000	-	-	-	-	1,760,000	-
Contracts payable	-	182,264	-	-	-	182,264	-
Conservation advances	273,000	-	-	-	-	273,000	-
Due to other funds	-	-	85,327	9,273	-	94,600	-
Other current liabilities	6,042,000	-	-	-	-	6,042,000	-
Total current liabilities	89,506,000	13,168,463	3,659,295	1,378,062	3,412,224	111,124,044	4,094,656
LONG-TERM LIABILITIES							
Notes and capital leases payable	1,294,000	41,535,488	911,242	836,518	-	44,577,248	-
Compensated absences	762,000	521,950	54,442	94,154	-	1,432,546	308,943
Customer deposits	13,395,000	-	-	-	-	13,395,000	-
Accrued closure and post closure care	-	-	10,211,072	-	-	10,211,072	-
Revenue bonds payable	69,830,000	-	-	-	-	69,830,000	-
Original issue premium	120,000	-	-	-	-	120,000	-
Deferred refunding	(862,000)	-	-	-	-	(862,000)	-
General obligation bonds payable	-	56,618,624	26,434,233	12,998,664	-	96,051,521	-
Deferred refunding	-	(2,817,813)	(813,026)	(505,436)	-	(4,136,275)	-
Original issue premium	-	2,459,671	1,211,962	713,196	-	4,384,829	-
Other noncurrent liabilities	1,947,000	-	-	-	55,191	2,002,191	-
Accrued postretirement benefits	9,467,000	-	-	-	-	9,467,000	-
Total long-term liabilities	95,953,000	98,317,920	38,009,925	14,137,096	55,191	246,473,132	308,943
Total liabilities	185,459,000	111,486,383	41,669,220	15,515,158	3,467,415	357,597,176	4,403,599
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	240,435,000	200,174,636	9,427,469	24,322,407	4,007,122	478,366,634	4,252,442
Restricted for renewal and replacement	3,796,000	2,517,196	11,951,041	525,127	-	18,789,364	-
Unrestricted	4,296,000	37,079,575	(33,768,581)	4,911,455	(212,959)	12,305,490	3,091,211
Total net assets (deficit)	$248,527,000	$239,771,407	$(12,390,071)	$29,758,989	$3,794,163	$509,461,488	$ 7,343,653

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	
OPERATING REVENUES							
Charges for sales and services:							
Electric sales	$ 419,961,000		$ -	$ -	$ -	$ 419,961,000	$ -
Sewer charges	-	39,217,346	-	-	-	39,217,346	-
Waste charges	-	-	5,563,236	-	-	5,563,236	-
Stormwater fees	-	-	-	5,549,732	-	5,549,732	-
Rent	-	-	-	-	1,141,862	1,141,862	-
Other services	21,920,000	-	-	-	26,609	21,946,609	12,758,302
Other	-	-	103,007	72,668	-	175,675	-
Total operating revenues	441,881,000	39,217,346	5,666,243	5,622,400	1,168,471	493,555,460	12,758,302
OPERATING EXPENSES							
Power purchases	352,725,000	-	-	-	-	352,725,000	-
Sewer plant operations	-	19,312,089	-	-	-	19,312,089	-
Solid waste operations	-	-	2,858,717	-	-	2,858,717	-
Storm water operations	-	-	-	3,035,190	-	3,035,190	-
Pump station operations	-	1,722,047	-	-	-	1,722,047	-
Housing management operations	-	-	-	-	835,587	835,587	-
Municipal garage operations	-	-	-	-	-	-	3,052,142
Maintenance and repairs	13,383,000	-	-	-	-	13,383,000	6,190,454
Depreciation and amortization	18,547,000	9,577,178	551,861	1,211,084	297,022	30,184,145	380,457
Closure/postclosure costs	-	-	318,383	-	-	318,383	-
Liability insurance	-	-	-	-	-	-	2,099,298
Other	50,472,000	-	-	-	-	50,472,000	-
Total operating expenses	435,127,000	30,611,314	3,728,961	4,246,274	1,132,609	474,846,158	11,722,351
OPERATING INCOME (LOSS)	6,754,000	8,606,032	1,937,282	1,376,126	35,862	18,709,302	1,035,951
NONOPERATING REVENUES (EXPENSES)							
Investment income	2,466,000	1,746,502	758,618	28,119	2,408	5,001,647	-
Interest expense	(3,316,000)	(4,696,538)	(1,227,320)	(691,622)	(229,157)	(10,160,637)	-
Other income (expense)	(3,113,000)	20,422	44,323	44,183	(48,451)	(3,052,523)	-
Total nonoperating revenues (expenses)	(3,963,000)	(2,929,614)	(424,379)	(619,320)	(275,200)	(8,211,513)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,791,000	5,676,418	1,512,903	756,806	(239,338)	10,497,789	1,035,951
Capital contributions	3,110,000	-	-	-	-	3,110,000	-
Transfers in	-	-	6,909,970	683,952	-	7,593,922	4,330,297
Transfers out	(3,142,000)	-	(5,748,126)	(5,045)	-	(8,895,171)	-
CHANGE IN NET ASSETS	2,759,000	5,676,418	2,674,747	1,435,713	(239,338)	12,306,540	5,366,248
NET ASSETS (DEFICIT), beginning	245,768,000	234,094,989	(15,064,818)	28,323,276	4,033,501	497,154,948	1,977,405
NET ASSETS (DEFICIT), ending	$ 248,527,000	$ 239,771,407	$ (12,390,071)	$ 29,758,989	$ 3,794,163	$ 509,461,488	$ 7,343,653

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 439,829,000	$ 38,870,864	$ 5,606,767	$ 5,708,248	$ 1,168,472	$ 491,183,351	$ 1,175,158
Receipts from interfund services provided	-	-	-	-	-	-	11,446,513
Receipts from operating grants	-	-	126,186	-	-	126,186	-
Payments to suppliers	(390,199,000)	(15,784,437)	(566,969)	(1,604,589)	(819,785)	(408,974,780)	(8,712,420)
Payments to employees	(24,383,000)	(5,781,153)	(762,026)	(1,723,160)	-	(32,649,339)	(2,727,566)
Payments in lieu of taxes	(6,069,000)	-	-	-	-	(6,069,000)	-
Net cash provided by operating activities	19,178,000	17,305,274	4,403,958	2,380,499	348,687	43,616,418	1,181,685
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	-	1,161,844	683,952	-	1,845,796	4,330,297
Transfers out	(3,142,000)	-	-	(5,045)	-	(3,147,045)	-
Net cash provided by (used in) noncapital financing activities	(3,142,000)	-	1,161,844	678,907	-	(1,301,249)	4,330,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from capital debt	-	3,141,076	9,117,204	750,000	-	13,008,280	-
Principal paid on capital debt	(2,246,000)	(10,854,522)	(4,490,842)	(2,242,998)	(174,365)	(20,008,727)	-
Interest paid on capital debt	(2,561,000)	(4,517,281)	(1,239,397)	(757,696)	(229,157)	(9,304,531)	-
Line of credit	696,000	-	-	-	-	696,000	-
Receipts from bond issue	39,838,000	-	-	-	-	39,838,000	-
Refunds of capital expenditures	23,284,000	-	-	-	-	23,284,000	-
Payment to refunded bond escrow agent	(23,204,000)	-	-	-	-	(23,204,000)	-
Bond issuance cost	(301,000)	-	-	-	-	(301,000)	-
Insurance settlements	-	-	-	-	6,763	6,763	-
Capital grants and contributions	2,461,000	-	(5,606,740)	(13,438)	-	(3,159,178)	-
Additions to capital assets	(37,382,000)	(4,792,275)	(7,578,806)	(1,604,203)	-	(51,357,284)	(4,247,723)
Proceeds from the sale of capital assets	3,813,000	86,933	-	-	103,000	4,002,933	-
Net cash flows used in capital and related financing activities	4,398,000	(16,936,069)	(9,798,581)	(3,868,335)	(293,759)	(26,498,744)	(4,247,723)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	-	(138,507,352)	(17,025,082)	(1,073,088)	-	(156,605,522)	-
Proceeds from sales and maturities of investments	1,899,000	144,256,331	19,817,296	1,052,236	-	167,024,863	-
Interest	2,359,000	1,721,559	602,358	20,853	2,408	4,706,178	-
Net cash flows provided by (used in) investing activities	4,258,000	7,470,538	3,394,572	1	2,408	15,125,519	-
Net increase (decrease) in cash and cash equivalents	24,692,000	7,839,743	(838,207)	(808,928)	57,336	30,941,944	1,264,259
Cash and cash equivalents, beginning of year	38,238,000	1,806,109	4,538,992	5,748,079	230,556	50,561,736	4,759,388
Cash and cash equivalents, end of year	$ 62,930,000	$ 9,645,852	$ 3,700,785	$ 4,939,151	$ 287,892	$ 81,503,680	$ 6,023,647

