

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, 2003, 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 EPB, which represent 46 percent and 90 percent, respectively, of the assets and revenues of the business-type activities. We also did not audit the financial statements of the Chattanooga Metropolitan Airport Authority, which represent 24 percent and 24 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 EPB and the Chattanooga Metropolitan Airport Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

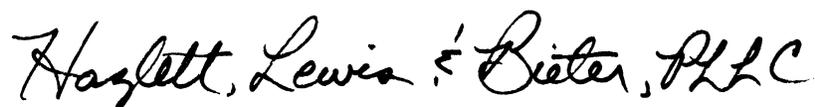
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2003, 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.

As described in Note 2 to the financial statements, the City increased beginning net assets at June 30, 2002, to include revisions to capital assets and additional net pension assets computed by the actuary for the Firemen's and Policemen's Insurance and Pension Fund.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2003, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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 54-64 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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, budgetary comparison schedules of special revenue funds and the debt service fund, 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, budgetary comparison schedules of special revenue funds and the debt service fund, 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.

A handwritten signature in black ink that reads "Hazlett, Lewis & Bieter, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
November 10, 2003, except for Notes 2 and 6, as to which  
the date is January 16, 2004

# Management's Discussion and Analysis

This section of the City of Chattanooga's annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter found at the front of this report and 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 \$1.80 billion (*net assets*). Of this amount, \$89.6 million may be used to meet the government's ongoing obligations to citizens and creditors (*unrestricted net assets*), an \$18.4 million increase over last year.
- While the net assets of our business-type activities increased \$3.4 million, the net assets of our governmental activities decreased \$4.28 million or .32 percent. The City of Chattanooga chose to implement early reporting of infrastructure assets and opted to use depreciation rather than the maintenance method recognizing \$21.5 million in depreciation expense on infrastructure assets alone for the year.
- During the year, the City generated \$200.8 million in taxes and other revenues for governmental programs. This compares with \$201.2 million of program expenses, including \$32.9 million depreciation expense.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$129.5 million, an increase of \$49.6 million in comparison to last year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$30.8 million, or 18.8 percent of total General Fund expenditures and transfers out.
- The City's primary government debt increased by \$65.7 million (16.5 percent) during the current fiscal year. \$55 million of the increase is a hotel-motel tax revenue pledge bond issue to finance the development of the riverfront. The City also issued \$12 million in general obligation bonds during the year.

## 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 other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The first two statements are government-wide financial statements. They are designed to provide readers with both long-term and short-term information about the City's overall financial status 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 Electric Power Board (EPB), although legally separate, functions for all practical purposes as a department of the City and therefore has been included as a business-type activity of the primary government.

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. Separately issued, audited financial reports can be obtained from:

Chattanooga Metropolitan Airport Authority	CARTA
P. O. Box 22444	1617 Wilcox Boulevard
Chattanooga, TN 37422	Chattanooga, TN 37406

The Chattanooga Downtown Redevelopment Corporation is audited as part of the City of Chattanooga therefore no separately issued, audited financial report is available. However, the audited financial statements of The Chattanooga, one business within the corporation, is available from the City of Chattanooga Finance Department, 100 East 11<sup>th</sup> Street, 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 control and manage money for designated or restricted 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 statement that explains 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 and a capital projects fund 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 supplementary section of this report.

The City of Chattanooga adopts a budget for all governmental funds. A budgetary comparison for the General Fund is found in the fund statements of this report; comparisons for the other governmental funds, except the capital projects fund, are provided in the supplementary section of this report. Budgetary comparisons for funds with an annual budget are provided to demonstrate compliance with the budget. The capital projects fund is excluded since it is budgeted on a project basis.

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 internal service funds.

**Enterprise funds** 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, Interceptor Sewer System and Solid Waste are considered major funds. The other funds, Storm Water and Housing Management, are combined into a single column in the proprietary fund financial statements with individual fund data provided in the supplementary section of this report.

**Internal service funds** provide services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing in internal service funds. Because both of these services benefit predominantly 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 provide information about the financial relationships where the City acts solely as a trustee or fiduciary for the benefit of others to whom the resources belong. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance City operations. All of the City's fiduciary activities are reported in separate 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.

**Notes to the financial statements.** The financial statements also include notes that provide additional information. These notes are essential to a full understanding of the information provided in the government-wide and fund financial statements.

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

**Other information.** In addition to the basic financial statements discussed above, this report also presents required supplementary information about the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and nonmajor enterprise funds are presented as additional supplementary information. Also included as additional supplementary information are budget to actual comparisons for governmental funds other than the general fund and capital projects fund.

Both the required and additional supplementary information can be found following the notes to the financial statements.

## 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 \$1.8 billion at the close of the most recent fiscal year, virtually unchanged from last year. By far the largest portion of the City's net assets (92 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.

An additional portion of the City's net assets (3 percent) represents resources that are restricted in how they may be used. The remaining balance of \$89.6 million may be used to meet the City's ongoing obligations. 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.

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

### City of Chattanooga's Net Assets

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 253,568	\$ 199,384	\$ 183,476	\$ 192,418	\$ 437,044	\$ 391,802
Capital assets	1,465,929	1,454,846	598,418	584,353	2,064,347	2,039,199
Total assets	1,719,497	1,654,230	781,894	776,771	2,501,391	2,431,001
Long-term debt outstanding	264,574	202,061	198,958	197,091	463,532	399,152
Other liabilities	111,025	103,989	119,707	119,847	230,732	223,836
Total liabilities	375,599	306,050	318,665	316,938	694,264	622,988
Net assets:						
Invested in capital assets, net of debt	1,259,163	1,263,626	406,079	407,816	1,665,242	1,671,442
Restricted	21,805	29,229	30,443	36,124	52,248	65,353
Unrestricted	62,930	55,325	26,707	15,893	89,637	71,218
Total net assets	\$ 1,343,898	\$ 1,348,180	\$ 463,229	\$ 459,833	\$ 1,807,127	\$ 1,808,013

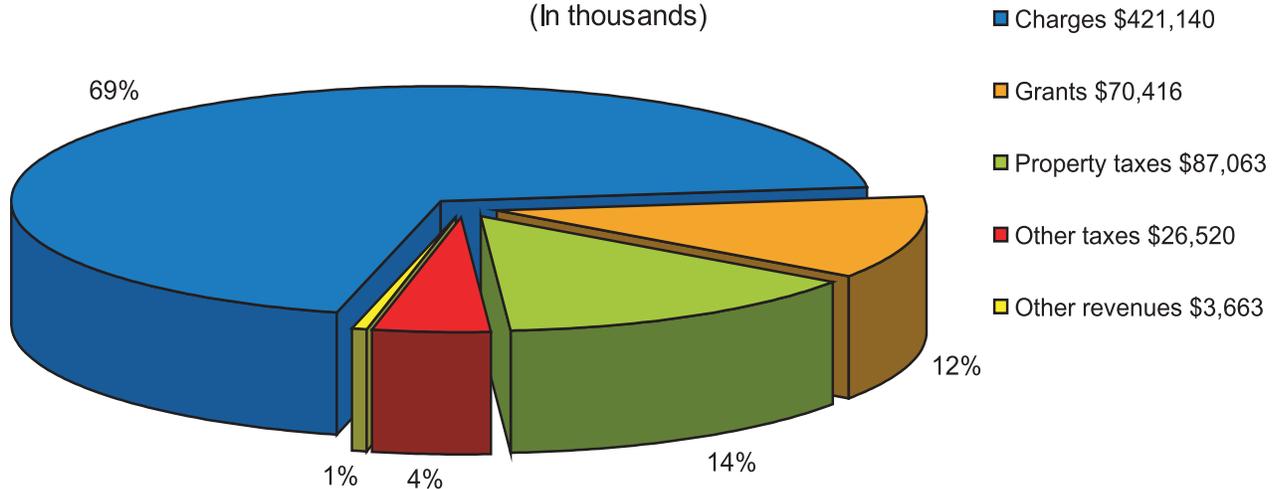
**Changes in Net Assets.** Net assets of the City's governmental activities decreased .32 percent to \$1.34 billion. Of that balance \$1.28 billion are either restricted on how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore \$62.9 million remains to meet the City's ongoing obligations to citizens and creditors.

During the same period the net assets of the business-type activities increased .74 percent to \$463.2 million. However the City can only use these net assets to finance the continuing operations of the electric system, sewer system, storm water system, solid waste disposal and housing management.

The graphs below summarize the sources of the City's total revenues of \$608.8 million and total program expenses of \$609.7 million. These graphs include combined governmental and business-type information.

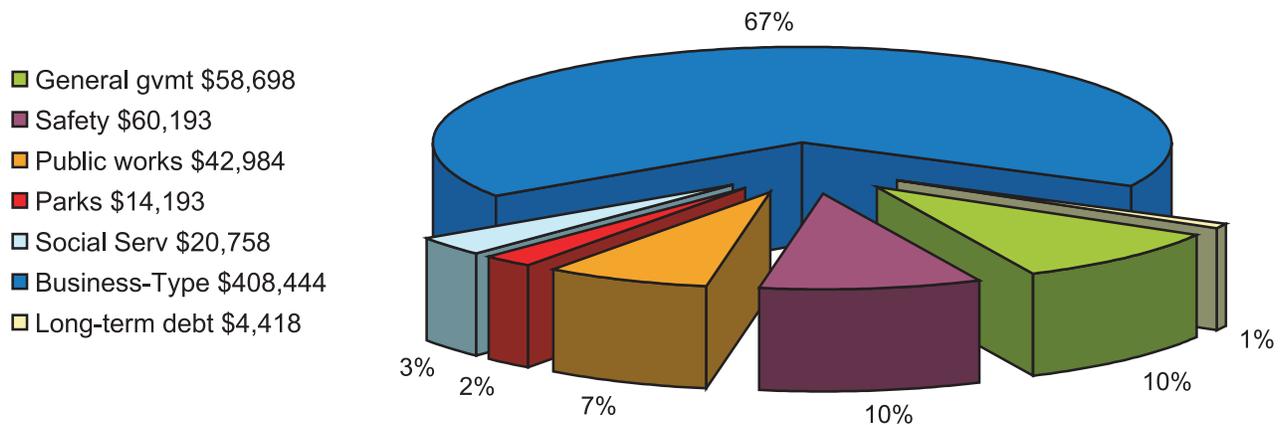
### City Wide Sources of Revenue

(In thousands)



### City Wide Program Expenses

(In thousands)



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 below.

**City of Chattanooga's Changes in Net Assets**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 17,910	\$ 15,876	\$ 403,230	\$ 386,787	\$ 421,140	\$ 402,663
Grants and contributions	32,960	31,746	2,366	5,544	35,326	37,290
General revenues:						
Property taxes	87,063	83,179	-	-	87,063	83,179
Other taxes	26,520	25,132	-	-	26,520	25,132
Grants	35,090	34,822	-	-	35,090	34,822
Miscellaneous	-	-	138	-	138	-
Investment income	1,274	1,639	2,251	3,456	3,525	5,095
Total revenues	<u>200,817</u>	<u>192,394</u>	<u>407,985</u>	<u>395,787</u>	<u>608,802</u>	<u>588,181</u>
<b>Expenses</b>						
Governmental activities:						
General government	58,698	50,549	-	-	58,698	50,549
Public safety	60,193	56,975	-	-	60,193	56,975
Public works	42,984	45,259	-	-	42,984	45,259
Parks and recreation	14,193	13,765	-	-	14,193	13,765
Social services	20,758	19,178	-	-	20,758	19,178
Interest on long-term debt	4,418	3,668	-	-	4,418	3,668
Business-type activities:						
Electric utility	-	-	365,187	346,821	365,187	346,821
Sewer	-	-	31,852	31,565	31,852	31,565
Solid waste	-	-	5,386	6,429	5,386	6,429
Storm water	-	-	4,523	4,774	4,523	4,774
Housing management	-	-	1,496	930	1,496	930
Total expenses	<u>201,244</u>	<u>189,394</u>	<u>408,444</u>	<u>390,519</u>	<u>609,688</u>	<u>579,913</u>
Excess (deficiency) before transfers	(427)	3,000	(459)	5,268	(886)	8,268
Transfers	<u>(3,856)</u>	<u>(2,165)</u>	<u>3,856</u>	<u>2,165</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (4,283)</u>	<u>\$ 835</u>	<u>\$ 3,397</u>	<u>\$ 7,433</u>	<u>\$ (886)</u>	<u>\$ 8,268</u>

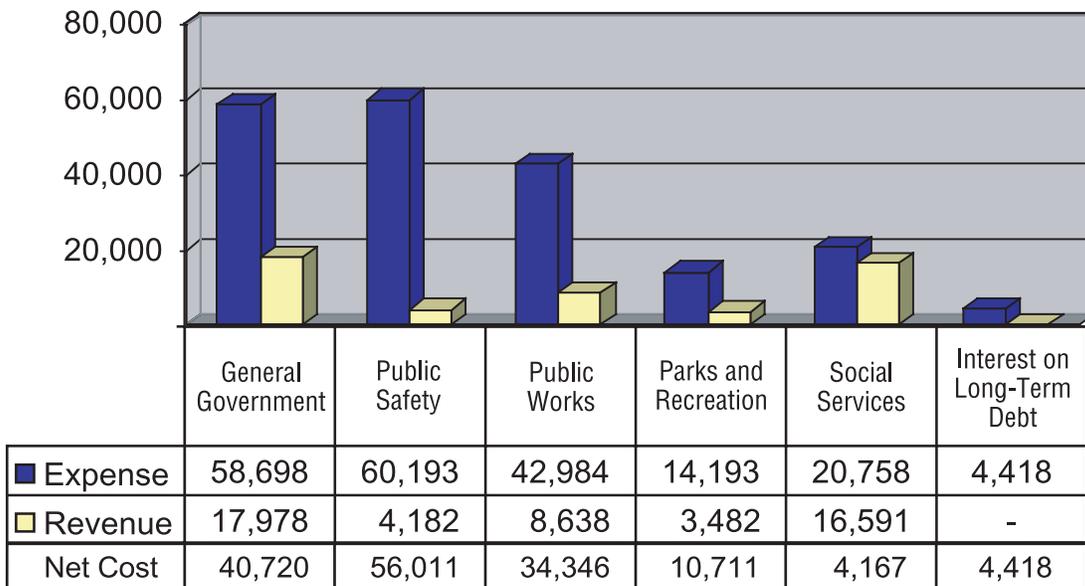
The following will consider the operations of governmental and business-type activities separately and in greater detail.

