CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Tennessee Department of Agriculture:						
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-02-008784	$ (8,859)	$ 50,359	$ -	$ 41,500
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-03-014036	-	17,718	75,435	(57,717)
Total Emergency Food Assistance Program			(8,859)	68,077	75,435	(16,217)
Emergency Food Assistance Program (Food Commodities - Noncash)	10.569	N/A	-	520,876	520,876	-
Cooperative Forestry Assistance	10.664	Z-02-004442-02	(14,544)	14,544	-	-
Total Cooperative Forestry Assistance			(14,544)	14,544	-	-
Passed through Tennessee Department of Human Services:						
Child and Adult Care Food Program	10.558	03-47-55915-00-8	(34,220)	297,672	298,597	(35,145)
Child and Adult Care Food Program	10.558	03-47-56136-00-6	(14,971)	78,638	79,772	(16,105)
Child and Adult Care Food Program	10.558	03-47-60076-00-9	(2,853)	14,365	13,055	(1,543)
Total Child and Adult Care Food Program			(52,044)	390,675	391,424	(52,793)
Summer Food Service Program for Children	10.559	DA-02-00010-00	(356,631)	687,630	330,999	-
Summer Food Service Program for Children	10.559	DA-03-00050-00	-	-	404,803	(404,803)
Total Summer Food Service Program for Children			(356,631)	687,630	735,802	(404,803)
Total U.S. Department of Agriculture			(432,078)	1,681,802	1,723,537	(473,813)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Lower Income Housing Assistance Program	14.156	UPG01TN01437	$ (366,503)	$ 1,273,130	$ 1,029,369	$ (122,742)
Lower Income Housing Assistance Program	14.156	Project# 01A0450	(88,075)	267,995	200,207	(20,287)
Total Lower Income Housing Assistance Program			(454,578)	1,541,125	1,229,576	(143,029)
Community Development Block Grants/Entitlement Grants	14.218	B01MC47001	(12,908)	1,714,238	1,969,114	(267,784)
Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	1,122,837	1,183,792	(60,955)
Total Community Development Block Grants/Entitlement Grants			(12,908)	2,837,075	3,152,906	(328,739)
Emergency Shelter Grants Program (ESG)	14.231	S01MC47003	-	16,418	16,418	-
Emergency Shelter Grants Program (ESG)	14.231	S02MC47003	-	46,029	50,690	(4,661)
Total Emergency Shelter Grants Program (ESG)			-	62,447	67,108	(4,661)
Shelter Plus Care	14.238	TN37C931017	(4,805)	34,681	35,035	(5,159)
Home Investment Partnerships Program	14.239	M01MC470200	-	1,078,185	1,078,185	-
Home Investment Partnerships Program	14.239	M02MC470200	-	29,201	284,984	(255,783)
Home Investment Partnerships Program	14.239	Program Income	-	366,883	366,883	-
Total Home Investment Partnerships Program			-	1,474,269	1,730,052	(255,783)
Total U.S. Department of Housing and Urban Development			(472,291)	5,949,597	6,214,677	(737,371)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
U.S. DEPARTMENT OF JUSTICE						
Local Law Enforcement Block Grants Program	16.592	1999-LB-VX-7822	$ 34,025	$ -	$ 34,025	$ -
Local Law Enforcement Block Grants Program	16.592	2001-LB-VX-7822	501,874	-	495,270	6,604
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-0905	-	493,892	143,957	349,935
Total Local Law Enforcement Block Grants Program			535,899	493,892	673,252	356,539
Executive Office for Weed and Seed	16.595		(94,131)	94,131	-	-
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2001CLWX0063	-	1,000,000	1,000,000	-
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2001CKWX0106	-	947,146	947,146	-
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2002CKWX0005	(720,938)	982,776	263,522	(1,684)
Total Public Safety Partnership and Community Policing Grai (COPS)			(720,938)	2,929,922	2,210,668	(1,684)
State Domestic Preparedness Equipment Support Program	16.007	2003-TE-CX-0003	-	300,000	18,107	281,893
Total U.S. Department of Justice			(279,170)	3,817,945	2,902,027	636,748
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through Tennessee Department of Transportation:						
Highway Planning and Construction	20.205	Z-02-008453-00	(199,311)	305,969	106,658	-
Highway Planning and Construction	20.205	Z-03-014494-00	-	150,042	195,886	(45,844)
Total Highway Planning and Construction			(199,311)	456,011	302,544	(45,844)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
Federal Transit: Metropolitan Planning Grants	20.505	GG-02-09386-00	$ (48,885)	$ 59,901	$ 11,016	$ -
Federal Transit: Metropolitan Planning Grants	20.505	GG-03-09955-00	-	19,685	26,210	(6,525)
Total Federal Transit: Metropolitan Planning Grants			(48,885)	79,586	37,226	(6,525)
Passed through Georgia Department of Transportation:						
Highway Planning and Construction	20.205	50558-1565-00-002(9)653.6	(48,870)	73,757	24,887	-
Highway Planning and Construction	20.205	PL-0003-00-981	-	27,343	39,859	(12,516)
Highway Planning and Construction	20.205	SPR00-0160-000-02	(21,258)	21,258	-	-
Total Highway Planning and Construction			(70,128)	122,358	64,746	(12,516)
Total U.S. Department of Transportation			(318,324)	657,955	404,516	(64,885)
INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
Passed through Tennessee Libraries and Archives:						
State Library Program	45.310	GG-01-09207-01	-	2,500	2,500	-
State Library Program	45.310	GG-03-09901-00	-	1,325	1,325	-
Total Institute of Museum and Library Services			-	3,825	3,825	-
U.S. ENVIRONMENTAL PROTECTION AGENCY						
Air Pollution Control Program Support	66.001	A004084-02	-	310,396	310,396	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	PM98437198	-	141,146	141,146	-
CEPP Technical Assistance Grants Program	66.810	SR-97409300	-	66,793	66,793	-
Total U.S. Environmental Protection Agency			-	518,335	518,335	-