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

(continued on next page)

(continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 6,754,000	$ 8,606,032	$ 1,937,282	$ 1,376,126	$ 35,862	$ 18,709,302	$ 1,035,951
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	18,547,000	9,577,178	551,861	970,160	297,022	29,943,221	380,457
Provision for uncollectible accounts	-	301,128	-	-	-	301,128	-
Provision for obsolete inventory	-	-	-	-	-	-	(30,940)
Changes in assets and liabilities:		-					
(Increase) decrease in accounts receivable	(2,848,000)	(706,304)	(112,730)	20,128	-	(3,646,906)	155,234
(Increase) decrease in due from other funds	-	13,330	338	1,684	-	15,352	(391,071)
(Increase) decrease in due from other governments	-	-	39,977	-	-	39,977	99,206
(Increase) decrease in inventory	(991,000)	(11,046)	-	-	-	(1,002,046)	(99,010)
(Increase) decrease in prepaid items	2,283,000	-	-	-	-	2,283,000	-
(Increase) decrease in deferred charges	446,000	120,006	(119,316)	(6,430)	-	440,260	-
Increase (decrease) in accounts payable	(5,669,000)	(649,030)	1,738,136	56,647	11,262	(4,511,985)	115,876
Increase (decrease) in accrued liabilities	193,000	109,751	197,563	(106,007)	-	394,307	74,945
Increase (decrease) in other assets/liabilities	2,161,000	2,210	108,512	69,171	4,541	2,345,434	-
Increase (decrease) in compensated absences	(1,698,000)	(57,981)	(1,515)	(10,253)	-	(1,767,749)	(158,963)
Increase in due to other funds	-	-	85,327	9,273	-	94,600	-
Increase in due to other governments	-	-	(21,477)	-	-	(21,477)	-
TOTAL ADJUSTMENTS	12,424,000	8,699,242	2,466,676	1,004,373	312,825	24,907,116	145,734
Net cash provided by operating activities	$ 19,178,000	$ 17,305,274	$ 4,403,958	$ 2,380,499	$ 348,687	$ 43,616,418	$ 1,181,685

CITY OF CHATTANOOGA, TENNESSEE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	Pension Trust Funds
ASSETS	
Investments:	
U.S. Government securities	$ 22,637,827
Municipal bonds	38,059
Corporate bonds	27,017,808
Foreign bonds	1,093,808
Corporate stocks	204,669,359
Mutual funds - equity	159,742,736
Mutual funds - fixed income	42,502,444
Temporary investments	20,730,492
Limited partnerships	34,623,879
Other investments	875,000
Receivables:	
Accrued income	961,657
Due from plan custodian	966,839
Total assets	515,859,908
LIABILITIES	
Due to plan custodian	730,294
Accounts payable and accrued expenses	581,247
Total liabilities	1,311,541
NET ASSETS	
Held in trust for pension benefits	$ 514,548,367

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

CITY OF CHATTANOOGA, TENNESSEE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2007

	Pension Trust Funds
ADDITIONS	
Contributions:	
Employer	$ 10,398,438
Employee	3,604,142
Total contributions	14,002,580
Investment income:	
Net appreciation in fair market value of investments	68,155,711
Interest	3,514,946
Dividends	6,031,468
	77,702,125
Less investment expense	(1,626,943)
Net investment income	76,075,182
Total additions	90,077,762
DEDUCTIONS	
Benefits paid to participants	28,879,660
Administrative expenses	654,737
Total deductions	29,534,397
CHANGE IN NET ASSETS	60,543,365
Net assets, beginning	454,005,002
Net assets, ending	$ 514,548,367

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

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF NET ASSETS
June 30, 2007

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	$ 2,760,256	$ 616,041	$ 4,107,894	$ 7,484,191
Investments	24,731	-	685,336	710,067
Accounts receivable	2,807,522	776,252	489,173	4,072,947
Net investment in capital lease	-	-	113,738,737	113,738,737
Deferred charges	173,085	-	2,076,708	2,249,793
Inventories	-	169,401	170,220	339,621
Prepaid items	242,738	225,714	134,880	603,332
Net pension asset	-	46,647	-	46,647
Restricted assets:				
Cash and cash equivalents	1,273,168	978,000	-	2,251,168
Investments	4,072,348	-	9,874,332	13,946,680
Receivables	116,117	-	-	116,117
Land and other nondepreciable assets	23,903,325	3,258,047	-	27,161,372
Other capital assets, net of accumulated depreciation	34,416,064	23,573,834	1,382,615	59,372,513
Total assets	69,789,354	29,643,936	132,659,895	232,093,185
LIABILITIES				
Accounts payable and accrued liabilities	660,790	1,156,641	3,146,169	4,963,600
Contracts payable	1,091,542	-	-	1,091,542
Due to primary government	-	375,000	-	375,000
Revenue bonds payable	13,305,000	-	127,400,000	140,705,000
Original issue premium (discount)	(78,591)	-	(647,160)	(725,751)
Total liabilities	14,978,741	1,531,641	129,899,009	146,409,391
NET ASSETS				
Invested in capital assets (net of related debt)	45,092,980	26,831,881	1,382,615	73,307,476
Restricted for:				
Debt service	5,461,633	-	9,826,138	15,287,771
Renewal and replacement	-	-	778,744	778,744
Unrestricted	4,256,000	1,280,414	(9,226,611)	(3,690,197)
Total net assets	$ 54,810,613	$ 28,112,295	$ 2,760,886	$ 85,683,794

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

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY								
Airport operations	$ 8,435,631	$ 6,621,968	$ 208,233	$ 6,428,543	$ 4,823,113	$ -	$ -	$ 4,823,113
CARTA								
CARTA operations	17,794,209	4,458,238	6,677,022	4,794,061	-	(1,864,888)	-	(1,864,888)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	17,807,994	19,599,865	-	-	-	-	1,791,871	1,791,871
Total component units	$ 44,037,834	$ 30,680,071	$ 6,885,255	$ 11,222,604	4,823,113	(1,864,888)	1,791,871	4,750,096
General revenues:								
Investment income					253,451	8,790	539,219	801,460
Miscellaneous					1,101,044	89,238	-	1,190,282
Total general revenues					1,354,495	98,028	539,219	1,991,742
CHANGE IN NET ASSETS					6,177,608	(1,766,860)	2,331,090	6,741,838
Net assets, beginning					48,633,005	29,879,155	429,796	78,941,956
Net assets, ending					$ 54,810,613	$ 28,112,295	$ 2,760,886	$ 85,683,794

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

Index to Notes

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869. Through June 11, 1990, the City operated under the Commission form of government, consisting of an elected Mayor and four elected Commissioners, each of whom served as the head of a city department. Pursuant to an Agreed Order dated January 18, 1990, issued by the United States District Court for the Eastern District of Tennessee, Southern Division, the Board of Commissioners of the City and the offices of Mayor and Commissioner were abolished as of June 11, 1990.