**Governmental Activities.** Current fiscal year revenues for the City's governmental activities were \$200.8 million compared to \$192.4 million last year, up 4.38 percent. However the increase in revenues did not keep pace with the increase in expenses. Current year expenses were \$201.2 million compared with \$189.4 last year, an increase of 6.25 percent.

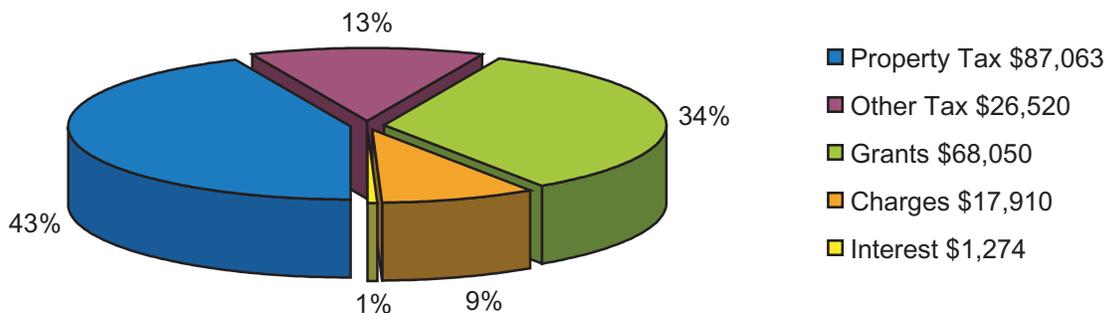
- The single largest source of governmental activity revenue, property taxes and in-lieu of tax receipts, accounted for almost all of the revenue increase. This was primarily due to increased property assessments and a 50 percent increase in delinquent tax collections.
- While personnel costs rose approximately 6 percent, a hiring freeze has been in place to keep these costs under control. The increased personnel costs were comprised of a step increase, higher health insurance premiums and an increase in employer pension contributions.

The graphs below show the revenue generated by the programs of the City as compared with the expenses associated with providing each service. This will show the net cost, or the financial burden placed on City taxpayers for each program. Also presented are the major sources of revenue for governmental activities.

### Expenses and Program Revenues Governmental Activities (In thousands)



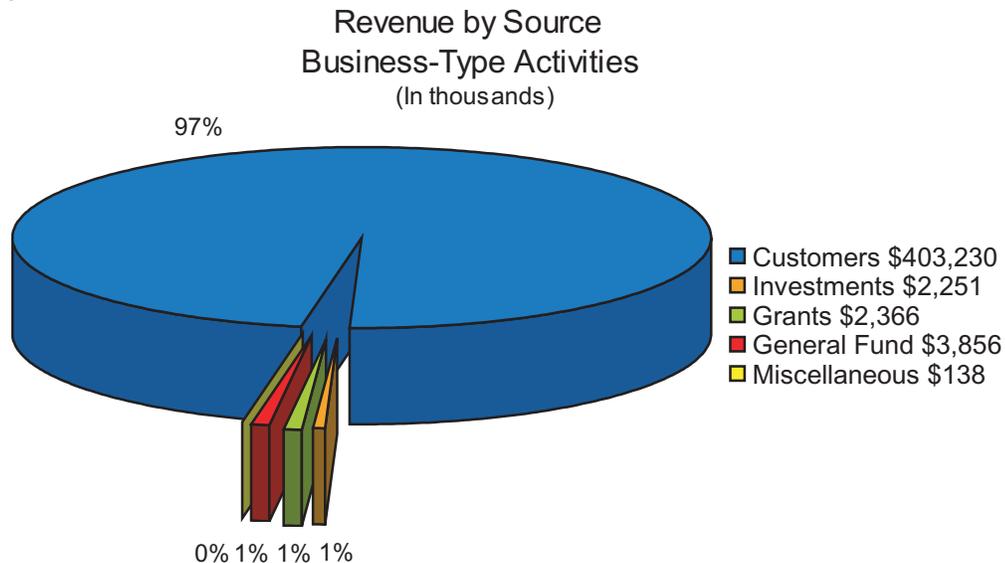
### Revenues by Source - Governmental Activities (In thousands)



**Business-type Activities.** Revenues for the City's business-type activities were \$408.0 million for the year just completed, an increase of \$12.2 million or 3.1 percent. However, the same period saw a \$14.2 million or 3.6 percent increase in expenses and special items to \$408.4 million.

- The largest source of business-type activity revenue is generated from the Electric Power Board. Revenue from electric customers rose \$14.0 million, 4.2 percent, while the telecommunications segment rose \$2.8 million, 45.7 percent. However total operating expenses increased \$18.7 million, 5.4 percent, more than offsetting the increase. \$11.7 million of the operating cost increase was additional power purchased as a result of the return to more normal weather as compared to last year's milder weather. Net assets increased by \$937,000.
- Operating revenues for the Interceptor Sewer System were up \$681,500 or 2.1 percent in fiscal year 2003. However operating expenses increased \$2.1 million or 8.3 percent during the same period. Depreciation expense was the major factor in the increase of operating costs, reflecting the recent capital expansion program. In spite of the increase in expenses, net assets increased \$1.6 million.
- As a result of an aggressive program to meet State and Federal landfill requirements, the Solid Waste Fund remains in a negative net asset position. The major customer of the landfill is the City itself. Once the revenue from the City is included (accounted for as a transfer from General Fund) operating income is \$1.59 million. However \$1.61 million was transferred out to cover waste collection equipment purchases no longer accounted for in the fund, causing a decrease in net assets for the year.
- Expenses in the Storm Water Fund were down \$251,000 or 5.3 percent this year as a result of restructuring debt. However operating revenue was down 8.2 percent or \$449,000. Current year revenue exceeded expenses resulting in a \$1.2 million increase in net assets.
- The Housing Management Fund reported \$1.19 million in rental income, an increase of 19.4 percent from last year. During the same period operating expenses increased 52.0 percent to \$1.33 million with approximately 40 percent of that increase attributable to depreciation on the recently completed renovation of an elderly, low-income apartment building. The fund ended the year with increased net assets of \$963,500 with the help of grant revenue for renovations.

The graph below presents the major sources of revenue for business-type activities. Also presented is a chart showing the operating revenue generated by each business-type activity as compared with the operating expenses associated with providing each service.



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

	Electric	Sewer	Solid Waste	Storm Water	Housing
Expense	\$ 365,187	\$ 31,852	\$ 5,386	\$ 4,523	\$ 1,496
Revenue	366,124	33,465	4,079	5,713	2,460
Change in net assets	<u>\$ 937</u>	<u>\$ 1,613</u>	<u>\$ (1,307)</u>	<u>\$ 1,190</u>	<u>\$ 964</u>

## 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. As the City completed the year, its governmental funds reported a combined fund balance of \$129.5 million. 89.1 percent of this amount (\$115.4 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. At the end of the current fiscal year, unreserved fund balance was \$37.2 million, of which \$6.4 million is designated for future spending. Total fund balance of the City's General Fund increased by 13.1 percent or \$4.7 million to \$40.7 million during the fiscal year. Key factors in this growth are as follows:

- Total revenues increased by \$4.1 million over the prior year. Most of this increase was due to a \$3.8 million increase in current and delinquent property tax collections. There was no increase in property tax rates.
- Expenditures and transfers to other funds, when combined, increased from \$163.0 million to \$164.0 million, well below anticipated budget.

**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 \$69 million in fund balance of which \$10.1 million was reserved for completion of projects already begun. This is a \$44.1 million increase from last year's fund balance due to new debt issued during the year.

- Cash inflows for the year include the issuance of \$68 million in bonds and \$4 million received from federal, state and county governments for projects.
- Current year expenditures of \$37.8 million include \$2.6 million for police technology, \$3.6 million for industrial development at Enterprise South, \$9.7 million for street and streetscape projects, and \$9.2 million for the beginning of the waterfront development.

**Proprietary Funds.** As the City completed the fiscal year its proprietary funds, which include both enterprise funds and internal service funds, had a combined fund balance of \$464.1 million. Of this amount, \$57.5 million was available to meet on-going obligations with the majority, \$406.7 million, invested in capital assets. Information about the major enterprise funds is presented below.

- Net assets of the Electric Power Board increased \$937,000 to \$230.2 million for fiscal year 2003. The increase is primarily due to capital contributions of \$1 million. EPB has \$28.8 million available to finance day-to-day operations (unrestricted net assets).
- The Interceptor Sewer System reported an increase of \$1.6 million in net assets to \$224.7 million. \$19.8 million is unrestricted net assets, those that can be used to finance on-going operations with an additional \$21.3 million set aside for capital improvements. Sewer service charges, the largest component of revenue, increased by \$615,000 or 2.4 percent.
- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. To date the City has accrued liabilities of \$5.4 million for a closed landfill and \$3.7 million for a landfill currently in operation; a \$398,000 or 4.6 percent increase over last year. Much of the burden of these costs is being financed through general obligation bonds.

**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. The only differences between original and final budgets were due to reallocations within the General Fund for these functions as authorized in the budget ordinance.

When comparing the final budgeted revenues to actual, there was a \$154,000 shortfall for the year primarily due to reduced revenue from the State and declines in investment income. These reduced revenues were largely offset by the \$1.1 million increase in taxes. Expenditures were less than budgetary estimates in all departments by a combined \$4.9 million resulting in excess revenues over expenditures of \$4.8 million on a budgetary basis in General Fund. The reduction in expenditures is largely due to vacancies not filled.

## Capital Asset and Debt Administration

**Capital Assets.** At the end of this year, the City had \$1.9 billion (net of accumulated depreciation) invested in capital assets, an increase of 6 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The table below 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	
	2003	2002	2003	2002	2003	2002
<b>Non-depreciable:</b>						
Land & Easements	\$ 930,234	\$ 915,432	\$ 14,648	\$ 14,222	\$ 944,882	\$ 929,654
Work in progress	57,126	55,168	9,061	10,203	66,187	65,371
<b>Depreciable:</b>						
Buildings	76,590	79,421	52,437	47,322	129,027	126,743
Equipment	26,155	24,201	213,134	197,779	239,289	221,980
Improvements	6,628	6,485	-	-	6,628	6,485
Infrastructure	369,196	374,139	309,138	314,827	678,334	688,966
<b>Total</b>	<b>\$ 1,465,929</b>	<b>\$ 1,454,846</b>	<b>\$ 598,418</b>	<b>\$ 584,353</b>	<b>\$ 2,064,347</b>	<b>\$ 2,039,199</b>

This year's major capital asset additions include:

- General infrastructure assets of \$16.5 million.
- Land and work-in-progress includes \$6.6 million on the 21<sup>st</sup> Century Waterfront development and \$3.6 million for development of the Enterprise South industrial park.
- Electric Power Board investment of \$21.8 million in plant assets for the year. This includes \$20.4 million in power distribution systems and \$1.4 million for telecommunications.
- \$16.3 million was capitalized as new infrastructure for the Interceptor Sewer System.

The City's capital improvement program anticipates spending another \$153.7 million for capital projects over the next five years for various projects. There are plans to issue an additional \$11 million in general obligation bonds during fiscal year 2004 to help finance these projects.

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

**Debt.** At year-end the City had \$464.7 million in long-term debt outstanding. This is a \$65.7 million increase (16.5 percent) increase over 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	
	2003	2002	2003	2002	2003	2002
General obligation bonds (backed by the City)	\$ 132,761	\$ 68,794	\$ 149,195	\$ 159,206	\$ 281,956	\$ 228,000
Revenue bonds (backed by specific revenues)	-	-	36,800	38,400	36,800	38,400
Notes payable	5,620	6,894	24,118	9,523	29,738	16,417
Capital leases	115,925	115,925	271	288	116,196	116,213
Total	<u>\$ 254,306</u>	<u>\$ 191,613</u>	<u>\$ 210,384</u>	<u>\$ 207,417</u>	<u>\$ 464,690</u>	<u>\$ 399,030</u>

- The City of Chattanooga maintains a "AA" rating from both Standard & Poor's and Fitch Investor's Service for general obligation debt.
- State statutes limit 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 \$326.0 million. The City's tax-supported debt of \$254.3 million is well within that limit.