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
U.S. DEPARTMENT OF ENERGY						
Passed through Tennessee Department of Human Services:						
Weatherization Assistance for Low-Income Persons	81.042	Z-02-005287-00	$ -	$ 242,266	$ 375,155	$ (132,889)
Weatherization Assistance for Low-Income Persons	81.042	Z-03-013597-00	(63,964)	63,964	-	-
Total Weatherization Assistance for Low-Income Persons			(63,964)	306,230	375,155	(132,889)
FEDERAL EMERGENCY MANAGEMENT AGENCY						
Emergency Food and Shelter National Board Program	83.523	21-7682-00	-	29,865	28,711	1,154
Total Federal Emergency Management Agency			-	29,865	28,711	1,154
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Head Start	93.600	04CH0047/25	(815,670)	815,670	-	-
Head Start	93.600	04CH0047/26	-	6,291,618	6,973,373	(681,755)
Total Head Start			(815,670)	7,107,288	6,973,373	(681,755)
Passed Through Tennessee Department of Human Services:						
Low-Income Home Energy Assistance (LIHEAP)	93.568	Z-02-005267-00	-	878,340	889,137	(10,797)
Low-Income Home Energy Assistance (LIHEAP)	93.568	Z-03-013594-00	(3,583)	3,583	-	-
Total Low-Income Home Energy Assistance (LIHEAP)			(3,583)	881,923	889,137	(10,797)
Community Services Block Grant (CSBG)	93.569	Z-02-006227-00	(49,215)	49,215	-	-
Community Services Block Grant (CSBG)	93.569	Z-03-010274-03	-	513,401	591,203	(77,802)
Total Community Services Block Grant (CSBG)			(49,215)	562,616	591,203	(77,802)
Total U.S. Department of Health and Human Services			(868,468)	8,551,827	8,453,713	(770,354)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
Foster Grandparent Program	94.011	02-SFSTN022	$ -	$ 404,988	$ 414,553	$ (9,565)
Foster Grandparent Program	94.011	U-01SFTN002	(21,563)	21,563	-	-
Total Corporation for National and Community Services			(21,563)	426,551	414,553	(9,565)
TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT UNIT			(2,455,858)	21,943,932	21,039,049	(1,550,975)
Component Units						
Chattanooga Area Regional Transportation Authority						
U.S. DEPARTMENT OF TRANSPORTATION						
Federal Transit - Capital Investment Grants	20.500	TN-03-0042	-	59,551	59,551	-
Federal Transit - Capital Investment Grants	20.500	TN-03-0060	-	805,392	805,392	-
Passed through Tennessee Department of Transportation:						
Federal Transit - Capital Investment Grants	20.500	TN-03-0060	(195,000)	195,000	-	-
Total Federal Transit - Capital Investment Grants			(195,000)	1,059,943	864,943	-
Federal Transit - Formula Grants	20.507	TN-90-X180	(6,998)	1,270,140	1,267,652	(4,510)
Federal Transit - Formula Grants	20.507	TN-90-X190	-	1,909,631	1,909,631	-
Total Federal Transit - Formula Grants			(6,998)	3,179,771	3,177,283	(4,510)
Passed through Tennessee Department of Transportation:						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	TN-16-0027	-	33,301	33,301	-