The Agreed Order provided that the City Charter be amended to create the office of Mayor, with all executive and administrative authority formerly vested in the Board of Commissioners. Further, the City Council was created with all legislative and quasi-judicial authority formerly vested in the Board of Commissioners. Under the provisions of the Agreed Order, the Mayor is elected at-large and is not a member of the City Council, while the City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989, are not applied in the preparation of the financial statements of enterprise funds in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

(A) Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2007. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

The financial statements of EPB (the Electric Power Board) are included in the accompanying financial statements as part of the primary government because it is not legally separate from the City. The City affirms all board member appointments and approves all disbursements of EPB funds. EPB's operations are reported as an enterprise fund.

Discretely Presented Component Units

Chattanooga Metropolitan Airport Authority - The City appoints all board members and is secondarily responsible for retirement of the revenue bonds recorded as a liability of the Airport Authority. The Airport Authority is presented as a proprietary fund type.

Chattanooga Area Regional Transit Authority (CARTA) - The City appoints ten members of the twelve-member board. Although CARTA has the authority to issue its own debt, the board members serve at the City's discretion and the City finances the majority of CARTA's operating deficits. CARTA is presented as a proprietary fund type.

Chattanooga Downtown Redevelopment Corporation - The City's Mayor, City Council Chairperson, and Chief Finance Officer are permanent members of the Board, and the City appoints the remaining board members. The Corporation has the authority to issue its own debt, but the City has agreed to finance any operating deficits of the Corporation. The Corporation is presented as a proprietary fund type.

Complete financial statements of the component units can be obtained from:

Chattanooga Metropolitan
Airport Authority
1001 Airport Road, Suite 14
Chattanooga, TN 37421

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

Chattanooga Downtown Redevelopment Corporation
101 City Hall, 101 E. 11th Street
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The City participates in the following joint venture:

Carter Street Corporation – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The Carter Street Corporation is managing the trade center and parking garage under a management agreement. Additional information regarding the City's participation in this joint venture is disclosed in Note 12.

Related Organizations – City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga. During 2007 the City appropriated no funds to these organizations.

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Interfund services provided and used are not eliminated in the government-wide statement of activities. In addition, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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

(D) 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 fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund accounts for all financial resources applicable to the general operations of City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of capital projects, other than those financed by Enterprise Funds, the Internal Service Fund, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

The City reports the following major enterprise funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and telecommunication service for the residential and commercial concerns of Chattanooga and Hamilton County, Tennessee. The EPB is a separately administered organization whose Board of Trustees is affirmed by the City. All disbursements of the EPB funds are approved by the City.

Interceptor Sewer System Fund – The Interceptor Sewer System Fund accounts for sanitary sewer services provided to the residents of the City. The fund's revenues are derived primarily from user fees and investment earnings.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund accounts for the costs associated with the disposal of solid waste and recyclable materials.

Storm Water Fund – The Storm Water Fund accounts for costs associated with the City's storm water management program as mandated by the Environmental Protection Agency and the State of Tennessee.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest, principal, and related costs of long-term liabilities of the governmental activities.

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the government's programs.

Internal Service Fund - The Internal Service Fund is used to account for fleet services and risk management activities provided to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The costs associated with providing these goods or services are usually recovered from those governmental units that receive benefits.

Pension Trust Funds - The Pension Trust Funds account for resources held in trust for defined benefit pension plans to provide disability and retirement benefits for City employees/retirees. These funds are accounted for in the same manner as business enterprises providing similar services.

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

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

(E) Budget Policy and Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Finance Officer annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor.

During May and June, the City Council hears budget requests from agencies and departments at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage.

Prior to July, the City adopts an interim budget appropriating funds for the usual and ordinary expenses of the City Government in an amount not to exceed one-twelfth of the preceding year's operating budget for each month that the interim budget is in effect. Subsequently, the budget is legally enacted through passage of an ordinance with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. These formal budgets are adopted on a departmental basis and the line item estimates are from the appropriations ledger and not from a formal budget ordinance. The legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental and intradepartmental transfers within the General Fund.

Major capital facilities and improvements, which are accounted for by the City within the Capital Projects Fund, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles except that encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2007, no supplemental appropriations were necessary.

(F) Assets, Liabilities and Fund Equity

1) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and short-term investments with an original maturity of three months or less.

2) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices.

3) Inventories and Prepaid Items

Inventories, principally materials, supplies, and replacement parts, are valued at cost in Governmental Funds and at the lower of cost or market in Proprietary Funds, with cost determined using the first-in, first-out (FIFO) method. The costs are recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4) Restricted Assets

Proceeds of bonds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, amounts due from other governments may be included as restricted assets because their use is limited by grant agreements.

5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than $5,000 ($25,000 for infrastructure) and an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Land and certain land improvements are inexhaustible capital assets, and are not depreciated. Depreciation on depreciable capital assets is calculated on the straight-line basis over the following estimated useful lives:

	Useful Life
Buildings	5 – 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Storm water system	50 years
Telecommunications	5 – 40 years
Public domain infrastructure	10 – 50 years

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

6) Bond Discounts and Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue.

In proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

At the government-wide level any bond discounts and issuance costs in the governmental funds are adjusted and reported in the same manner as in proprietary funds.

7) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental activities in the government-wide financial statements) the difference between the new debt and the net carrying value of the old debt on refunded debt transactions is deferred. The deferred gain/loss is amortized using the effective interest method over the life of the new debt. The deferred gain/loss is offset against the new liability.

8) Fund Balance

Governmental funds report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(G) Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.

- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

1) Property Taxes

Property taxes are levied by the City annually based upon assessed valuations established by the Hamilton County Assessor of Property. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial and industrial property:	
Real	40%
Personal	30%
Public utilities real and personal property	55%

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2006 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2006, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2007.

2) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

3) Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund’s average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

4) Compensated Absences

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to one hundred fifty (150) days for employees hired on or before March 27, 1990, and one hundred (100) days for employees hired thereafter. Compensated absences are reported in governmental funds only if they have matured (i.e., accrued leave outstanding following an employee's resignation or retirement). The liability for compensated absences attributable to the City's governmental activities is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable business-type funds.

5) Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if the involved organizations were external to the City are treated as revenues in the receiving fund and expenditures in the disbursing fund. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. The interfund balances resulted 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. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

6) Payments Between the City and Component Units

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions—that is, as revenues and expenses. Payments to component units consist of operating subsidy payments by the City to CARTA. The City also makes lease payments to Chattanooga Downtown Redevelopment Corporation.