During the year the City issued into the following new debt:

- General obligation refunding bonds were issued for \$38.3 million in July 2002. This was to refund \$5.9 million in governmental and \$31.6 million in business-type (Interceptor Sewer System) debt. It is expected to yield \$3.3 million in savings.

- Hotel-motel tax revenue pledge bonds were issued in October 2002 for \$55 million to fund the 21<sup>st</sup> Century Waterfront development, a governmental activity.
- General obligation bonds of \$12.2 million were issued in April 2003 for general capital improvements. The issue was combined with a business-type (Interceptor Sewer System) refunding issue of \$13.2 million to refund \$12.7 million with an expected savings of \$652,000.
- A \$37.3 million state revolving loan was approved for the Interceptor Sewer System in April 2003. At year-end \$15.0 million had been drawn down on the project. This was to finance sewer system projects already in progress.

More detailed information about the City's long-term liabilities is presented in the notes 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 2004:

- The local unemployment rate remains below the national and state rates. As of September 2003 the local unemployment rate of 3.5 percent remains significantly below the national average of 6.1 percent and the state average of 5.4 percent.
- A steady increase in our economic base as indicated by rising assessed valuations of \$58.3 million, or 1.8 percent over 2002.
- Interest rates on investments are expected to remain at an historical low.
- Anticipated nine percent reduction in state-shared revenues.

Anticipated revenues in the General Fund budget are \$167.2 million, down 1.6 percent from the 2003 budget. Property tax collections are expected to increase 2.7 percent in the coming year. This growth is expected to be offset by an anticipated intergovernmental revenue decrease of 9.3 percent. Budgeted expenditures are expected to decrease 2 percent to \$167 million from \$170 million. With the exception of salaries and medical costs, departmental operations are budgeted at less than the prior year. No decrease in fund balance of the General Fund is expected for fiscal year 2004.

As for the City's business-type activities, we expect that the 2004 results should see a modest increase to net assets.

## 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  
100 East 11<sup>th</sup> Street  
Chattanooga, Tennessee 37402  
(423) 757-5232  
[www.chattanooga.gov](http://www.chattanooga.gov)

# cafr

Comprehensive Annual Financial Report – For the Year Ending June 30  
City of Chattanooga, Tennessee

2003

**Basic Financial  
Statements**

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2003

	Primary Government			Components Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 27,093,895	\$ 49,659,533	\$ 76,753,428	\$ 3,094,386
Investments	34,642,451	64,896,951	99,539,402	130,031
Receivables, net of allowance for uncollectibles	119,689,172	40,560,542	160,249,714	2,918,969
Net investment in capital lease	-	-	-	115,925,472
Internal balances	(33,341)	33,341	-	-
Due from component units	450,000	-	450,000	-
Due from primary government	-	-	-	826,065
Deferred charges	-	2,168,858	2,168,858	1,917,481
Inventories	1,937,796	6,473,947	8,411,743	285,313
Prepaid items	1,639,216	-	1,639,216	640,537
Other assets	-	6,769,327	6,769,327	-
Restricted assets:				
Cash and cash equivalents	5,606,992	7,031,411	12,638,403	1,578,671
Investments	54,284,527	5,809,390	60,093,917	14,805,698
Receivables	-	39,924	39,924	235,852
Land	-	33,000	33,000	-
Net pension assets	8,257,560	-	8,257,560	172,677
Land and other nondepreciable assets	987,359,568	23,708,662	1,011,068,230	6,545,119
Other capital assets, net of accumulated depreciation	478,569,054	574,709,056	1,053,278,110	67,534,176
<b>Total assets</b>	<b>1,719,496,890</b>	<b>781,893,942</b>	<b>2,501,390,832</b>	<b>216,610,447</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	15,371,281	68,808,917	84,180,198	4,531,440
Customer deposits	-	11,537,000	11,537,000	-
Due to component units	826,065	-	826,065	-
Due to primary government	-	-	-	450,000
Contracts payable	379,401	298,103	677,504	845,846
Deferred revenue	88,843,363	-	88,843,363	417,899
Accrued closure and post-closure care	-	9,103,968	9,103,968	-
Accrued postretirement benefits	-	10,378,000	10,378,000	-
Conservation advances	-	2,028,000	2,028,000	-
Other liabilities	-	3,897,000	3,897,000	-
Long-term liabilities:				
Due within one year	5,604,809	13,655,910	19,260,719	505,000
Due in more than one year	264,574,376	198,957,547	463,531,923	144,866,675
<b>Total liabilities</b>	<b>375,599,295</b>	<b>318,664,445</b>	<b>694,263,740</b>	<b>151,616,860</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,259,163,329	406,079,565	1,665,242,894	58,007,163
Restricted for:				
Capital projects	21,804,937	-	21,804,937	-
Debt service	-	-	-	15,618,246
Renewal and replacement	-	30,443,337	30,443,337	-
Unrestricted	62,929,329	26,706,595	89,635,924	(8,631,822)
<b>Total net assets</b>	<b>\$ 1,343,897,595</b>	<b>\$ 463,229,497</b>	<b>\$ 1,807,127,092</b>	<b>\$ 64,993,587</b>

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities:				
General government	\$ 58,698,292	\$ 10,499,475	\$ 6,225,613	\$ 1,252,783
Public safety	60,193,174	849,414	1,121,767	2,210,669
Public works	42,983,849	2,049,593	4,457,386	2,130,861
Parks and recreation	14,193,439	2,848,092	524,716	109,000
Social services	20,758,129	1,664,301	14,927,080	-
Interest on long-term debt	4,417,740	-	-	-
Total governmental activities	<u>201,244,623</u>	<u>17,910,875</u>	<u>27,256,562</u>	<u>5,703,313</u>
Business-type activities:				
Electric utility	365,187,000	363,565,000	-	1,058,000
Sewer	31,851,449	32,757,729	-	-
Solid waste/sanitation	5,385,859	667,253	66,196	-
Storm water	4,523,419	5,015,639	-	6,440
Housing management	1,496,241	1,224,098	-	1,235,096
Total business-type activities	<u>408,443,968</u>	<u>403,229,719</u>	<u>66,196</u>	<u>2,299,536</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 609,688,591</u>	<u>\$ 421,140,594</u>	<u>\$ 27,322,758</u>	<u>\$ 8,002,849</u>
Component units:				
Airport authority	\$ 7,377,036	\$ 5,634,222	\$ -	\$ 3,574,413
Transportation authority	13,962,152	3,673,187	5,303,518	4,999,651
Downtown redevelopment	17,639,885	10,977,872	-	6,950,746
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 38,979,073</u>	<u>\$ 20,285,281</u>	<u>\$ 5,303,518</u>	<u>\$ 15,524,810</u>

General revenues:  
Property taxes  
City-levied sales tax  
Liquor and beer taxes  
Other taxes  
Unrestricted investment earnings  
Miscellaneous  
Grants and contributions not allocated to specific programs  
Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning (as restated)

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			Components Units
Governmental Activities	Business-type Activities	Total	
\$ (40,720,421)	\$ -	\$ (40,720,421)	\$ -
(56,011,324)	-	(56,011,324)	-
(34,346,009)	-	(34,346,009)	-
(10,711,631)	-	(10,711,631)	-
(4,166,748)	-	(4,166,748)	-
(4,417,740)	-	(4,417,740)	-
<u>(150,373,873)</u>	<u>-</u>	<u>(150,373,873)</u>	<u>-</u>
-	(564,000)	(564,000)	-
-	906,280	906,280	-
-	(4,652,410)	(4,652,410)	-
-	498,660	498,660	-
-	962,953	962,953	-
<u>-</u>	<u>(2,848,517)</u>	<u>(2,848,517)</u>	<u>-</u>
<u>(150,373,873)</u>	<u>(2,848,517)</u>	<u>(153,222,390)</u>	<u>-</u>
-	-	-	1,831,599
-	-	-	14,204
-	-	-	288,733
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,134,536</u>
87,063,509	-	87,063,509	-
17,940,768	-	17,940,768	-
5,864,304	-	5,864,304	-
2,713,523	-	2,713,523	-
1,274,391	2,251,420	3,525,811	688,233
-	137,987	137,987	1,005,958
35,089,989	-	35,089,989	-
(3,855,642)	3,855,642	-	-
<u>146,090,842</u>	<u>6,245,049</u>	<u>152,335,891</u>	<u>1,694,191</u>
(4,283,031)	3,396,532	(886,499)	3,828,727
<u>1,348,180,626</u>	<u>459,832,965</u>	<u>1,808,013,591</u>	<u>61,164,860</u>
<u>\$ 1,343,897,595</u>	<u>\$ 463,229,497</u>	<u>\$ 1,807,127,092</u>	<u>\$ 64,993,587</u>

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2003

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,657,163	\$ 15,351,034	\$ 14,850,346	\$ 31,858,543
Investments	33,917,451	54,284,527	725,000	88,926,978
Receivables, net of allowance for uncollectibles:				
Taxes	85,176,121	-	-	85,176,121
Accounts	-	28,580	527,725	556,305
Notes	1,500,000	-	3,752,548	5,252,548
Other	3,980,124	-	-	3,980,124
Due from other funds	-	1,175,757	-	1,175,757
Due from component units	450,000	-	-	450,000
Due from other governments	19,210,393	2,482,445	2,699,734	24,392,572
Inventories	1,018,454	-	-	1,018,454
Prepaid items	1,639,216	-	-	1,639,216
Total assets	<u>\$ 148,548,922</u>	<u>\$ 73,322,343</u>	<u>\$ 22,555,353</u>	<u>\$ 244,426,618</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,082,907	\$ 2,513,839	\$ 1,308,568	\$ 7,905,314
Due to other funds	2,005,775	-	848,656	2,854,431
Due to other governments	2,206,744	602,818	-	2,809,562
Due to component units	-	826,065	-	826,065
Deferred revenue	99,575,516	-	527,430	100,102,946
Contracts payable	-	379,401	-	379,401
Total liabilities	<u>107,870,942</u>	<u>4,322,123</u>	<u>2,684,654</u>	<u>114,877,719</u>
<b>Fund balances:</b>				
Reserved for:				
Encumbrances	849,253	10,096,303	514,175	11,459,731
Inventories	1,018,454	-	-	1,018,454
Prepaid items	1,639,216	-	-	1,639,216
Unreserved, designated for:				
Debt service	-	-	4,988,142	4,988,142
Subsequent years' expenditures	6,386,356	54,284,527	-	60,670,883
Unreserved, undesignated, reported in:				
General fund	30,784,701	-	-	30,784,701
Capital projects fund	-	4,619,390	-	4,619,390
Special revenue	-	-	14,368,382	14,368,382
Total fund balances	<u>40,677,980</u>	<u>69,000,220</u>	<u>19,870,699</u>	<u>129,548,899</u>
Total liabilities and fund balances	<u>\$ 148,548,922</u>	<u>\$ 73,322,343</u>	<u>\$ 22,555,353</u>	<u>\$ 244,426,618</u>

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, 2003

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

Fund balances - total governmental funds	\$ 129,548,899
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.	1,465,340,389
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.	11,259,583
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.	8,257,560
Internal service funds are 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 funds are included in governmental activities in the statement of net assets.	901,738
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	\$ (132,760,450)
Less net deferred refunding and original premiums and discounts	66,096
Notes payable	(5,620,284)
Capital leases	(115,925,472)
Compensated absences	(15,427,170)
Accrued interest payable	<u>(1,743,294)</u>
	<u>(271,410,574)</u>
Net assets of governmental activities	<u>\$ 1,343,897,595</u>