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
Passed through The University of Tennessee:						
State Planning and Research	20.515	N/A	$ (3,798)	$ 25,044	$ 21,246	$ -
Job Access - Reverse Commute	20.516	TN-37-X008	(23,681)	117,940	94,259	-
Job Access - Reverse Commute	20.516	TN-37-X008	-	165,512	215,021	(49,509)
Total Job Access - Reverse Commute			(23,681)	283,452	309,280	(49,509)
Total Expenditures of Federal Awards - Chattanooga Area Regional Transportation Authority			(229,477)	4,581,511	4,406,053	(54,019)
Awards Audited by Other Auditors						
Chattanooga Metropolitan Airport Authority						
U.S. DEPARTMENT OF TRANSPORTATION						
Airport Improvement Program	20.106	3-47-0009-20	(4,996)	4,996	-	-
Airport Improvement Program	20.106	3-47-0009-21	(70,582)	70,582	-	-
Airport Improvement Program	20.106	3-47-0009-22	(160,102)	2,398,862	2,609,226	(370,466)
Airport Improvement Program	20.106	3-47-0009-25	(46,424)	74,270	27,846	-
Airport Improvement Program	20.106	3-47-0009-26	-	82,693	82,693	-
Airport Improvement Program	20.106	3-47-0009-27	-	290,250	290,250	-
Airport Improvement Program	20.106	3-47-0009-28	-	9,846	260,408	(250,562)
Total Expenditures of Federal Awards - Component Unit Audited by Other Auditors			(282,104)	2,931,499	3,270,423	(621,028)
Total Expenditures of Federal Awards - Component Units			(511,581)	7,513,010	7,676,476	(675,047)
TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY			(2,967,439)	29,456,942	28,715,525	(2,226,022)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
STATE AWARDS						
Passed through Tennessee Department of Transportation:						
Transportation Enhancement Program		STP-EN-9202(76)	$ -	$ -	$ 18,204	$ (18,204)
Tennessee Housing Development Agency						
THDA Entitlement - CNE Project		Program Income	-	105,548	112,199	(6,651)
Passed through Tennessee Libraries and Archives						
Library Services		GG-03-00901-00	-	100,000	100,000	-
Passed through Tennessee Department of Finance and Administration:						
Development Resource Center		529/000-11-96	(154,389)	154,389	-	-
Passed through Georgia Department of Transportation:						
Origin - Destination Survey Contract		SPR00-0160-000-02	(5,314)	5,314	-	-
Passed through Tennessee Department of Environment and Conservation:						
Infared Thermography Pilot Project		N/A	-	-	6,440	(6,440)
TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT UNIT			(159,703)	365,251	236,843	(31,295)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
Component Units						
Chattanooga Area Regional Transportation Authority						
Passed through Tennessee Department of Transportation:						
State funding for TN-90-X164	N/A	GG-0008467	$ -	$ -	$ -	$ -
State Sacramento Bus Rehab		GG-0008615	-	-	-	-
State funding for TN-90-X169		GG-0108880	(1,180)	1,180	-	-
State funding for TN-90-X142		GG-9707542	-	16,894	16,894	-
State funding for TN-03-0042		GG-9908187	-	7,444	7,444	-
State funding for TN-37-X001		Z-00097875	-	-	-	-
State funding for TN-03-00055		GG-0109005	-	-	-	-
State funding for TN-90-X180		GG-0209340	(25,748)	185,079	159,331	-
State Signal Priority		TNSPR-RES1208	(950)	6,261	5,311	-
State funding for TN-03-0058		GG-0209531	(24,375)	24,375	-	-
State funding for TN-30-X190		GG-0209488	(41,926)	122,584	205,367	(124,709)
State funding for TN-03-0059		GG-0209487	-	-	-	-
State funding for TN-16-0026		Z-02009312	-	-	-	-
State operating 33-901-9656		GG-0209342	(146,289)	146,289	-	-
State funding for TN-37-X008		GG-0209257	(76,609)	198,780	122,171	-
State funding for TN-37-X009		GG-0209299	-	110,958	187,110	(76,152)
State funding for TN-03-0060		GG-0310034	-	100,674	100,674	-
State Operating		Z-03013821	-	1,425,244	1,746,495	(321,251)
State funding for TN-16-0027		Z-03014104	-	4,163	4,163	-
Total Expenditures of State Awards - Chattanooga Area Regional Transportation Authority			(317,077)	2,349,925	2,554,960	(522,112)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
		(continued from previous page)				
Awards Audited by Other Auditors						
Chattanooga Metropolitan Airport Authority						
Airport Improvement Program		33-555-0146-04	$ (12,100)	$ 12,100	$ -	$ -
Airport Improvement Program		33-555-0147-04	(15,022)	15,022	-	-
Airport Improvement Program		33-555-0149-04	(67,875)	65,477	(2,398)	-
Airport Improvement Program		33-555-0162-04	(201,822)	227,651	169,366	(143,537)
Airport Improvement Program		33-555-0165-04	(2,579)	-	17,687	(20,266)
Airport Improvement Program		33-555-0168-04	-	3,059	3,059	-
Airport Improvement Program		33-555-0173-04	-	-	13,920	(13,920)
Airport Improvement Program		33-555-0361-04	(27,876)	27,876	-	-
Airport Improvement Program		33-555-0766-04	-	1,800	1,800	-
Airport Improvement Program		33-555-0767-04	-	39,197	39,657	(460)
Airport Improvement Program		33-555-0770-04	-	-	44,258	(44,258)
Airport Improvement Program		33-555-0771-04	-	-	11,970	(11,970)
Airport Improvement Program			-	4,671	4,671	-
Total Expenditures of State Awards - Component Unit Audited by Other Auditors			(327,274)	396,853	303,990	(234,411)
Total Expenditures of State Awards - Component Units			(644,351)	2,746,778	2,858,950	(756,523)
TOTAL EXPENDITURES OF STATE AWARDS			(804,054)	3,112,029	3,095,793	(787,818)
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			$ (3,771,493)	$ 32,568,971	$ 31,811,318	$ (3,013,840)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
June 30, 2003