7) Indirect Costs

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

8) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(H) Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt)—is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets—represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets—represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to alter these managerial decisions.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2007, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The River Pier Garage Fund has a deficit in fund balance of $63,418 at June 30, 2007. This deficit resulted from significant costs incurred during the year ended June 30, 2007. These costs may be covered by future garage revenues, taxpayers, or both.

The Solid Waste/Sanitation Fund has a deficit in net assets of $12,390,071 at June 30, 2007. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by $2,674,747 from the prior fiscal year.

NOTE 3. CASH AND INVESTMENTS

The City uses a central cash and investment pool for certain Governmental Funds and Proprietary Funds. The cash and investment pool balances are classified as cash and cash equivalents in the accompanying financial statements. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. Because investments in the pool must provide for the future needs of the City, flexibility and liquidity of investments are generally maintained at all times.

At June 30, 2007, investments of the primary government (except for Permanent and Pension Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	0.76	$45,129,675
Certificates of deposit classified as investments	0.19	21,634,454
Total	0.57	$66,764,129
Primary Government – Business-Type Activities:		
U.S. Government agency securities	0.79	$34,274,998
Certificates of deposit classified as investments	0.02	6,278,873
Total	0.67	$40,553,871
Component Units:		
U.S. Treasury Notes	3.74	$ 3,190,928
U.S. Government agency securities	0.51	10,780,483
Certificates of deposit classified as investments	0.01	685,336
Total	1.19	$14,656,747

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio for the primary government to less than one year. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk - The City's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At June 30, 2007, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank and Federal National Mortgage Association bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) or Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of $1,376,980 were securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, which were rated AAA by S & P or Moody's.

Permanent and Pension Trust funds - The Permanent and Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Permanent and Pension Trust funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The credit risk of investments of the Permanent and Pension Trust funds is summarized as follows:

	S & P or Moody's Rating	Fair Value
Permanent funds		
Mutual funds - equity	Not rated	$ 2,606,134
Mutual funds – fixed income	Not rated	872,300
Cash equivalents classified as investments	Not rated	39,343
		$ 3,517,777
City of Chattanooga General Pension Plan		
Domestic corporate bonds	B	$ 1,805,163
Domestic corporate bonds	BA	155,960
Domestic corporate bonds	CAA	2,417,551
Domestic corporate bonds	Not rated	594,498
Mutual funds - equity	Not rated	78,496,366
Mutual funds – fixed income	Not rated	42,502,444
Domestic equity securities	Not rated	71,236,525
Limited partnerships	Not rated	34,623,879
Temporary investments	Not rated	11,053,608
		$242,885,994

	S & P or Moody's Rating	Fair Value
Firemen's and Policemen's Insurance and Pension Fund		
U.S. Government securities	AAA	$ 13,007,714
Domestic corporate bonds	AAA	4,481,485
Domestic corporate bonds	AA	6,491,834
Foreign bonds	AA	57,326
Domestic corporate bonds	A	7,106,923
Foreign bonds	A	526,035
Domestic corporate bonds	BAA	3,273,627
Municipal bonds	BAA	38,059
Foreign bonds	BAA	510,447
U.S. Government securities	Not rated	9,630,113
Domestic corporate bonds	Not rated	690,767
Mutual funds - equity	Not rated	81,246,370
Domestic equity securities	Not rated	133,432,834
Temporary investments	Not rated	9,676,884
Investment in real estate corporation	Not rated	875,000
		$271,045,418

At June 30, 2007, the fair values of the City of Chattanooga General Pension Plan investments totaling $149,610,493 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 4. RECEIVABLES

Receivables at June 30, 2007, consist of the following:

	Governmental Activities Funds				
	General	Capital Projects	Other Governmental	Business-Type Activities	Total
Primary Government					
Receivables:					
Taxes	$ 92,716,769	$ -	$ -	$ -	$ 92,716,769
Accounts		456,218	35,136	232,222	723,576
Notes	1,322,989	752,704	-	-	2,075,693
Customer service	-	-	-	52,231,440	52,231,440
Other	5,350,254	-	-	428,147	5,778,401
Intergovernmental	18,001,618	770,116	5,525,084	85,000	24,381,818
Gross receivables	117,391,630	1,979,038	5,560,220	52,976,809	177,907,697
Less:					
Allowance for uncollectibles	(3,234,684)	-	-	(1,220,179)	(4,454,863)
Net receivables	$114,156,946	$1,979,038	$5,560,220	$51,756,630	$173,452,834

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2007.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2007, as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds (Debt Service)	General Fund	$1,714,585
	Major Enterprise Funds	
Capital Projects	Solid Waste/Sanitation Fund	85,327
Capital Projects	Storm Water Fund	9,273
Internal Service Fund	General Fund	393,000
		$2,202,185

NOTE 6. INTERFUND TRANSFERS

	Transfers In: General Fund	Capital Projects	Nonmajor Governmental	Solid Waste/ Sanitation	Storm Water	Internal Service	Total
Transfers out:							
General Fund	$ -	$ 8,769,587	$15,388,188	$1,220,550	$683,952	$ 812,897	$26,875,174
Capital Projects Fund	61,961	-	2,831	5,689,420	-	3,517,400	9,271,612
Nonmajor Governmental Funds	-	897,731	3,867,352	-	-	-	4,765,083
Electric Power Board	3,142,000	-	-	-	-	-	3,142,000
Solid Waste/Sanitation	-	5,748,126	-	-	-	-	5,748,126
Storm Water	-	5,045	-	-	-	-	5,045
Total	$3,203,961	$15,420,489	$19,258,371	$6,909,970	$683,952	$4,330,297	$49,807,040

Transfers are used to 1) move revenues from the General Fund, the Capital Projects Fund, the Community Development Fund, and the Hotel/Motel Tax Fund to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Capital Projects Fund and the Debt Service Fund as required, 3) move unrestricted revenues from the General Fund to other funds for various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, and 4) record payments in lieu of taxes from the Electric Power Board to the General Fund.

During the year ended June 30, 2007, the City made a one-time transfer of land of $1,256,250 from governmental activities to the EPB Fund.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	$ 989,000,131	$13,158,795	$ 2,785,974	$ 999,372,952
Construction in Progress	20,829,577	11,781,020	9,323,898	23,286,699
Total non-depreciable assets	1,009,829,708	24,939,815	12,109,872	1,022,659,651
Depreciable Assets:				
Buildings	155,740,475	10,571,191	-	166,311,666
Vehicles and machinery	94,893,745	10,319,402	960,921	104,252,226
Improvements other than buildings	22,759,825	1,512,117	-	24,271,942
Infrastructure	617,603,537	10,533,909	-	628,137,446
Total depreciable assets	890,997,582	32,936,619	960,921	922,973,280
Less Accumulated Depreciation for:				
Buildings	44,031,463	4,746,235	-	48,777,698
Vehicles and machinery	68,636,444	8,089,006	938,819	75,786,631
Improvements other than buildings	14,772,545	745,275	-	15,517,820
Infrastructure	245,615,811	24,223,968	-	269,839,779
Total accumulated depreciation	373,056,263	37,804,484	938,819	409,921,928
Depreciable Assets, net	517,941,319	(4,867,865)	22,102	513,051,352
Governmental activities capital assets, net	$1,527,771,027	$20,071,950	$12,131,974	$1,535,711,003