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, 2003

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 112,029,460	\$ -	\$ 876,506	\$ 112,905,966
Licenses and permits	6,649,684	-	-	6,649,684
Intergovernmental	39,996,512	4,027,264	22,512,032	66,535,808
Charges for services	3,177,236	-	73,112	3,250,348
Fines, forfeitures, and penalties	1,427,540	-	-	1,427,540
Investment income	883,363	1,015,592	391,028	2,289,983
Miscellaneous	4,486,874	674,987	2,417,480	7,579,341
Total revenues	<u>168,650,669</u>	<u>5,717,843</u>	<u>26,270,158</u>	<u>200,638,670</u>
<b>EXPENDITURES</b>				
Current:				
General government	51,924,116	-	17,431,663	69,355,779
Public safety	57,757,342	-	264,346	58,021,688
Public works	19,431,285	-	3,951,043	23,382,328
Parks and recreation	12,506,050	-	-	12,506,050
Community development	-	-	4,461,967	4,461,967
Capital outlay/fixed assets	-	37,818,283	635,408	38,453,691
Debt service:				
Principal retirement	-	-	4,753,112	4,753,112
Interest and fiscal charges	-	-	4,453,705	4,453,705
Total expenditures	<u>141,618,793</u>	<u>37,818,283</u>	<u>35,951,244</u>	<u>215,388,320</u>
Excess (deficiency) of revenues over (under) expenditures	<u>27,031,876</u>	<u>(32,100,440)</u>	<u>(9,681,086)</u>	<u>(14,749,650)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	65,322	9,525,769	11,868,682	21,459,773
Transfers out	(22,386,913)	(1,468,230)	(1,460,272)	(25,315,415)
Proceeds of refunding bonds	-	-	6,244,753	6,244,753
Proceeds of bonds and notes	-	68,163,714	-	68,163,714
Payment to refunded bonds escrow agent	-	-	(6,185,569)	(6,185,569)
Total other financing sources (uses)	<u>(22,321,591)</u>	<u>76,221,253</u>	<u>10,467,594</u>	<u>64,367,256</u>
Net change in fund balance	4,710,285	44,120,813	786,508	49,617,606
FUND BALANCE, beginning	<u>35,967,695</u>	<u>24,879,407</u>	<u>19,084,191</u>	<u>79,931,293</u>
FUND BALANCE, ending	<u>\$ 40,677,980</u>	<u>\$ 69,000,220</u>	<u>\$ 19,870,699</u>	<u>\$ 129,548,899</u>

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, 2003

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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	\$ 49,617,606
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.	44,021,298
Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.	(32,840,728)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds; however, issuing long-term debt increases long-term liabilities in the statement of net assets. Repayments of long-term debt are reported as an expenditure in governmental funds, but are a reduction of long-term liabilities in the statement of net assets. In the current year, these amounts included principal repayments on bonds, notes and other debt.	(63,369,547)
The net expenses of internal service funds are reported with governmental activities	(655,870)
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.	(1,234,358)
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds.	<u>178,568</u>
Change in net assets of governmental activities	<u>\$ (4,283,031)</u>

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, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 110,922,448	\$ 110,922,448	\$ 112,029,460	\$ 1,107,012
Licenses and permits	6,587,908	6,587,908	6,649,684	61,776
Intergovernmental	40,866,627	40,866,627	39,996,512	(870,115)
Charges for services	3,481,573	3,481,573	3,177,236	(304,337)
Fines, forfeitures, and penalties	1,761,760	1,761,760	1,427,540	(334,220)
Miscellaneous	6,177,004	6,178,448	6,364,307	185,859
Total revenues	<u>169,797,320</u>	<u>169,798,764</u>	<u>169,644,739</u>	<u>(154,025)</u>
<b>EXPENDITURES</b>				
General government	46,135,811	46,200,334	44,624,698	(1,575,636)
Finance and Administration	9,633,541	9,633,541	8,357,735	(1,275,806)
Police	35,976,450	35,938,516	35,670,358	(268,158)
Fire	23,007,450	23,007,450	22,344,424	(663,026)
Public Works	20,187,713	20,187,710	19,495,608	(692,102)
Parks and Recreation	12,867,940	12,867,940	12,405,220	(462,720)
Total expenditures	<u>147,808,905</u>	<u>147,835,491</u>	<u>142,898,043</u>	<u>(4,937,448)</u>
Excess of revenues over expenditures	<u>21,988,415</u>	<u>21,963,273</u>	<u>26,746,696</u>	<u>4,783,423</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	65,322	65,322	65,322	-
Transfers out	<u>(22,625,245)</u>	<u>(22,570,368)</u>	<u>(22,386,913)</u>	<u>183,455</u>
Total other financing sources (uses)	<u>(22,559,923)</u>	<u>(22,505,046)</u>	<u>(22,321,591)</u>	<u>183,455</u>
Net change in fund balance	<u>\$ (571,508)</u>	<u>\$ (541,773)</u>	4,425,105	<u>\$ 4,966,878</u>
Adjustment for encumbrances			<u>285,180</u>	
Net change in fund balance (GAAP basis)			4,710,285	
FUND BALANCE at beginning of year (GAAP basis)			<u>35,967,695</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 40,677,980</u>	
<b>EXPLANATION OF DIFFERENCES:</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 169,644,739	
Employee benefit payments received from other funds			<u>(994,070)</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 168,650,669</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 142,898,043	
Adjustment for encumbrances			<u>(285,180)</u>	
Employee benefit payments for other funds			<u>(994,070)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 141,618,793</u>	

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, 2003

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds		
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 30,085,000	\$ 9,568,553	\$ 3,682,853	\$ 6,323,127	\$ 49,659,533	\$ 842,344
Investments	31,212,000	21,039,951	-	-	52,251,951	-
Receivables:						
Customer service	31,341,000	5,737,911	81,158	687,087	37,847,156	75,728
Other	562,000	1,497,327	-	-	2,059,327	-
Less allowance for doubtful accounts	(750,000)	(2,600)	(1,200)	(405,079)	(1,158,879)	-
Inventories	5,657,000	816,947	-	-	6,473,947	919,342
Due from other funds	-	32,813	-	528	33,341	1,645,333
Due from other governments	-	277,470	-	149,468	426,938	255,774
Other current assets	1,822,000	-	-	72,327	1,894,327	-
<b>Total current assets</b>	<b>99,929,000</b>	<b>38,968,372</b>	<b>3,762,811</b>	<b>6,827,458</b>	<b>149,487,641</b>	<b>3,738,521</b>
<b>RESTRICTED ASSETS</b>						
Cash and cash equivalents	-	-	7,031,411	-	7,031,411	-
Investments	-	1,342,995	4,466,395	-	5,809,390	-
Accounts receivable	-	-	39,924	-	39,924	-
Land	-	33,000	-	-	33,000	-
<b>Total restricted assets</b>	<b>-</b>	<b>1,375,995</b>	<b>11,537,730</b>	<b>-</b>	<b>12,913,725</b>	<b>-</b>
<b>CAPITAL ASSETS</b>						
Land	4,150,000	7,912,163	1,517,514	1,068,299	14,647,976	-
Buildings	15,336,000	41,077,081	1,717,098	8,535,809	66,665,988	589,948
Vehicles and machinery	359,082,000	11,447,248	5,113,778	1,138,915	376,781,941	1,154,632
Construction in progress	8,453,000	-	-	607,686	9,060,686	-
Sewer system	-	388,523,966	-	-	388,523,966	-
Storm water system	-	-	-	39,872,304	39,872,304	-
Telecommunications system	15,857,000	-	-	-	15,857,000	-
	402,878,000	448,960,458	8,348,390	51,223,013	911,409,861	1,744,580
Less accumulated depreciation	(165,158,000)	(139,039,496)	(3,738,910)	(5,055,737)	(312,992,143)	(1,156,347)
<b>Net capital assets</b>	<b>237,720,000</b>	<b>309,920,962</b>	<b>4,609,480</b>	<b>46,167,276</b>	<b>598,417,718</b>	<b>588,233</b>
<b>OTHER ASSETS</b>						
Deferred charges	585,000	1,259,876	187,840	136,142	2,168,858	-
Conservation loans receivable	1,386,000	-	-	-	1,386,000	-
TVA discounted energy units	4,875,000	-	-	-	4,875,000	-
Noncurrent investments	12,645,000	-	-	-	12,645,000	-
<b>Total other assets</b>	<b>19,491,000</b>	<b>1,259,876</b>	<b>187,840</b>	<b>136,142</b>	<b>21,074,858</b>	<b>-</b>
<b>Total assets</b>	<b>\$ 357,140,000</b>	<b>\$ 351,525,205</b>	<b>\$ 20,097,861</b>	<b>\$ 53,130,876</b>	<b>\$ 781,893,942</b>	<b>\$ 4,326,754</b>

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

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds		
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term liabilities	\$ 1,600,000	\$ 9,024,684	\$ 1,724,865	\$ 1,306,361	\$ 13,655,910	\$ -
Accounts payable and accrued liabilities	60,057,000	3,682,368	687,334	4,382,215	68,808,917	378,111
Accrued claims	-	-	-	-	-	2,535,000
Deposits	11,537,000	-	-	-	11,537,000	-
Contracts payable	-	293,846	-	4,257	298,103	-
Conservation advances	607,000	-	-	-	607,000	-
Other current liabilities	3,897,000	-	-	-	3,897,000	-
<b>Total current liabilities</b>	<b>77,698,000</b>	<b>13,000,898</b>	<b>2,412,199</b>	<b>5,692,833</b>	<b>98,803,930</b>	<b>2,913,111</b>
<b>LONG-TERM LIABILITIES</b>						
Notes and capital leases payable	-	22,488,056	-	1,439,893	23,927,949	-
Compensated absences	2,255,000	763,386	145,609	184,127	3,348,122	511,905
Accrued closure and post closure care	-	-	9,103,968	-	9,103,968	-
Revenue bonds payable	35,200,000	-	-	-	35,200,000	-
General obligation bonds payable	-	92,029,992	27,977,365	17,659,840	137,667,197	-
Deferred refunding	-	(4,461,008)	(662,337)	(473,920)	(5,597,265)	-
Original issue premium	-	2,965,138	827,884	618,522	4,411,544	-
Conservation advances	1,421,000	-	-	-	1,421,000	-
Accrued postretirement benefits	10,378,000	-	-	-	10,378,000	-
<b>Total long-term liabilities</b>	<b>49,254,000</b>	<b>113,785,564</b>	<b>37,392,489</b>	<b>19,428,462</b>	<b>219,860,515</b>	<b>511,905</b>
<b>Total liabilities</b>	<b>126,952,000</b>	<b>126,786,462</b>	<b>39,804,688</b>	<b>25,121,295</b>	<b>318,664,445</b>	<b>3,425,016</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	201,369,000	183,622,485	(1,408,086)	22,496,166	406,079,565	588,233
Restricted for capital	-	21,344,732	8,504,589	594,016	30,443,337	-
Unrestricted	28,819,000	19,771,526	(26,803,330)	4,919,399	26,706,595	313,505
<b>Total net assets</b>	<b>\$ 230,188,000</b>	<b>\$ 224,738,743</b>	<b>\$ (19,706,827)</b>	<b>\$ 28,009,581</b>	<b>\$ 463,229,497</b>	<b>\$ 901,738</b>

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
Year Ended June 30, 2003

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds	
<b>OPERATING REVENUES</b>					
Charges for sales and services:					
Electric sales	\$ 348,824,000	\$ -	\$ -	\$ -	\$ 348,824,000
Sewer charges	-	32,757,729	-	-	32,757,729
Waste charges	-	-	667,253	-	667,253
Stormwater fees	-	-	-	4,951,932	4,951,932
Rent	-	-	-	1,190,134	1,190,134
Other services	14,741,000	-	-	97,671	14,838,671
Other	-	-	66,196	-	66,196
Total operating revenues	<u>363,565,000</u>	<u>32,757,729</u>	<u>733,449</u>	<u>6,239,737</u>	<u>403,295,915</u>
<b>OPERATING EXPENSES</b>					
Power purchases	284,700,000	-	-	-	284,700,000
Sewer plant operations	-	16,307,297	-	-	16,307,297
Solid waste operations	-	-	2,621,150	-	2,621,150
Storm water operations	-	-	-	2,793,619	2,793,619
Pump station operations	-	1,650,249	-	-	1,650,249
Housing management operations	-	-	-	992,339	992,339
Municipal garage operations	-	-	-	-	-
Maintenance and repairs	14,095,000	-	-	-	14,095,000
Depreciation and amortization	14,630,000	9,557,446	667,203	1,118,730	25,973,379
Closure/postclosure costs	-	-	634,521	-	634,521
Liability insurance	-	-	-	-	-
Other	48,692,000	406	-	105,765	48,798,171
Total operating expenses	<u>362,117,000</u>	<u>27,515,398</u>	<u>3,922,874</u>	<u>5,010,453</u>	<u>398,565,725</u>
OPERATING INCOME (LOSS)	<u>1,448,000</u>	<u>5,242,331</u>	<u>(3,189,425)</u>	<u>1,229,284</u>	<u>4,730,190</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Intergovernmental	-	-	-	1,241,536	1,241,536
Investment income	1,501,000	573,045	170,746	6,629	2,251,420
Interest expense	(1,880,000)	(4,336,051)	(1,462,985)	(949,207)	(8,628,243)
Other income (expense)	(1,190,000)	133,968	2,802	(58,783)	(1,112,013)
Total nonoperating revenues (expenses)	<u>(1,569,000)</u>	<u>(3,629,038)</u>	<u>(1,289,437)</u>	<u>240,175</u>	<u>(6,247,300)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(121,000)</u>	<u>1,613,293</u>	<u>(4,478,862)</u>	<u>1,469,459</u>	<u>(1,517,110)</u>
Capital contributions	1,058,000	-	-	-	1,058,000
Transfers in	-	-	4,784,387	683,952	5,468,339
Transfers out	-	-	(1,612,697)	-	(1,612,697)
CHANGE IN NET ASSETS	937,000	1,613,293	(1,307,172)	2,153,411	3,396,532
NET ASSETS, beginning	<u>229,251,000</u>	<u>223,125,450</u>	<u>(18,399,655)</u>	<u>25,856,170</u>	<u>459,832,965</u>
NET ASSETS, ending	<u>\$ 230,188,000</u>	<u>\$ 224,738,743</u>	<u>\$ (19,706,827)</u>	<u>\$ 28,009,581</u>	<u>\$ 463,229,497</u>