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Program Income

Cash receipts for the Community Development Block Grant (CFDA 14.218) and HOME Investment Partnerships Program (CFDA 14.239) include program income of $1,396,055 and $387,576 respectively.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Community Development Block Grants/ Entitlement Grants	14.218	$2,744,614
Emergency Shelter Grants Program	14.231	67,108
Home Investment Partnerships Program	14.239	1,720,298

Report of Independent Certified Public Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited the financial statements of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 10, 2003. We did not audit the financial statements of EPB and the Chattanooga Metropolitan Airport Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for EPB and Chattanooga Metropolitan Airport Authority, was based solely on the work of 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hazlett, Lewis & Beiter, PLLC

Chattanooga, Tennessee
November 10, 2003

Report of Independent Certified Public Accountants on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Chattanooga, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. We did not audit the compliance of the Chattanooga Metropolitan Airport Authority whose federal and state financial assistance is $3,574,413. The report of the other auditors on compliance with the requirements applicable to major programs has been furnished to us, and our opinion on compliance with those requirements, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority was based solely on the report of the other auditors. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Chattanooga, Tennessee complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Chattanooga, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters and the report of other auditors did not disclose any matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Haylett, Lewis & Bitter, PLLC

Chattanooga, Tennessee
November 10, 2003

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	____ yes	X no
• Reportable conditions identified that are not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	____ yes	X no
• Reportable conditions identified that are not considered to be material weaknesses?	____ yes	X none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____ yes	X no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
	U.S. Department of Housing and Urban Development:
14.156	Lower Income Housing Assistance Program
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
	U.S. Department of Justice:
16.710	Public Safety Partnership and Community Policing Grants (COPS)
	U.S. Department of Transportation:
20.106	Airport Improvement Program
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
	U.S. Department of Health and Human Services:
93.568	Low-Income Home Energy Assistance (LIHEAP)
93.600	Head Start

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

Dollar threshold used to distinguish between type A and type B programs:	$861,466	
Auditee qualified as low-risk auditee?	____ yes	_X_ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2003

Finding 2002-1 from June 30, 2002

Federal program: CFDA 14.239 Home Investment Partnerships Program

Condition: The City did not perform monitoring activities for its Community Housing Development Organization (CHDO).

Current status: The City has taken steps toward improving monitoring activities and has performed monitoring activities in FY03 for CHDO.

Finding 2002-2 from June 30, 2002

Federal programs: CFDA 14.000 Upfront Grant

Condition: The City issued a multiple schedule of wage rates with both building and residential pay rates when the project required wage rates for a building. Consequently, one subcontractor paid its workers at rates below the prevailing wage rates.

Current status: Condition was corrected in FY 03. Restitution payments were made to all workers who were paid below prevailing wage rates.

Finding 2002-3 from June 30, 2002

Federal programs: CFDA 16.710 Public Safety Partnership and Community Policing Grants

Condition: The City did not retain the new positions for the time period specified in the grant agreement.

Current status: The U.S. Department of Justice granted the City an exemption from the retention requirement.

Finding 2002-4 from June 30, 2002

Federal programs: CFDA 20.106 Airport Improvement Program

Condition: The Airport Authority inadvertently requested and received reimbursement in the amount of $63,554 from AIP #3-47-0009-22 for costs expended on AIP #3-47-0009-21.

Current status: Corrective action has been taken.