Business-Type Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land	$ 14,071,988	$ 1,668,000	$ 1,018,300	$ 14,721,688
Construction in Progress	49,534,000	7,220,534	37,155,000	19,599,534
Total non-depreciable assets	63,605,988	8,888,534	38,173,300	34,321,222
Depreciable Assets:				
Buildings	68,610,837	37,134,824	6,329,362	99,416,299
Vehicles and machinery	436,925,066	31,465,349	11,762,933	456,627,482
Sewer system	403,099,719	4,228,896	-	407,328,615
Storm water system	43,773,334	1,559,302	-	45,332,636
Telecommunications	26,739,000	3,551,000	1,284,000	29,006,000
Total depreciable assets	979,147,956	77,939,371	19,376,295	1,037,711,032
Less Accumulated Depreciation for:				
Buildings	6,437,951	2,600,364	3,534,167	5,504,148
Vehicles and machinery	205,537,605	16,202,416	10,164,997	211,575,024
Sewer system	151,105,366	7,977,478	-	159,082,844
Storm water system	6,319,576	895,958	-	7,215,534
Telecommunications	8,524,000	2,399,000	971,000	9,952,000
Total accumulated depreciation	377,924,498	30,075,216	14,670,164	393,329,550
Depreciable Assets, net	601,223,458	47,864,155	4,706,131	644,381,482
Business-type activities capital assets, net	$ 664,829,446	$56,752,689	$42,879,431	$ 678,702,704

Discretely Presented Component Units

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land	$ 4,380,320	$ 160,751	$ -	$ 4,541,071
Construction in Progress	16,118,575	6,522,331	20,605	22,620,301
Total non-depreciable assets	20,498,895	6,683,082	20,605	27,161,372
Depreciable Assets:				
Buildings	48,911,138	37,349	-	48,948,487
Vehicles and machinery	44,018,221	3,325,154	443,074	46,900,301
Improvements other than buildings	34,386,656	319,547	1,029,719	33,676,484
Total depreciable assets	127,316,015	3,682,050	1,472,793	129,525,272
Less Accumulated Depreciation for:				
Buildings	29,974,073	2,010,270	58,268	31,926,075
Vehicles and machinery	28,766,545	3,768,571	442,347	32,092,769
Improvements other than buildings	5,636,831	1,487,770	990,686	6,133,915
Total accumulated depreciation	64,377,449	7,266,611	1,491,301	70,152,759
Depreciable Assets, net	62,938,566	(3,584,561)	(18,508)	59,372,513
Component units capital assets, net	$ 83,437,461	$ 3,098,521	$ 2,097	$ 86,533,885

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	$15,363,681
Public Safety	669,199
Public Works	21,065,448
Parks and Recreation	649,528
Social Services	56,628
Total	$37,804,484
Primary Government – Business-Type Activities:	
Sewer	$ 9,709,173
Solid Waste/Sanitation	551,861
Storm Water	970,160
Housing Management	297,022
Electric Utility	18,547,000
Total	$30,075,216
Discretely Presented Component Units:	
Transportation Authority	$ 4,343,600
Airport Authority	2,755,036
Downtown Redevelopment	167,975
Total	$ 7,266,611

NOTE 8. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2007, were as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$120,680,396	$35,252,796	$19,834,476	$136,098,716	$ 5,255,237
Notes payable	21,356,582	8,902,195	2,666,511	27,592,266	2,491,328
Capital leases payable	118,275,709	-	2,761,814	115,513,895	2,910,119
Compensated absences	17,208,823	6,788,640	7,522,513	16,474,950	5,163,717
Total governmental activities	$277,521,510	$50,943,631	$32,785,314	295,679,827	$15,820,401
Net deferred refunding and original issue premiums and discounts				1,067,888	
				$296,747,715	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$ 32,000,000	$63,430,000	$24,000,000	$ 71,430,000	$ 1,600,000
Notes payable	2,616,000	-	646,000	1,970,000	676,000
Compensated absences	864,000	-	102,000	762,000	-
	35,480,000	63,430,000	24,748,000	74,162,000	2,276,000
Interceptor Sewer System:					
General obligation serial bonds	74,361,101	-	8,845,402	65,515,699	8,897,074
Notes payable	42,302,676	3,141,076	1,988,100	43,455,652	2,091,462
Capital leases payable	214,562	-	21,019	193,543	22,245
Compensated absences	878,524	411,428	469,409	820,543	298,593
	117,756,863	3,552,504	11,323,930	109,985,437	11,309,374
Solid Waste/Sanitation Fund:					
General obligation serial bonds	24,052,649	8,147,204	4,490,842	27,709,011	1,274,778
Notes payable	-	970,000	-	970,000	58,758
Compensated absences	76,962	27,593	29,109	75,446	21,005
	24,129,611	9,144,797	4,519,951	28,754,457	1,354,541
Storm Water Fund:					
General obligation serial bonds	14,995,854	750,000	2,089,279	13,656,575	657,911
Notes payable	1,150,183	-	153,718	996,465	159,948
Compensated absences	184,682	138,461	148,714	174,429	80,274
	16,330,719	888,461	2,391,711	14,827,469	898,133
Total business-type activities	$193,697,193	$77,015,762	$42,983,592	227,729,363	$15,779,290
Net deferred refunding and original issue premiums and discounts				(493,446)	
				$227,235,917	

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bonds	$ 13,935,000	$ -	$ 630,000	$ 13,305,000	$ 675,000
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	129,200,000	56,110,000	57,910,000	127,400,000	2,700,000
Total component units	$143,135,000	$56,110,000	$58,540,000	140,705,000	$3,375,000
Original issue premiums and discounts				(725,721)	
				$139,979,279	

Total reductions in Long-Term Liabilities for Governmental Activities above are different than principal retirement expenditures in Governmental Funds. The differences arise for several reasons. The principal portion of capital lease payments of $2,186,735 to Chattanooga Downtown Redevelopment Corporation (CDRC) and principal payments of $116,547 on the Republic Parking Equipment Loan are budgeted in general government expenditures. Also, the payment to refunded bonds escrow agent includes a net deferred refunding credit of $400,148.

In prior years and in 2007, the City refunded certain general obligation, sewage facility and bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2007, the liabilities for the bonds refunded were as follows:

Year Refunded	Remaining Liability
1986	$ 4,225,000
1992	15,540,000
1996	8,000,000
1998	25,760,000
2002	36,065,000
2003	25,755,000
2005	51,510,000
2007	73,055,000

On April 4, 2007, and April 5, 2007, the City issued $17,750,000 in General Obligation and $56,110,000 in CDRC Revenue Refunding Bonds with interest rates ranging from 4.30% to 5.00% and 4.00% to 5.00%, respectively, for the purpose of refunding the following:

	Bonds Refunded	Refunding Bonds Issued
Governmental Activities	$14,506,200	$14,520,000
Business Type Activities:		
Solid Waste/Sanitation Fund	2,472,600	2,480,000
Storm Water Fund	736,200	750,000
Component Units:		
CDRC	55,340,000	56,110,000
	$73,055,000	$73,860,000

The effect of refunding the general obligation bonds resulted in a net decrease of total debt service payments over the next 20 years of $770,711 and an economic gain (the difference between present values of the old and new debt service payments) of $582,896. The effect of refunding the CDRC revenue refunding bonds resulted in a net decrease of total debt service payments over the next 24 years of $8,051,759 and an economic gain (the difference between present values of the old and new debt service payments) of $4,830,600. At June 30, 2007, the liability for the 2007 refunded bonds was $73,055,000.