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, 2003

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds		Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers and users	\$ 367,290,000	\$ 32,276,155	\$ 707,122	\$ 6,697,593	\$ 406,970,870	\$ 582,680
Receipts from interfund services provided	-	-	-	-	-	7,696,187
Receipts from operating grants	-	-	66,196	-	66,196	-
Payments to suppliers	(320,723,000)	(15,131,536)	(2,494,644)	(3,743,159)	(342,092,339)	(5,645,330)
Payments to employees	(22,925,000)	(4,905,756)	(937,776)	(1,809,434)	(30,577,966)	(2,813,937)
Payments in lieu of taxes	(8,605,000)	-	-	-	(8,605,000)	-
Net cash provided by (used in) operating activities	<u>15,037,000</u>	<u>12,238,863</u>	<u>(2,659,102)</u>	<u>1,145,000</u>	<u>25,761,761</u>	<u>(180,400)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers in	-	-	4,784,387	683,952	5,468,339	-
Transfers out	-	-	(1,612,697)	-	(1,612,697)	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>3,171,690</u>	<u>683,952</u>	<u>3,855,642</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt	-	60,448,748	-	2,473,825	62,922,573	-
Principal paid on capital debt	(1,600,000)	(8,660,222)	(1,641,476)	(1,283,155)	(13,184,853)	-
Payments to escrow agent	-	(44,342,953)	-	-	(44,342,953)	-
Interest paid on capital debt	(1,887,000)	(4,077,349)	(1,395,770)	(963,740)	(8,323,859)	-
Capital grants received	-	-	-	1,546,646	1,546,646	-
Capital contributions	1,058,000	-	-	-	1,058,000	-
Additions to capital assets	(21,823,000)	(16,493,348)	-	(3,559,222)	(41,875,570)	(15,137)
Net cash flows used in capital and related financing activities	<u>(24,252,000)</u>	<u>(13,125,124)</u>	<u>(3,037,246)</u>	<u>(1,785,646)</u>	<u>(42,200,016)</u>	<u>(15,137)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of investments	-	(72,674,184)	(49,933,225)	-	(122,607,409)	-
Proceeds from sales and maturities of investments	600,000	75,922,227	55,454,990	720,978	132,698,195	-
Interest on investments	317,000	533,249	228,183	16,583	1,095,015	-
Net cash flows provided by investing activities	<u>917,000</u>	<u>3,781,292</u>	<u>5,749,948</u>	<u>737,561</u>	<u>11,185,801</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(8,298,000)	2,895,031	3,225,290	780,867	(1,396,812)	(195,537)
Cash and cash equivalents, beginning of year	<u>38,383,000</u>	<u>6,673,522</u>	<u>7,488,974</u>	<u>5,542,260</u>	<u>58,087,756</u>	<u>1,037,881</u>
Cash and cash equivalents, end of year	<u>\$ 30,085,000</u>	<u>\$ 9,568,553</u>	<u>\$ 10,714,264</u>	<u>\$ 6,323,127</u>	<u>\$ 56,690,944</u>	<u>\$ 842,344</u>
<b>CLASSIFIED AS:</b>						
Current assets	\$ 30,085,000	\$ 9,568,553	\$ 3,682,853	\$ 6,323,127	\$ 49,659,533	\$ 842,344
Restricted assets	-	-	7,031,411	-	7,031,411	-

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				Totals	Governmental Activities - Internal Service Funds
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Other Funds		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
OPERATING INCOME (LOSS)	<u>\$ 1,448,000</u>	<u>\$ 5,242,331</u>	<u>\$ (3,189,425)</u>	<u>\$ 1,229,284</u>	<u>\$ 4,730,190</u>	<u>\$ (655,870)</u>
ADJUSTMENTS NOT AFFECTING CASH						
Depreciation and amortization	15,393,000	9,557,446	667,203	1,118,730	26,736,379	113,565
Provision for uncollectible accounts	-	166,834	1,809	232,514	401,157	-
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	3,506,000	(1,949,048)	34,443	229,109	1,820,504	51,466
(Increase) decrease in due from other funds	-	(32,813)	10,671	-	(22,142)	(149,500)
(Increase) decrease in due from other governments	-	-	-	-	-	(127,739)
(Increase) decrease in inventory	1,175,000	(26,524)	-	-	1,148,476	72,742
(Increase) decrease in prepaid items	(4,519,000)	-	-	(23,456)	(4,542,456)	-
(Increase) decrease in deferred charges	(223,000)	(204,293)	-	-	(427,293)	-
Increase (decrease) in accounts payable	(3,377,000)	834,195	(434,248)	(1,447,990)	(4,425,043)	133,405
Increase (decrease) in accrued liabilities	129,000	(806,847)	266,916	(223,241)	(634,172)	375,804
Increase (decrease) in other assets/liabilities	1,422,000	(525,093)	3,755	30,050	930,712	-
Increase (decrease) in compensated absences	83,000	(17,325)	(20,226)	-	45,449	5,727
TOTAL ADJUSTMENTS	<u>13,589,000</u>	<u>6,996,532</u>	<u>530,323</u>	<u>(84,284)</u>	<u>21,031,571</u>	<u>475,470</u>
Net cash provided by (used in) operating activities	<u>\$ 15,037,000</u>	<u>\$ 12,238,863</u>	<u>\$ (2,659,102)</u>	<u>\$ 1,145,000</u>	<u>\$ 25,761,761</u>	<u>\$ (180,400)</u>

CITY OF CHATTANOOGA, TENNESSEE  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 June 30, 2003

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ (194,549)	\$ 7,253
Investments	348,401,779	68,756
Receivables:		
Accrued income	1,050,884	48
Contributions	157,392	-
Due from plan custodian	1,992,490	-
Total assets	351,407,996	76,057
<b>LIABILITIES</b>		
Due to plan custodian	3,953,141	-
Accounts payable and accrued expenses	446,381	-
Total liabilities	4,399,522	-
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	\$ 347,008,474	\$ 76,057

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, 2003

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 6,165,841	\$ -
Employee	3,461,507	-
Total contributions	9,627,348	-
Investment income (loss):		
Net appreciation (depreciation) in fair market value of investments	(353,399)	2,809
Interest	5,936,400	1,814
Dividends	3,177,208	-
	8,760,209	4,623
Less investment expense	(1,340,232)	-
Net investment income	7,419,977	4,623
Total additions	17,047,325	4,623
<b>DEDUCTIONS</b>		
Benefits paid to participants	21,129,456	-
Administrative expenses	623,406	300
Total deductions	21,752,862	300
<b>CHANGE IN NET ASSETS</b>	(4,705,537)	4,323
Net assets, beginning	351,714,011	71,734
Net assets, ending	\$ 347,008,474	\$ 76,057

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, 2003

	Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 920,012	\$ 1,035,990	\$ 1,138,384	\$ 3,094,386
Investments	24,867	105,164	-	130,031
Accounts receivable	1,366,727	1,111,239	441,003	2,918,969
Net investment in capital lease	-	-	115,925,472	115,925,472
Due from primary government	-	-	826,065	826,065
Deferred charges	226,544	-	1,690,937	1,917,481
Inventories	-	128,057	157,256	285,313
Prepaid items	254,210	224,615	161,712	640,537
Net pension asset	-	172,677	-	172,677
Restricted assets:				
Cash and cash equivalents	619,671	959,000	-	1,578,671
Investments	5,022,399	-	9,783,299	14,805,698
Receivables	87,912	-	147,940	235,852
Land and other nondepreciable assets	2,601,481	3,938,994	4,644	6,545,119
Other capital assets, net of accumulated depreciation	<u>40,403,310</u>	<u>27,130,866</u>	<u>-</u>	<u>67,534,176</u>
Total assets	<u>51,527,133</u>	<u>34,806,602</u>	<u>130,276,712</u>	<u>216,610,447</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	497,396	784,844	3,249,200	4,531,440
Contracts payable	845,846	-	-	845,846
Due to primary government	-	450,000	-	450,000
Revenue bonds payable	16,072,133	-	129,200,000	145,272,133
Original issue premium	-	-	99,542	99,542
Deferred revenue	<u>6,749</u>	<u>411,150</u>	<u>-</u>	<u>417,899</u>
Total liabilities	<u>17,422,124</u>	<u>1,645,994</u>	<u>132,548,742</u>	<u>151,616,860</u>
<b>NET ASSETS</b>				
Invested in capital assets (net of related debt)	26,932,659	31,069,860	4,644	58,007,163
Restricted for:				
Debt service	5,729,982	105,164	9,783,100	15,618,246
Unrestricted	<u>1,442,368</u>	<u>1,985,584</u>	<u>(12,059,774)</u>	<u>(8,631,822)</u>
Total net assets	<u>\$ 34,105,009</u>	<u>\$ 33,160,608</u>	<u>\$ (2,272,030)</u>	<u>\$ 64,993,587</u>

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, 2003

	Program Revenues				Net Revenue (Expense) and Changes in Net Assets			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	
METROPOLITAN AIRPORT AUTHORITY								
Airport operations	\$ 7,377,036	\$ 5,634,222	\$ -	\$ 3,574,413	\$ 1,831,599	\$ -	\$ -	\$ 1,831,599
CARTA								
CARTA operations	13,962,152	3,673,187	5,303,518	4,999,651	-	14,204	-	14,204
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	<u>17,639,885</u>	<u>10,977,872</u>	<u>-</u>	<u>6,950,746</u>	<u>-</u>	<u>-</u>	<u>288,733</u>	<u>288,733</u>
Total component units	<u>\$ 38,979,073</u>	<u>\$ 20,285,281</u>	<u>\$ 5,303,518</u>	<u>\$ 15,524,810</u>	1,831,599	14,204	288,733	2,134,536
General revenues:								
Investment income					103,939	4,698	579,596	688,233
Miscellaneous					<u>934,139</u>	<u>71,819</u>	<u>-</u>	<u>1,005,958</u>
Total general revenues					<u>1,038,078</u>	<u>76,517</u>	<u>579,596</u>	<u>1,694,191</u>
CHANGE IN NET ASSETS					2,869,677	90,721	868,329	3,828,727
Net assets (deficit), beginning					<u>31,235,332</u>	<u>33,069,887</u>	<u>(3,140,359)</u>	<u>61,164,860</u>
Net assets (deficit), ending					<u>\$ 34,105,009</u>	<u>\$ 33,160,608</u>	<u>\$ (2,272,030)</u>	<u>\$ 64,993,587</u>

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

# cafr

Comprehensive Annual Financial Report – For the Year Ending June 30  
City of Chattanooga, Tennessee

2003

**Notes to Basic  
Financial Statements**

CITY OF CHATTANOOGA, TENNESSEE  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2003

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CITY OF CHATTANOOGA, TENNESSEE  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2003

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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 the proprietary fund types 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.

In June 1999, the GASB issued Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provided the most significant change in financial reporting in over twenty years and included a phased implementation (based on size of government) starting with fiscal years ending in 2002. As a part of this Statement, there is a new reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.). The City implemented the basic reporting model required by GASB Statement No. 34 and the infrastructure-related portion of GASB Statement No. 34 during 2002.

(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, 2003. 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  
P.O. Box 22444  
Chattanooga, TN 37422

CARTA  
1617 Wilcox Boulevard  
Chattanooga, TN 37406

Chattanooga Downtown Redevelopment Corporation  
427 City Hall Annex  
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 City and Hamilton County, Tennessee jointly and severally lease the trade center and parking garage. 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 2003 the City appropriated no funds to these organizations.

(C) Basic Financial Statements - GASB Statement No. 34

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities

reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permits, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is designed to view the City as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, public works, etc.).

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the proprietary fund statements should directly reconcile to the business-type activities column presented in the government-wide financial statements.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and private-purpose trust). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The focus of the GASB Statement No. 34 model is on the City as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

(D) Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by generic classification within the financial statements.

The GASB Statement No. 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the combining section.

The City reports the following major funds and other fund types:

**1) 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, Internal Service Funds, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

**2) Proprietary 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.

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.

### **3) Other 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.

**Internal Service Funds** - The Internal Service Funds are 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.

**Private-Purpose Trust Funds** - The Private-Purpose Trust Funds account for resources, including both principal and earnings, which must be expended for specific individuals and purposes according to the provisions of a trust agreement. These funds are accounted for in the same manner as business enterprises providing similar services.

### **4) Non-Current Governmental Assets/Liabilities:**

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

#### **(E) Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary, Fiduciary and Component Unit Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

**Accrual** - Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be thirty days, except for property taxes, for which the time period is sixty days. The major revenue sources meeting the availability criterion are intergovernmental revenues and taxes.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. The recipient should under most circumstances, report resources transmitted before the eligibility requirements are met as advances by the provider and as deferred revenue.