Debt related to governmental activities at June 30, 2007, consisted of the following:

General Obligation Bonds - The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

Issue	Interest Rates	Principal Amount
Public Improvement Refunding, Series 1998	5.00% - 5.50%	$ 7,000,400
Municipal Public Improvement, Series 2001	5.00%	2,255,000
Public Improvement Refunding, Series 2002	4.00% - 5.38%	6,880,000
Refunding Bonds, 2002 Series A	3.00% - 5.00%	3,297,298
Hotel-Motel Tax Pledge, Series 2002	3.00% - 5.00%	48,985,000
General Obligation, 2003 Series A	2.50% - 4.20%	9,780,000
General Obligation, 2005 Series A	3.00% - 5.00%	17,198,392
Hotel-Motel Tax Refunding, Series 2005A	3.00% - 5.00%	5,449,830
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	20,732,796
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	14,520,000
Total payable from the Debt Service Fund		$136,098,716

Tennessee Municipal Bond Fund Loan (1997) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2007, is $3,364,023.

Tennessee Municipal Bond Fund Loan (2003) – Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2007, is $3,801,905.

Tennessee Municipal Bond Fund Loan (2004) – Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2007, is $17,645,517.

Fire Hall Land Note – During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2007, is $28,266.

Fannie Mae American Communities Fund – In July 2003, the City entered into an agreement with Fannie Mae to borrow up to $5,000,000 for the purpose of funding HOPE VI projects. The loan will be repaid over a 10-year period at variable rates of interest. Interest rates are adjusted quarterly to the published 3-month LIBOR plus 1.5% (6.85% at June 30, 2007). The balance at June 30, 2007, is $2,752,555.

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over $120 million. Facilities include (1) the Chattanoogan-a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semiannual payments in amounts sufficient to meet the annual debt service requirements on $129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by the City's share of the 1/2% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanoogan, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of $9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City's lease payment for the year ended June 30, 2007, was $8,651,150, of which $2,186,735 was a reduction of principal. The recorded liability under this capital lease at June 30, 2007, is $113,738,737.

The debt service reserve fund held by the fiscal agent at June 30, 2007, is $9,874,332. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling $3,800,000. The lease term is six years and provides for annual payments which began July 1, 2004. The recorded liability under this capital lease at June 30, 2007, is $1,775,158.

Debt service requirements for general obligation bonds, notes payable, and capital leases are met by the General Fund. The compensated absences liability attributable to governmental activities will be liquidated by the General Fund and the Special Revenue Funds.

Debt related to business-type activities at June 30, 2007, consisted of the following:

Issue	Interest Rates	Principal Amount
EPB:		
Electric System Revenue Bonds, Series 2000	4.50% - 5.38%	$ 8,000,000
Electric System Revenue Bonds, Series 2006A	4.00% - 5.00%	40,000,000
Electric System Refunding Revenue Bonds, Series 2006B	4.00% - 4.25%	23,430,000
Equipment Notes	4.40% - 4.95%	1,970,000
Interceptor Sewer System Fund:		
Municipal Public Improvement Refunding, Series 1998	5.00% - 5.50%	12,469,900
Municipal Public Improvement Refunding, Series 2002	3.50% - 4.50%	18,473,961
Refunding Bonds, 2002 Series A	3.00% - 5.00%	17,612,702
Refunding Bonds, 2003 Series B	3.00% - 3.25%	4,490,000
Refunding Bonds, 2005 Series A	3.00% - 5.00%	12,469,136
1992 State Revolving Sewer Loan*	3.98%	996,465
Northwest Georgia Sewer Expansion Project	4.00%	5,032,521
State Revolving Loan 2003	2.98%	37,426,666
City of Collegedale Capital Lease	Variable	193,543
Solid Waste/Sanitation Fund:		
Municipal Public Improvement Refunding, Series 1998	5.00% - 5.50%	3,686,100
Municipal Public Improvement, Series 2001	5.00%	380,000
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.38%	5,700,814
Refunding Bonds, 2005 Series A	3.00% - 5.00%	9,794,893
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	5,667,204
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	2,480,000
2003 Tennessee Municipal Bond Fund Loan	3.87%	430,000
2004 Tennessee Municipal Bond Fund Loan	3.87%	540,000
Storm Water Fund:		
Municipal Public Improvement Refunding, Series 1998	5.00% - 5.50%	2,528,600
Municipal Public Improvement, Series 2001	5.00%	115,000
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.38%	4,260,226
Refunding Bonds, 2005 Series A	3.00% - 5.00%	6,002,749
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	750,000
1992 State Revolving Sewer Loan*	3.98%	996,465
Total payable from business-type activities		$225,896,945

*1992 State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2007, is $1,992,930.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2007, is $5,032,521.

State Revolving Loan 2003 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2007, is $37,426,666.

Capital Leases – The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2007, is $193,543.

EPB Equipment Notes – EPB has five installment notes outstanding at June 30, 2007, totaling $1,970,000. The proceeds of these notes were used for electrical equipment. The notes will be repaid over a 5-year period at interest rates in the range of 4.40% to 4.95%.

Component Units debt at June 30, 2007, consisted of the following:

Issue	Interest Rates	Principal Amount
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	2.76% - 2.80%	$ 12,625,000
Series B Refunding Revenue Bonds, Series 2002	2.76% - 2.80%	680,000
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.625%	71,290,000
Chattanooga Lease Rental Refunding Revenue Bonds, Series 2007	4.00% - 5.00%	56,110,000
Total payable from Component Units		$140,705,000

Principal and interest requirements to maturity for bonds and notes payable, excluding amounts for compensated absences, are as follows:

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2008	$ 7,746,565	$ 7,044,865	$ 15,415,931	$ 9,248,985
2009	9,169,627	6,784,006	17,443,792	8,653,599
2010	9,440,974	6,362,770	16,542,900	7,911,177
2011	9,582,428	5,962,399	15,296,556	7,184,927
2012	8,537,427	5,580,473	13,480,427	6,531,014
2013-2017	39,107,738	22,777,754	64,122,385	23,902,727
2018-2022	33,093,026	14,795,233	43,693,736	11,812,982
2023-2027	30,623,197	7,584,632	27,342,675	5,133,160
2028-2031	16,390,000	1,697,750	12,365,000	1,429,000
	$163,690,982	$78,589,882	$225,703,402	$81,807,571

	Component Units	
Year	Principal	Interest
2008	$ 3,375,000	$ 7,150,078
2009	3,030,000	7,123,836
2010	3,900,000	6,930,536
2011	4,030,000	6,723,399
2012	4,260,000	6,505,141
2013-2017	24,745,000	28,877,395
2018-2022	30,580,000	21,158,710
2023-2027	33,795,000	12,535,476
2028-2031	32,990,000	3,438,250
	$140,705,000	$100,442,821

Principal and interest requirements to maturity for capital leases are as follows:

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2008	$ 2,910,119	$ 7,401,615	$ 22,245	$11,408
2009	3,066,000	7,242,359	23,575	10,078
2010	3,229,695	7,073,415	25,018	8,635
2011	2,789,754	6,894,284	26,585	7,068
2012	2,986,987	6,713,363	28,286	5,366
2013-2017	17,931,502	30,414,336	67,834	5,081
2018-2022	24,325,515	23,821,510	-	-
2023-2027	33,010,861	14,876,548	-	-
2028-2031	25,263,462	3,344,220	-	-
	$115,513,895	$107,781,650	$193,543	$47,636

NOTE 9. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets in the plan are recorded at market value but are administered by private corporations under contract with the City. It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2006	$15,770,767
Deferrals of compensation	1,024,455
Earnings	2,013,628
Withdrawals	(1,166,723)
Administrative expenses	(484)
Asset balance at June 30, 2007	$17,641,643

NOTE 10. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan). All employees are eligible to participate in one of these retirement benefit plans. The City acts as Trustee for the General Pension Plan and the Firemen’s and Policemen’s Insurance and Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City does not administer the assets of the EPB Pension Plan, therefore they are not included in the accompanying financial statements. The following is a summary of each of these plans:

City of Chattanooga Administered Pension Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and Cash Equivalents

The cash and cash equivalents of each plan represent balances at the financial institutions that serve as custodians of plan assets, and are not part of the City's centralized cash and investment pool. Occasionally, negative cash balances result from benefit payments and administrative expenses. Negative cash balances are replenished by transfers from investments.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The City is currently contributing 6.97 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report.

The normal retirement benefit is 2 percent of average earnings multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary, and a favorable opinion of the Office of Mayor.

The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized 2.5 percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. A deferred retirement option plan provides alternative benefits for up to 3 years of credited service to eligible members with at least 26 years of credited service.

(2) Firemen's and Policemen's Insurance and Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 20.25 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Members of the Plan are not covered under OASDI through their City of Chattanooga employment. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the Plan is borne by the City.

The normal retirement benefit is 68.75 percent of average base salary, where average base salary is based on the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year up to 30 years of service.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. These benefit provisions may be amended by City ordinance upon recommendation from the Board of Trustees of the Firemen's and Policemen's Insurance and Pension Fund and a favorable opinion of the Office of the Mayor.

The normal retirement date is the first day of the month following the participant's completion of 25 years of credited service. Reduced benefit provisions are available for those participants who have attained age 55 and have completed at least 10 years of credited service. In the event of death, job-related or non-job-related disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their salary, based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history. A deferred retirement option plan provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service.

Current membership in each of these plans was comprised of the following as of June 30, 2007:

Group	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund
Retirees and beneficiaries currently receiving benefits	763	680
Vested terminated employees	77	5
Active employees	1,520	777
Actuarial update	1-1-2007	1-1-2007

Trend Information:

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
General Pension Plan	12/31/06	$3,825,453	98.97%	$(4,216,376)
	12/31/05	3,558,187	97.54%	(4,255,701)
	12/31/04	2,132,773	118.74%	(4,343,073)
Firemen's and Policemen's Fund	12/31/06	7,454,348	90.00%	(3,420,846)
	12/31/05	6,566,969	97.75%	(4,165,966)
	12/31/04	6,190,284	99.64%	(4,313,641)

Funding Policy and Other Information:

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the employer. The City contributes to each plan at an actuarially determined rate. The employer's annual pension cost for the current year and related information for each plan is as follows:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund
Contribution rates for employer	6.97%	20.25%
Contribution rates for plan members	2.00%	8.00%
Annual pension cost	$3,825,453	$7,454,348
Contributions made by employer	3,736,639	6,661,799
Contributions made by plan members	1,070,158	2,533,984
Actuarial valuation date for current contributions	January 1, 2007	January 1, 2007
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent
Remaining amortization period	30 Years Open	29 Years Open
Asset valuation method	Market Value, As Adjusted	5-Year Average
Actuarial assumptions:		
Investment rate of return	7.75%	8.00%
Projected salary increases	4.50-5.50%	3.25%
Inflation rate	3.00%	3.00%

The City's annual pension cost and net pension obligation (asset) related to each plan for the current year were as follows:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund
Annual required contribution	$ 3,786,128	$ 7,540,220
Interest on net pension obligation (asset)	(329,817)	(333,277)
Adjustment to annual required contribution	369,142	247,405
Annual pension cost	3,825,453	7,454,348
Contributions made	(3,786,128)	(6,709,228)
Increase in net pension obligation (asset)	39,325	745,120
Net pension obligation (asset) at beginning of year	(4,255,701)	(4,165,966)
Net pension obligation (asset) at end of year	$(4,216,376)	$(3,420,846)

Financial Reports:

The City of Chattanooga administered plans do not issue stand-alone financial reports and are not included in the report of a public employee retirement system or a report of another entity. The plan financial statements are as follows:

Combining Statement of Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	$ 308,032	$ 653,625	$ 961,657
Due from plan custodian	-	966,839	966,839
Total receivables	308,032	1,620,464	1,928,496
Investments, at fair value:			
U.S. Government securities	-	22,637,827	22,637,827
Municipal bonds	-	38,059	38,059
Corporate bonds	4,973,172	22,044,636	27,017,808
Foreign bonds	-	1,093,808	1,093,808
Corporate stocks	71,236,525	133,432,834	204,669,359
Mutual funds - equity	78,496,366	81,246,370	159,742,736
Mutual funds – fixed income	42,502,444	-	42,502,444
Temporary investments	11,053,608	9,676,884	20,730,492
Limited Partnerships	34,623,879	-	34,623,879
Other investments	-	875,000	875,000
Total investments	242,885,994	271,045,418	513,931,412
Total assets	243,194,026	272,665,882	515,859,908
LIABILITIES			
Due to plan custodian	-	730,294	730,294
Accrued expenses	141,119	440,128	581,247
Total liabilities	141,119	1,170,422	1,311,541
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$243,052,907	$271,495,460	$514,548,367

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 3,736,639	$ 6,661,799	$ 10,398,438
Employee	1,070,158	2,533,984	3,604,142
Total contributions	4,806,797	9,195,783	14,002,580
Investment income:			
Net appreciation in fair market value of investments	29,677,299	38,478,412	68,155,711
Interest	477,584	3,037,362	3,514,946
Dividends	2,106,614	3,924,854	6,031,468
	32,261,497	45,440,628	77,702,125
Less investment expense	(465,103)	(1,161,840)	(1,626,943)
Net investment income	31,796,394	44,278,788	76,075,182
Total additions	36,603,191	53,474,571	90,077,762
DEDUCTIONS			
Benefits paid to participants	9,662,745	19,216,915	28,879,660
Administrative expenses	131,979	522,758	654,737
Total deductions	9,794,724	19,739,673	29,534,397
NET INCREASE	26,808,467	33,734,898	60,543,365
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	216,244,440	237,760,562	454,005,002
End of year	$243,052,907	$271,495,460	$514,548,367

(3) EPB Pension Plan

Plan Description and Provision:

EPB's Retirement Plan (the "Plan") is a Single Employer Defined Benefit Pension Plan administered by an individual designated by EPB. A stand-alone financial report is not issued for this plan. The Plan provides retirement benefits to Plan members. Article VIII of EPB of Chattanooga Retirement Plan assigns the authority to establish and amend benefit provisions to EPB.

Funding Policy:

Contribution requirements of Plan members and the EPB are established and can be amended by the EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate, the current rate is 9.42% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation:

EPB's annual pension cost of the Plan for the current year was $2,132,000. There is no net pension obligation as EPB has contributed the annual required contribution, adjusted with interest, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2006, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 4.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 8.5%.

Trend Information:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	$2,132,000	100%	$ -
6/30/06	2,165,000	100%	-
6/30/05	1,988,000	100%	-

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 13 percent of salary in a tax-deferred savings plan. EPB contributes up to 4.0 percent of an employee's salary. EPB contributions are fully vested and amounted to $839,000 for the year ended June 30, 2007.

Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Actuarially determined employer contribution requirements were met for the year ended June 30, 2007. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

Year Ended	Annual Required Contribution(ARC)	Percentage of ARC Contributed	Net Pension Obligation (Asset)
6/30/07	$ 2,453	0.0%	$ (46,647)
6/30/06	88,449	0.0%	(46,540)
6/30/05	92,415	54.1%	(127,952)

Post Employment Benefits

The City provides post employment health and medical benefits for retirees and their dependents in accordance with the applicable City ordinance. Substantially all of the City's employees may become eligible for the benefits if they reach normal retirement age while working for the City.