(F) 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 Funds, 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 (a) encumbrances are treated as budget expenditures in the year of the commitment to purchase and (b) budgeted revenues and expenditures in the General Fund include retiree reimbursements of health insurance. For the fiscal year ended June 30, 2003, retiree reimbursements of health insurance of \$994,070 are presented as budgetary basis revenues and expenditures of the General Fund. This amount is not included in GAAP basis revenues and expenditures. 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 have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2003, several supplemental appropriations were necessary.

(G) 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 in the enterprise funds, 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:

	<u>Useful Life</u>
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.

## 5) 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.

## 6) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental funds 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.

## 7) 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.

## (H) 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 2002 are recorded as receivables, net of estimated uncollectibles.

The receivables collected during the current fiscal year and those collected by the City Treasurer, related to tax levies for fiscal year 2002, 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, 2003, are recorded as deferred revenues at June 30, 2003.

## **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. The liability for compensated absences attributable to the City's governmental funds 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. 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.

### **(I) 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 revisit or alter these managerial decisions.

**NOTE 2. RESTATEMENTS OF PRIOR YEAR BALANCES**

**Restatements of Net Assets – Governmental Activities**

As discussed in Note 6, the City recorded adjustments to beginning net capital assets during the year ended June 30, 2003. In addition, the actuarial reports on the Firemen’s and Policemen’s Insurance and Pension Fund were revised to evaluate the impact on funding obligations of market declines in recent years. The revised actuarial reports computed net pension assets of \$4,350,397 at June 30, 2002, which were not previously recorded. Accordingly, beginning net assets of the primary government have been restated to reflect these changes. The impact of the restatements on net assets as previously reported is as follows:

	<u>Governmental Activities</u>
Total net assets at June 30, 2002, as previously reported	\$1,237,324,301
Adjustments to capital assets, net	106,505,928
Additional net pension assets	<u>4,350,397</u>
Total net assets at June 30, 2002, as restated	<u>\$1,348,180,626</u>

**NOTE 3. 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, 2003, the City had no material excess of expenditures over appropriations in individual funds.

**Net Assets/Fund Balance Deficit**

The Solid Waste/Sanitation Fund has a deficit in net assets of \$19,706,827 at June 30, 2003. 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.

#### NOTE 4. CASH AND INVESTMENTS

Effective June 30, 2003, the City implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." This statement eliminated or modified portions of the disclosures previously required by GASB Statement No. 3. GASB Statement No. 40 is designed to improve financial reporting of deposit and investment risks.

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, 2003, investments of the primary government (except for Pension Trust Funds) and component units consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value or Carrying Amount</u>
Primary Government – Governmental Activities:		
U.S. Treasury Notes	0.32	\$ 8,373,589
U.S. Government agency securities	0.63	79,828,389
Certificates of deposit classified as investments	<u>0.32</u>	<u>725,000</u>
Total	<u>0.60</u>	<u>\$88,926,978</u>
Primary Government – Business-Type Activities:		
U.S. Treasury Notes	0.42	\$ 4,106,000
U.S. Government agency securities	0.51	65,077,346
Certificates of deposit classified as investments	0.44	1,342,995
Investments in mutual funds	<u>0.00</u>	<u>180,000</u>
Total	<u>0.50</u>	<u>\$70,706,341</u>
Component Units:		
U.S. Treasury Notes	0.38	\$ 1,623,875
U.S. Government agency securities	0.59	10,884,161
U.S Treasury money market fund	0.00	2,391,585
Cash equivalents classified as investments	<u>0.00</u>	<u>36,108</u>
Total	<u>0.47</u>	<u>\$14,935,729</u>

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 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, 2003, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, 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 \$1,101,103 were securities of the Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, which were rated AAA by S & P. Component unit investments in U.S. Government agency securities of \$9,783,299 were discount notes of the Federal Home Loan Mortgage Corporation, which were not rated.

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

	<u>S &amp; P or Moody's Rating</u>	<u>Fair Value</u>
<u>City of Chattanooga General Pension Plan</u>		
U.S. Government securities	AAA	\$ 8,471,030
U.S. Government agency securities	AAA	596,853
Domestic corporate bonds	AAA	439,906
Domestic corporate bonds	A	7,021,499
Domestic corporate bonds	B	8,798
Domestic corporate bonds	BA	980,000
Domestic corporate bonds	BAA	5,038,056
Domestic corporate bonds	Not rated	1,294,375
Mutual funds	Not rated	46,231,360
Mortgage-backed securities	Not rated	13,138,611
Domestic equity securities	Not rated	67,069,636
Limited Partnerships	Not rated	<u>11,987,627</u>
		<u>\$162,277,751</u>

	S & P or Moody's Rating	Fair Value
<u>Firemen's and Policemen's Insurance and Pension Fund</u>		
U.S. Government securities	AAA	\$ 2,898,485
U.S Treasury bills	AAA	2,363,235
U.S. Government agency securities	AAA	7,150,213
Domestic corporate bonds	AAA	1,300,296
Asset-backed securities	AAA	1,037,898
Domestic corporate bonds	AA	6,839,221
Asset-backed securities	AA	324,605
Foreign bonds	AA	323,485
Domestic corporate bonds	A	10,202,863
Asset-backed securities	A	230,438
Foreign bonds	A	1,908,351
Domestic corporate bonds	BAA	5,351,912
Municipal bonds	BAA	150,507
Foreign bonds	BAA	1,080,496
Asset-backed securities	Not rated	749,503
Mutual funds	Not rated	86,738,952
Domestic equity securities	Not rated	37,539,540
Money market funds	Not rated	8,816,044
Common Trust fund	Not rated	10,232,984
Investment in real estate corporation	Not rated	<u>885,000</u>
		<u>\$186,124,028</u>

#### NOTE 5. RECEIVABLES

Receivables at June 30, 2003, consist of the following:

	<u>Governmental Activities Funds</u>			Business-Type Activities	Total
	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental</u>		
<b>Primary Government</b>					
Receivables:					
Taxes	\$ 87,488,385	\$ -	\$ -	\$ -	\$ 87,488,385
Accounts	-	28,580	527,725	39,924	596,229
Notes	1,500,000	-	3,752,548	-	5,252,548
Customer service	-	-	-	37,847,156	37,847,156
Other	4,231,730	-	-	3,445,327	7,677,057
Intergovernmental	<u>18,958,787</u>	<u>2,482,445</u>	<u>2,699,734</u>	<u>426,938</u>	<u>24,567,904</u>
Gross receivables	112,178,902	2,511,025	6,980,007	41,759,345	163,429,279
Less:					
Allowance for uncollectibles	<u>(2,312,264)</u>	-	-	<u>(1,158,879)</u>	<u>(3,471,143)</u>
Net receivables	<u>\$109,866,638</u>	<u>\$2,511,025</u>	<u>\$6,980,007</u>	<u>\$40,600,466</u>	<u>\$159,958,136</u>

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, 2003.

## NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 is as follows:

### Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Non-Depreciable Assets:</b>				
Land and land improvements	\$ 915,432,082	\$ 15,054,544	\$ 253,061	\$ 930,233,565
Construction in Progress	<u>55,168,541</u>	<u>8,440,873</u>	<u>6,483,411</u>	<u>57,126,003</u>
Total non-depreciable assets	<u>970,600,623</u>	<u>23,495,417</u>	<u>6,736,472</u>	<u>987,359,568</u>
<b>Depreciable Assets:</b>				
Buildings	107,867,181	2,333,572	932,033	109,268,720
Vehicles and machinery	70,986,968	8,370,350	1,199,679	78,157,639
Improvements other than buildings	18,605,809	960,549	-	19,566,358
Infrastructure	<u>531,780,522</u>	<u>16,545,051</u>	<u>-</u>	<u>548,325,573</u>
Total depreciable assets	<u>729,240,480</u>	<u>28,209,522</u>	<u>2,131,712</u>	<u>755,318,290</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	28,446,178	4,233,089	-	32,679,267
Vehicles and machinery	46,786,235	6,416,248	1,199,679	52,002,804
Improvements other than buildings	12,121,352	816,694	-	12,938,046
Infrastructure	<u>157,640,857</u>	<u>21,488,262</u>	<u>-</u>	<u>179,129,119</u>
Total accumulated depreciation	<u>244,994,622</u>	<u>32,954,293</u>	<u>1,199,679</u>	<u>276,749,236</u>
Depreciable Assets, net	<u>484,245,858</u>	<u>(4,744,771)</u>	<u>932,033</u>	<u>478,569,054</u>
Governmental activities capital assets, net	<u>\$1,454,846,481</u>	<u>\$ 18,750,646</u>	<u>\$7,668,505</u>	<u>\$1,465,928,622</u>
<b>Business-Type Activities:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 14,222,312	\$ 425,664	\$ -	\$ 14,647,976
Construction in Progress	<u>10,203,335</u>	<u>2,266,308</u>	<u>3,408,957</u>	<u>9,060,686</u>
Total non-depreciable assets	<u>24,425,647</u>	<u>2,691,972</u>	<u>3,408,957</u>	<u>23,708,662</u>
<b>Depreciable Assets:</b>				
Buildings	57,233,143	9,433,845	1,000	66,665,988
Vehicles and machinery	364,436,706	18,162,235	5,817,000	376,781,941
Sewer system	375,992,259	12,531,707	-	388,523,966
Storm water system	39,586,640	285,664	-	39,872,304
Telecommunications	<u>14,412,000</u>	<u>1,446,000</u>	<u>1,000</u>	<u>15,857,000</u>
Total depreciable assets	<u>851,660,748</u>	<u>41,859,451</u>	<u>5,819,000</u>	<u>887,701,199</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	12,303,186	1,927,005	1,000	14,229,191
Vehicles and machinery	154,108,612	14,250,781	4,712,000	163,647,393
Sewer system	120,180,059	7,594,063	-	127,774,122
Storm water system	2,998,907	797,530	-	3,796,437
Telecommunications	<u>2,143,000</u>	<u>1,404,000</u>	<u>2,000</u>	<u>3,545,000</u>
Total accumulated depreciation	<u>291,733,764</u>	<u>25,973,379</u>	<u>4,715,000</u>	<u>312,992,143</u>
Depreciable Assets, net	<u>559,926,984</u>	<u>15,886,072</u>	<u>1,104,000</u>	<u>574,709,056</u>
Business-type activities capital assets, net	<u>\$ 584,352,631</u>	<u>\$ 18,578,044</u>	<u>\$4,512,957</u>	<u>\$ 598,417,718</u>

**Discretely Presented Component Units**

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land	\$ 4,380,320	\$ 200,935	\$ -	\$ 4,581,255
Construction in Progress	1,932,893	30,971	-	1,963,864
Total non-depreciable assets	<u>6,313,213</u>	<u>231,906</u>	<u>-</u>	<u>6,545,119</u>
Depreciable Assets:				
Buildings	47,304,926	92,462	-	47,397,388
Vehicles and machinery	34,858,920	2,529,639	570,482	36,818,077
Improvements other than buildings	25,525,500	4,314,697	5,103	29,835,094
Total depreciable assets	<u>107,689,346</u>	<u>6,936,798</u>	<u>575,585</u>	<u>114,050,559</u>
Less Accumulated Depreciation for:				
Buildings	21,142,882	1,995,268	-	23,138,150
Vehicles and machinery	19,604,047	1,753,613	560,377	20,797,283
Improvements other than buildings	1,085,046	709,363	-	1,794,409
Infrastructure	-	786,541	-	786,541
Total accumulated depreciation	<u>41,831,975</u>	<u>5,244,785</u>	<u>560,377</u>	<u>46,516,383</u>
Depreciable Assets, net	<u>65,857,371</u>	<u>1,692,013</u>	<u>15,208</u>	<u>67,534,176</u>
Component units capital assets, net	<u>\$ 72,170,584</u>	<u>\$1,923,919</u>	<u>\$ 15,208</u>	<u>\$ 74,079,295</u>

Following the implementation of GASB Statement No. 34 in 2002, the City continued to expand and refine its capital assets records. During 2003 the City improved the process of matching physical inventories of capital assets to the capital assets records and adjusted the capital assets records accordingly. The City also obtained revised engineering estimates related to roads and roadbeds. As a result, the City reclassified costs of approximately \$875,000,000 from long-lived depreciable infrastructure to inexhaustible land improvements. The revisions impacted the accumulated depreciation previously recorded. Effective July 1, 2002, net capital assets have been adjusted for the effect of these changes, as follows:

	<u>Governmental Activities</u>
Capital assets, net, as previously reported	\$1,232,415,081
Adjustments for:	
Revised estimates on capital leases described in Note 7	115,925,472
Revised estimates on infrastructure and land improvements	<u>106,505,928</u>
Capital assets, net, as restated	<u>\$1,454,846,481</u>

**Depreciation expense is charged to functions as follows:**

Primary Government – Governmental Activities:	
General government	\$ 6,198,465
Public Safety	2,534,418
Public Works	22,076,023
Parks and Recreation	1,936,369
Social Services	209,018
Total	<u>\$32,954,293</u>
Primary Government – Business-Type Activities:	
Sewer	\$ 9,557,446
Solid Waste/Sanitation	667,203
Storm Water	884,665
Housing Management	234,065
Electric Utility	<u>14,630,000</u>
Total	<u>\$25,973,379</u>
Discretely Presented Component Units:	
Transportation Authority	\$ 3,200,935
Airport Authority	<u>2,043,850</u>
Total	<u>\$ 5,244,785</u>

## NOTE 7. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2003, were as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
<b>Primary Government</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General obligation serial bonds	\$ 68,793,955	\$73,217,950	\$ 9,251,455	\$132,760,450	\$ 3,862,647
Notes payable	6,893,988	150,000	1,423,704	5,620,284	550,871
Capital leases payable	115,925,472	-	-	115,925,472	-
Compensated absences	<u>15,290,053</u>	<u>649,022</u>	<u>-</u>	<u>15,939,075</u>	<u>1,191,291</u>
Total governmental activities	<u>\$206,903,468</u>	<u>\$74,016,972</u>	<u>\$10,675,159</u>	270,245,281	<u>\$ 5,604,809</u>
Net deferred refunding and original issue premiums and discounts				<u>(66,096)</u>	
				<u>\$270,179,185</u>	
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>EPB:</b>					
Revenue bonds	\$ 38,400,000	\$ -	\$ 1,600,000	\$ 36,800,000	\$1,600,000
Compensated absences	<u>2,224,000</u>	<u>31,000</u>	<u>-</u>	<u>2,255,000</u>	<u>-</u>
	<u>40,624,000</u>	<u>31,000</u>	<u>1,600,000</u>	<u>39,055,000</u>	<u>1,600,000</u>
<b>Interceptor Sewer System:</b>					
General obligation serial bonds	107,942,691	45,427,050	52,691,095	100,678,646	8,648,654
Notes payable	7,815,172	15,021,698	295,072	22,541,798	307,046
Capital leases payable	288,204	-	17,008	271,196	17,892
Compensated absences	<u>839,571</u>	<u>-</u>	<u>25,093</u>	<u>814,478</u>	<u>51,092</u>
	<u>116,885,638</u>	<u>60,448,748</u>	<u>53,028,268</u>	<u>124,306,118</u>	<u>9,024,684</u>
<b>Solid Waste/Sanitation Fund:</b>					
General obligation serial bonds	31,338,653	-	1,641,476	29,697,177	1,719,811
Compensated absences	<u>170,889</u>	<u>-</u>	<u>20,227</u>	<u>150,662</u>	<u>5,054</u>
	<u>31,509,542</u>	<u>-</u>	<u>1,661,703</u>	<u>29,847,839</u>	<u>1,724,865</u>
<b>Storm Water Fund:</b>					
General obligation serial bonds	19,924,702	-	1,105,973	18,818,729	1,158,888
Notes payable	1,707,469	-	131,130	1,576,339	136,446
Compensated absences	<u>185,917</u>	<u>9,236</u>	<u>-</u>	<u>195,153</u>	<u>11,027</u>
	<u>21,818,088</u>	<u>9,236</u>	<u>1,237,103</u>	<u>20,590,221</u>	<u>1,306,361</u>
Total business-type activities	<u>\$210,837,268</u>	<u>\$60,488,984</u>	<u>\$57,527,074</u>	213,799,178	<u>\$13,655,910</u>
Net deferred refunding and original issue premiums and discounts				<u>(1,185,721)</u>	
				<u>\$212,613,457</u>	

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Due Within</u> <u>One Year</u>
<b>Discretely Presented Component Units</b>					
Metropolitan Airport Authority:					
Revenue bonds	\$ 16,750,000	\$ -	\$ 575,000	\$ 16,175,000	\$ 505,000
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	<u>129,200,000</u>	<u>-</u>	<u>-</u>	<u>129,200,000</u>	<u>-</u>
Total component units	<u>\$145,950,000</u>	<u>\$ -</u>	<u>\$ 575,000</u>	145,375,000	<u>\$ 505,000</u>
Original issue premiums and discounts				<u>(3,325)</u>	
				<u>\$145,371,675</u>	

In 1986, 1992, 1995, 1998, 2002, and 2003 the City refunded certain general obligation and sewage facility 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, 2003, the liabilities for the bonds refunded in 1986, 1992, 1996, 1998, 2002, and 2003 were \$10,150,000, \$21,630,000, \$13,350,000, \$26,715,000, \$76,515,000, and \$50,265,000, respectively.

On July 15, 2002, the City issued \$6,037,950 in General Obligation Refunding Bonds and \$32,252,050 in General Obligation Sewer Refunding Bonds with interest rates ranging from 3.00% to 5.00% for the purpose of refunding \$37,555,000 of general obligation bonds with interest rates ranging from 5.30% to 5.70%.

The effect of refunding the general obligation bonds resulted in a net decrease in total debt service payments over the next 12 years of \$3,349,125 and an economic gain (the difference between the present values of the old and new debt service payments) of \$2,245,645. At June 30, 2003, the liability for the refunded bonds was \$37,555,000.

On April 1, 2003, the City issued \$13,175,000 in General Obligation Sewer Refunding Bonds with interest rates ranging from 3.00% to 3.25% for the purpose of refunding \$12,710,000 of general obligation bonds with interest rates ranging from 4.70% to 5.125%.

The effect of refunding the general obligation bonds resulted in a net decrease in total debt service payments over the next 6 years of \$685,245 and an economic gain (the difference between the present values of the old and new debt service payments) of \$652,057. At June 30, 2003, the liability for the refunded bonds was \$12,710,000.

Debt related to governmental activities at June 30, 2003, 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. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Public Improvement Refunding, Series 1998	4.13% - 5.50%	\$ 7,247,800
Municipal Public Improvement, Series 2001	4.50% - 5.00%	37,916,800
Public Improvement Refunding, Series 2002	4.00% - 5.375%	14,377,900
Refunding Bonds, 2002 Series A	3.00% - 5.00%	6,037,950
Hotel-Motel Tax Pledge, Series 2002	3.00% - 5.00%	54,990,000
General Obligation, 2003 Series A	2.50% - 4.20%	<u>12,190,000</u>
Total payable from the Debt Service Fund		<u>\$132,760,450</u>

Hamilton County Series 1991 - Parking Garage - The City entered into an agreement with Hamilton County for cost sharing with respect to the parking garage for the Hamilton County/City of Chattanooga Courts/Jail complex in the principal amount of \$917,418. Hamilton County issued 15-year serial bonds to cover the cost of construction at rates ranging from 4.5% to 6.5%. Principal and interest payments are due annually to the County beginning 1992 through 2007. The remaining balance at June 30, 2003, is \$243,124.

Tennessee Municipal Bond Fund Loan - 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 beginning 1998 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, 2003, is \$5,339,098.

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, 2003, is \$38,062.

Capital Leases - In October, 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), formerly the Southside Redevelopment Corporation, 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 Chattanooga-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 one-half of the 1/2% city-only local option sales tax, income from the Chattanooga, 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.

Estimates of income from the Chattanooga were revised in 2003 because of recent economic conditions. The changed estimates caused the City to reclassify the capital assets of the project from the CDRC, a discretely presented component unit, to the primary government. The reclassification had no impact on the City's net assets because the additional capital assets were offset by recording a capital lease obligation to CDRC, as follows:

Land	\$ 4,898,094
Buildings and other capital assets	<u>111,027,378</u>
Obligations under capital lease	<u>\$115,925,472</u>

The debt service reserve fund held by the fiscal agent at June 30, 2003 amounts to \$9,783,058. 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.

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, 2003, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
EPB:		
Electric System Revenue Bonds, Series 2000	4.25% - 5.38%	\$ 36,800,000
Interceptor Sewer System Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	17,974,467
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	13,437,500
Municipal Public Improvement Refunding, Series 2002	3.00% - 4.50%	23,839,629
Refunding Bonds, 2002 Series A	3.00% - 5.00%	32,252,050
Refunding Bonds, 2003 Series B	3.00% - 3.25%	13,175,000
1992 State Revolving Sewer Loan*	3.98%	1,576,339
Northwest Georgia Sewer Expansion Project	4.00%	5,943,761
State Revolving Loan 2003	2.98%	15,021,698
City of Collegedale Capital Lease	Variable	271,196
Solid Waste/Sanitation Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	9,901,415
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	3,686,100
Municipal Public Improvement, Series 2001	4.50% - 5.00%	6,451,900
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	9,657,762
Storm Water Fund:		
1992 State Revolving Sewer Loan*	3.98%	1,576,339
Municipal Public Improvement, Series 1998	4.75% - 5.375%	7,399,119
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	2,528,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	1,916,300
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	<u>6,974,710</u>
Total payable from business-type activities		<u>\$210,383,885</u>

\*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, 2003, is \$3,152,678.

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 beginning 2000 through 2020. The balance at June 30, 2003, is \$5,943,761.

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 interest installments through 2023 at 2.98%. The principal is not due until the project is substantially complete. The balance at June 30, 2003, is \$15,021,698.

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 beginning October 1, 2000, through August 1, 2014, at variable rates of interest. The balance on this capital lease at June 30, 2003, is \$271,196.

Component Units debt at June 30, 2003, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	1.70%	\$ 12,625,000
Series B Refunding Revenue Bonds, Series 2002	1.97%	3,550,000
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.625%	<u>129,200,000</u>
Total payable from Component Units		<u>\$145,375,000</u>

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

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 4,413,518	\$ 13,501,135	\$13,588,737	\$ 9,125,725
2005	4,566,551	13,283,462	13,814,886	8,572,268
2006	5,017,183	13,091,393	13,883,243	8,006,526
2007	8,102,733	13,178,764	14,334,286	7,384,404
2008	7,147,922	12,820,993	12,672,146	6,811,294
2009-2013	43,520,626	57,838,519	59,607,407	25,447,548
2014-2018	44,351,902	46,672,054	43,162,621	13,310,234
2019-2023	47,882,172	34,210,013	32,790,254	5,521,622
2024-2028	59,256,529	18,638,161	6,530,305	563,189
2029-2031	<u>30,047,070</u>	<u>2,685,834</u>	-	-
	<u>\$254,306,206</u>	<u>\$225,920,328</u>	<u>\$210,383,885</u>	<u>\$ 84,742,810</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 505,000	\$ 7,443,766
2005	545,000	7,433,818
2006	585,000	7,423,081
2007	3,200,000	7,347,307
2008	3,490,000	7,203,146
2009-2013	20,730,000	33,512,550
2014-2018	25,840,000	28,475,126
2019-2023	29,040,000	21,602,019
2024-2028	35,140,000	12,692,559
2029-2031	26,300,000	2,273,063
	<u>\$145,375,000</u>	<u>\$135,406,435</u>

#### NOTE 8. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2003, outstanding funds advanced by TVA totaled \$2,027,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2003, the outstanding receivables for loans made from these funds amounted to \$1,947,000. A total of approximately \$78,417,000 has been loaned to EPB's customers since the programs were begun in 1977.

#### NOTE 9. 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.

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 remaining cost of administering the plan is borne by the City.

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 is now available providing 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 15.72 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. 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 is now available providing 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, 2003:

<u>Group</u>	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Retirees and beneficiaries currently receiving benefits	673	624
Vested terminated employees	53	4
Active employees	1,600	795
Actuarial update	1-1-2003	1-1-2003

**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:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Contribution rates for employer	1.82%	15.72%
Contribution rates for plan members	2.00%	8.00%
Annual pension cost	1,017,617	5,636,207
Contributions made by employer	947,317	5,218,524
Contributions made by plan members	1,034,181	2,427,326
Actuarial valuation date for current contributions	January 1, 2003	January 1, 2003
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent
Remaining amortization period	30 Years Open	40 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	5.50%	4.00%
Inflation rate	3.00%	4.00%

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

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Annual required contribution	\$ 974,113	\$ 4,440,048
Interest on net pension obligation (asset)	(337,367)	(358,908)
Adjustment to annual required contribution	<u>380,871</u>	<u>437,845</u>
Annual pension cost	1,017,617	4,518,985
Contributions made	<u>(404,126)</u>	<u>(4,541,413)</u>
Increase in net pension obligation (asset)	613,491	(22,428)
Net pension obligation (asset) at beginning of year	<u>(4,498,226)</u>	<u>(4,350,397)</u>
Net pension obligation (asset) at end of year	<u>\$(3,884,735)</u>	<u>\$(4,372,825)</u>

**Trend Information:**

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
General Pension Plan	12/31/02	\$1,017,617	100.00%	\$(3,884,735)
	12/31/01	19,882	N/A	(4,498,226)
	12/31/00	17,090	N/A	(4,518,108)
Firemen's and Policemen's Fund	12/31/02	4,518,985	100.00%	(4,372,825)
	12/31/01	2,104,019	100.00%	(4,350,397)
	6/30/01	3,653,408	100.00%	(4,372,825)

**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:**

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ (194,549)	\$ -	\$ (194,549)
Receivables:			
Accrued income	513,769	537,115	1,050,884
Contributions:			
Employer	75,206	-	75,206
Employee	82,186	-	82,186
Due from plan custodian	<u>-</u>	<u>1,992,490</u>	<u>1,992,490</u>
Total receivables	<u>671,161</u>	<u>2,529,605</u>	<u>3,200,766</u>

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
Investments, at fair value:			
U.S. Government securities	\$ 9,067,883	\$ 10,048,698	\$ 19,116,581
Municipal bonds	-	150,507	150,507
Corporate bonds	14,782,634	23,694,292	38,476,926
Foreign bonds	-	3,312,332	3,312,332
Asset-backed securities	13,138,611	2,342,444	15,481,055
Corporate stocks	67,069,636	86,738,952	153,808,588
Mutual funds	46,231,360	37,539,540	83,770,900
Temporary investments	-	11,179,279	11,179,279
Investment in Common Trust Fund	-	10,232,984	10,232,984
Other investments	<u>11,987,627</u>	<u>885,000</u>	<u>12,872,627</u>
Total investments	<u>162,277,751</u>	<u>186,124,028</u>	<u>348,401,779</u>
Total assets	<u>162,754,363</u>	<u>188,653,633</u>	<u>351,407,996</u>
<b>LIABILITIES</b>			
Due to plan custodian	-	3,953,141	3,953,141
Accrued expenses	<u>232,160</u>	<u>214,221</u>	<u>446,381</u>
Total liabilities	<u>232,160</u>	<u>4,167,362</u>	<u>4,399,522</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$162,522,203</u>	<u>\$184,486,271</u>	<u>\$347,008,474</u>

**Combining Statement of Changes in Plan Net Assets:**

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 947,317	\$ 5,218,524	\$ 6,165,841
Employee	<u>1,034,181</u>	<u>2,427,326</u>	<u>3,461,507</u>
Total contributions	<u>1,981,498</u>	<u>7,645,850</u>	<u>9,627,348</u>
Investment income:			
Net appreciation (depreciation) in fair market value of investments	55,131	(408,530)	(353,399)
Interest	2,161,933	3,774,467	5,936,400
Dividends	<u>1,338,391</u>	<u>1,838,817</u>	<u>3,177,208</u>
	3,555,455	5,204,754	8,760,209
Less investment expense	(567,930)	(772,302)	(1,340,232)
Net investment income	<u>2,987,525</u>	<u>4,432,452</u>	<u>7,419,977</u>
Total additions	<u>4,969,023</u>	<u>12,078,302</u>	<u>17,047,325</u>

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
DEDUCTIONS			
Benefits paid to participants	\$ 6,687,222	\$ 14,442,234	\$ 21,129,456
Administrative expenses	<u>213,998</u>	<u>409,408</u>	<u>623,406</u>
Total deductions	<u>6,901,220</u>	<u>14,851,642</u>	<u>21,752,862</u>
NET INCREASE (DECREASE)	(1,932,197)	(2,773,340)	(4,705,537)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>164,454,400</u>	<u>187,259,611</u>	<u>351,714,011</u>
End of year	<u>\$162,522,203</u>	<u>\$184,486,271</u>	<u>\$347,008,474</u>

#### 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 5.58% of annual covered payroll.

#### **Annual Pension Cost and Net Pension Obligation:**

EPB's annual pension cost of the Plan for the current year was \$1,310,481. 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, 2002, 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 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, (c) no postretirement benefit increases and (d) a discount rate of 8.0%.

### Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$1,310,481	100%	\$ -
6/30/02	1,148,796	100%	-
6/30/01	1,042,000	100%	-

### EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 10 percent of salary in a tax-deferred savings plan. EPB contributes up to 3 percent of an employee's salary. EPB contributions are fully vested and amounted to \$618,000 in 2003.

### Pension Plans of Component Units

CARTA is the only component unit with a separate defined benefit pension plan, 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, 2003. Condensed disclosures for CARTA's defined benefit pension plan are as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$281,012	100%	\$ -
6/30/02	258,529	100%	-
6/30/01	194,860	100%	-

### Postretirement Benefits

The City provides postretirement 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, 2003, there were 787 employees who had retired and were receiving healthcare benefits. The City is insured for a portion of these benefits. All the associated costs are accounted for in the General Fund and Enterprise Funds. For the year ended June 30, 2003, the City recognized expenditures of approximately \$4,844,702, which was offset by \$1,266,666 of retiree contributions.

### NOTE 10. 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, 2002	\$11,681,284
Deferrals of compensation	829,725
Earnings	299,739
Withdrawals	(756,292)
Administrative expenses	<u>(379)</u>
Asset balance at June 30, 2003	<u>\$12,054,077</u>

#### NOTE 11. 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 combined 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, 2003. The total contractual commitments outstanding as of June 30, 2003, aggregated approximately \$32,168,000. The City has sufficient funds available to cover these commitments.

#### NOTE 12. JOINT VENTURE

The Industrial Development Board of Chattanooga, Tennessee, issued Lease Rental Revenue Bonds, Series 1985, dated March 1, 1985, in the amount of \$17,950,000 for the purpose of providing funds to pay the principal and interest on certain bond anticipation notes issued in anticipation of the issuance of the Series 1985 bonds. The proceeds of said bond anticipation notes were used to provide funds for the acquiring, construction, improving, and equipping of certain public building facilities comprised of a trade center and a parking garage owned by Carter Street Corporation, a not-for-profit organization, whose board consists of five members. Two of the members are appointed by the County Mayor and two by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Mayor and the Mayor of Chattanooga.

The City and the County of Hamilton, Tennessee, as tenants in common, have jointly and severally, signed a lease agreement with the Corporation to lease from the Corporation the trade center and parking garage. The total amount of rent payable by the City and County as tenants is designed to fund the debt of the Corporation and a portion of the Corporation's operating expense. The lease shall remain in full force and effect until such time as all Lease Rental Revenue Bonds, issued on behalf of the Corporation, have been fully paid, or provision has been made for such payment. The lease may be terminated prior to such payment if the City or County shall exercise their respective options under the terms of the lease to purchase the project. Upon the repayment of the bonds, the City and County will have equity interests in the Corporation.

While the bonds owed by the Corporation do not constitute an indebtedness of the City or the County, under the terms of the lease the City and County are unconditionally obligated to make rental payments (one-third by the County and two-thirds by the City) to the Corporation which, in the aggregate, will be sufficient to pay principal and interest on the bonds. For the fiscal year ended June 30, 2003, lease payments from the City's General Fund were \$1,420,753.

The following is a schedule of future minimum lease payments required from the City under the terms of the lease:

2004	\$1,420,529
2005	1,419,100
2006	1,415,389

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, 2003, is as follows:

#### ASSETS

Cash	\$ 622,296
Accounts receivable, net	1,969,996
Inventories	46,985
Prepaid items	29,296
Premises and equipment, net	14,078,211
Other assets	<u>61,257</u>
Total assets	<u>\$16,808,041</u>

#### LIABILITIES AND FUND EQUITY

##### LIABILITIES

Accounts payable and accrued expenses	\$ 184,282
Accrued interest	111,558
Advance deposits	41,420
Bonds payable	<u>5,923,544</u>
Total liabilities	<u>6,260,804</u>

##### FUND EQUITY

Contributed capital:	
City of Chattanooga	3,557
Hamilton County	3,557
Urban development action grants	5,997,326
Marriott Corporation	<u>19,227</u>
	6,023,667
Retained earnings	<u>4,523,570</u>
Total fund equity	<u>10,547,237</u>
Total liabilities and fund equity	<u>\$16,808,041</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Total operating revenues	\$ 3,986,233
Total operating expenses	<u>5,512,308</u>
Loss from operations	(1,526,075)
Nonoperating revenues	3,393,710
Nonoperating expenses	<u>360,432</u>
Net income	1,507,203
Fund equity at July 1, 2002	<u>9,040,034</u>
Fund equity at June 30, 2003	<u><u>\$10,547,237</u></u>

NOTE 13. SEGMENTS OF NONMAJOR ENTERPRISE ACTIVITIES

The following condensed financial statements are presented for nonmajor enterprise funds as of June 30, 2003.

	<u>Storm Water</u>	<u>Housing Management</u>	<u>Total</u>
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current assets	\$ 6,385,158	\$ 442,300	\$ 6,827,458
Capital assets	37,748,934	8,418,342	46,167,276
Other assets	<u>136,142</u>	<u>-</u>	<u>136,142</u>
Total assets	<u>44,270,234</u>	<u>8,860,642</u>	<u>53,130,876</u>
Liabilities:			
Current liabilities	1,694,709	3,998,124	5,692,833
Noncurrent liabilities	<u>19,428,462</u>	<u>-</u>	<u>19,428,462</u>
Total liabilities	<u>21,123,171</u>	<u>3,998,124</u>	<u>25,121,295</u>
Net assets:			
Invested in capital assets, net of related debt	17,362,327	5,133,839	22,496,166
Restricted	594,016	-	594,016
Unrestricted	<u>5,190,720</u>	<u>(271,321)</u>	<u>4,919,399</u>
Total net assets	<u><u>\$23,147,063</u></u>	<u><u>\$ 4,862,518</u></u>	<u><u>\$28,009,581</u></u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b>			
Operating revenues	\$ 5,015,639	\$ 1,224,098	\$ 6,239,737
Operating expenses	(2,793,619)	(1,098,104)	(3,891,723)
Depreciation	<u>884,665</u>	<u>234,065</u>	<u>1,118,730</u>
Operating income (loss)	1,337,355	(108,071)	1,229,284
Nonoperating revenues (expenses):			
Intergovernmental	6,440	1,235,096	1,241,536
Interest income	6,070	559	6,629
Interest expense	(845,135)	(104,072)	(949,207)
Other income (expense)	<u>685,169</u>	<u>(60,000)</u>	<u>625,169</u>
Change in net assets	1,189,899	963,512	2,153,411
Net assets, beginning	<u>21,957,164</u>	<u>3,899,006</u>	<u>25,856,170</u>
Net assets, ending	<u><u>\$23,147,063</u></u>	<u><u>\$ 4,862,518</u></u>	<u><u>\$28,009,581</u></u>

**Condensed Statement of Cash Flows**

Net cash provided (used) by:			
Operating activities	\$ 2,110,596	\$ (965,596)	\$ 1,145,000
Noncapital financing activities	683,952	-	683,952
Capital and related financing activities	(2,869,888)	1,084,242	(1,785,646)
Investing activities	<u>737,001</u>	<u>560</u>	<u>737,561</u>
Net increase	661,661	119,206	780,867
Cash and cash equivalents, beginning	<u>5,435,424</u>	<u>106,836</u>	<u>5,542,260</u>
Cash and cash equivalents, ending	<u>\$ 6,097,085</u>	<u>\$ 226,042</u>	<u>\$ 6,323,127</u>

**NOTE 14. INTERFUND RECEIVABLES AND PAYABLES**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Enterprise Funds (Storm Water)	General Fund	\$ 528
Capital Projects Fund	General Fund	327,101
Interceptor Sewer Fund	General Fund	32,813
Internal Service Fund	General Fund	1,645,333
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	<u>848,656</u>
		<u>\$2,854,431</u>

**NOTE 15. INTERFUND TRANSFERS**

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$10,400,452
Public Library		\$2,405,725
Human Services		1,481,641
State Street Aid		320,000
Debt Service		6,193,086
Capital Projects Fund	General Fund	6,518,122
Solid Waste/Sanitation Fund	General Fund	4,784,387
Nonmajor Enterprise Funds (Storm Water)	General Fund	683,952
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	1,468,230
Capital Projects Fund	Nonmajor Governmental Funds	1,394,950
	Community Development	\$517,676
	Hotel/Motel	848,656
	Debt Service	28,618
General Fund	Nonmajor Governmental Funds	65,322
	Community Development	65,322
Capital Projects Fund	Solid Waste/Sanitation Fund	<u>1,612,697</u>
Total interfund transfers		<u>\$26,928,112</u>

**NOTE 16. CONDUIT DEBT OBLIGATIONS**

From time to time, the Industrial Development Board of the City of Chattanooga has issued Industrial Revenue 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, 2003, 119 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was \$188,000,000. The aggregate principal amounts payable for the 108 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$253,648,700.

#### NOTE 17. 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 closed landfills (Summit and 36<sup>th</sup> 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 \$9,103,968 at June 30, 2003, is based on the use of 100 percent of the capacity of the Summit landfill, and 75 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is five years. The City will recognize the remaining estimated costs of closure and postclosure care of \$1,234,528 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of \$10,338,496 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, 2003. 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 18. 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 Liability Insurance 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, 2003, 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). 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 Liability Insurance 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	Liability Insurance Fund
	<u>          </u>	<u>          </u>
Unpaid claims, June 30, 2001	\$ 461,375	\$2,098,000
Incurred claims (including IBNRs)	17,075,914	534,397
Claim payments	<u>(17,111,025)</u>	<u>(459,397)</u>
Unpaid claims, June 30, 2002	426,264	2,173,000
Incurred claims (including IBNRs)	20,344,579	866,956
Claim payments	<u>(20,289,459)</u>	<u>(504,956)</u>
Unpaid claims, June 30, 2003	<u>\$ 481,384</u>	<u>\$2,535,000</u>