At June 30, 2007, there were 939 employees who had retired and were receiving healthcare benefits. The City is insured for a portion of these benefits.

The City currently finances post employment benefits on a pay-as-you-go approach. All the associated costs are allocated to the various City funds where the retirees were located during active employment with the City. For the year ended June 30, 2007, the City recognized expenditures of approximately $6,168,353, which was offset by $1,586,873 of retiree contributions.

In June 2004, GASB issued Statement 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)." The City is required to implement the new reporting requirements during the fiscal year ending June 30, 2008.

The City has already obtained an actuarial valuation of its OPEB plan as required by GASB Statement 45 to determine the annual required contribution (ARC). The results of the valuation prompted the City to establish an OPEB task force to study ways to favorably impact the cost to the City while minimizing the negative impact to retirees. The valuation improved the City's understanding of the OPEB obligation and provided fundamental information for establishing policies related to OPEB. The calculations used the entry age normal method, normal pension-related actuarial assumptions, and estimated health care cost increases based on the City's experience and overall future expectations. According to the calculations, the unfunded OPEB obligation is approximately $151.2 million and the annual required contributions to a separate trust fund will be approximately $16.0 million. The City has established an OPEB trust that was approved by the State of Tennessee in July 2007, and will be utilized in fiscal year 2008 to accumulate assets and pay post retirement benefits. The City accrued $2,000,000 during the fiscal year ended June 30, 2007, as a preliminary contribution to the OPEB trust fund. The contribution was made subsequent to year end.

NOTE 11. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2007, outstanding funds advanced by TVA totaled $273,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2007, the outstanding receivables for loans made from these funds amounted to $267,000. A total of approximately $78,417,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 12. JOINT VENTURE

The City has an equity interest in Carter Street Corporation, a nonprofit organization. Carter Street Corporation's board consists of five members. Two members are appointed by the Mayor of the City and two are appointed by the Hamilton County, Tennessee Mayor. The appointment of the fifth member, who serves as chairman, is agreed on by the City Mayor and the County Mayor.

Carter Street Corporation owns and manages a trade center and a parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee funded the repayment of the bonds through lease payments to Carter Street Corporation. Pursuant to the lease agreement, the City has a two-thirds equity interest in Carter Street Corporation upon the repayment of the bonds during the year ended June 30, 2007. The City's two-thirds equity interest in Carter Street Corporation is computed as follows:

Total net assets	$13,194,511
Multiplied by two-thirds	x 2/3
City's equity interest	$ 8,796,341

Complete financial statements can be obtained from: Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

Condensed financial information for Carter Street Corporation as of June 30, 2007, is as follows:

ASSETS	
Cash	$ 809,566
Accounts receivable, net	652,631
Inventories	96,518
Prepaid items	58,377
Capital assets, net	11,893,184
Other assets	16,900
Total assets	$13,527,176
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	$ 231,739
Accrued interest	-
Deferred revenues	20,000
Advance deposits	80,926
Bonds payable	-
Total liabilities	332,665
NET ASSETS	
Invested in capital assets, net of related debt	11,893,184
Unrestricted	1,301,327
Total net assets	13,194,511
Total liabilities and net assets	$13,527,176

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	$ 6,319,120
Total operating expenses	6,719,542
Loss from operations	(400,422)
Nonoperating revenues	412,410
Nonoperating expenses	2,446
Net increase	9,542
Net assets at July 1, 2006	13,184,969
Net assets at June 30, 2007	$13,194,511

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City and its component units are parties to various lawsuits and claims in the ordinary course of their operations. Management believes that the potential adverse impact of these proceedings would not be material to the basic financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and storm water systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2007. The total contractual commitments outstanding as of June 30, 2007, aggregated approximately $13,300,213. The City has sufficient funds available to cover these commitments

NOTE 14. CONDUIT DEBT OBLIGATIONS

From time to time, the Industrial Development Board and the Health, Educational and Housing Facility Board of the City of Chattanooga have issued bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2007, 121 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was $200,900,000 as of September 1, 2007. The aggregate principal amounts payable for the 106 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $253,648,700.

The Health, Educational and Housing Facility Board has issued at least thirty-nine (39) bond issues since 1985, the original amount of which were $577,535,000. The Board has no means of determining the outstanding amount of these bonds.

NOTE 15. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of the City landfill and landfills closed in prior years (Summit and 36th Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of $10,211,072 at June 30, 2007, is based on the use of 100 percent of the capacity of the City landfill. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2007, are as follows:

Estimated liability, June 30, 2006	$10,013,509
Expenses recognized	318,383
Costs incurred	(120,820)
Estimated liability, June 30, 2007	$10,211,072
Due within one year	$ 275,905

The phase of the City landfill currently in use is nearly at capacity. The City plans to begin a new phase of the landfill during the 2008 fiscal year. The estimated total current cost of the landfill closure and postclosure care of $10,211,072 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2007. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The General Fund accounts for all exposures, except for torts, which are accounted for in the Internal Service Fund. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2007, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

City employees eligible for medical benefits are fully insured by Cigna Healthcare.

Liabilities are reported 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 (IBNRs). The liability does not include nonincremental claims adjustment expenses. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liabilities for claims other than tort claims are reported in governmental funds rather than the general long-term debt account group because they are expected to be liquidated with expendable available financial resources.

Interfund premiums in the Internal Service Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. Changes in the balances of claims liabilities during the year are as follows:

	General Fund	Internal Service Fund
Unpaid claims, June 30, 2005	$ 761,398	$ 4,664,000
Incurred claims, including IBNRs/reduction in estimated liabilities	22,413,786	40,764
Claim payments	(22,706,586)	(1,114,764)
Unpaid claims, June 30, 2006	468,598	3,590,000
Incurred claims, including IBNRs/reduction in estimated liabilities	22,410,304	1,942,697
Claim payments	(22,400,633)	(2,015,697)
Unpaid claims, June 30, 2007	$ 478,269	$ 3,517,000
Due within one year	$ 478,269	$ 3,517,000

NOTE 17. COMPONENT UNIT SWAPTION

In March 2004 the Chattanooga Downtown Redevelopment Corporation (CDRC), a component unit of the City, sold by competitive bid a floating-to-fixed interest rate swaption. Information related to the swaption is as follows:

Objective:

CDRC entered into a swaption contract that provided CDRC an up-front payment of $3,088,000. As a synthetic refunding of its 2000 bonds, this payment represents the risk-adjusted, present-value savings of a refunding in October 2010 without issuing refunding bonds currently. The swaption gave the counterparty the option to require CDRC to enter into a pay-fixed, receive variable interest rate swap. If the option is exercised, CDRC would expect to issue refunding bonds at that date.

Terms:

The swaption was entered into in March 2004. The $3,088,000 payment was based on a notional amount of $59,655,000. The counterparty has the option to exercise the agreement on October 1, 2010. If exercised, the interest rate swap will also commence October 1, 2010. The fixed rate swap (5.45%) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the “refunded” bonds. The swap’s variable payment would be based on The Bond Market Association Municipal Swap Index (BMA).

Fair value:

At June 30, 2007, the swap had a negative fair value of $4,699,920, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

If the option is exercised and refunding bonds are not issued, CDRC would be obligated to make net swap payments as required by the terms of the contract. If the option is exercised and variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap.