

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, 2004, 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 89 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 25 percent and 25 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, 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2004, 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 53-54 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, the budgetary comparison schedules included as other supplementary information, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, and financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Haslett, Lewis & Bieler, PLLC*

Chattanooga, Tennessee  
October 15, 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, 2004. 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 \$1.83 billion (*net assets*). Of this amount, \$70.4 million may be used to meet the government's ongoing obligations to citizens and creditors (*unrestricted net assets*), a \$19.2 million decrease over last year.
- While the net assets of our business-type activities increased \$10.9 million, or 2.4 percent, the net assets of our governmental activities increased \$14.9 million, or 1.1 percent. During the year, the City generated \$233.5 million in taxes and other revenues for governmental programs. This compares with \$217.8 million of expenses for these programs.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year our governmental activities recognized depreciation expense of \$32.2 million including \$21.9 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$106.8 million, a decrease of \$22.7 million in comparison to last year. The decrease is a result of capital construction funded from prior year bond proceeds.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$36.6 million, 22.4 percent of total General Fund expenditures and transfers out.
- The City's primary government debt increased by \$4.8 million (1.0 percent) during the current fiscal year. The increase was predominately from a State Revolving Loan to finance Interceptor Sewer System improvements.

## 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 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 P. O. Box 22444 Chattanooga, TN 3742	CARTA 1617 Wilcox Boulevard Chattanooga, TN 37406
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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, Storm Water Management and Solid Waste are considered major funds. The only other fund, Housing Management, is also shown on the face of the proprietary fund financial statements.

**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 predominantly benefit governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

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

- **Fiduciary funds** — These funds 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.

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

**Notes to the financial statements.** The financial statements also include notes that provide additional information. 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 supplemental information about the City's progress in funding its obligation to provide pension benefits to its employees. This required supplemental information can be found following the notes to the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented as additional supplemental information. Also included as additional supplemental information are budget to actual comparisons for governmental funds other than the capital projects fund. This additional supplemental information can also 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 \$1.83 billion at the close of the most recent fiscal year, an increase of \$25.9 million, or 1.4 percent, from last year. By far the largest portion of the City's net assets (93 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, \$52.4 million or 2.8 percent, represents resources that are restricted in how they may be used. The remaining balance of \$70.4 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	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 231,551	\$ 253,568	\$ 184,459	\$ 183,476	\$ 416,010	\$ 437,044
Capital assets	1,505,270	1,465,929	625,078	598,418	2,130,348	2,064,347
Total assets	<u>1,736,821</u>	<u>1,719,497</u>	<u>809,537</u>	<u>781,894</u>	<u>2,546,358</u>	<u>2,501,391</u>
Long-term debt outstanding	272,032	270,179	214,912	212,614	486,944	482,793
Other liabilities	105,945	105,420	120,441	106,051	226,386	211,471
Total liabilities	<u>377,977</u>	<u>375,599</u>	<u>335,353</u>	<u>318,665</u>	<u>713,330</u>	<u>694,264</u>
Net assets:						
Invested in capital assets, net of debt	1,281,946	1,259,163	428,284	406,079	1,710,230	1,665,242
Restricted	32,162	21,805	20,236	30,443	52,398	52,248
Unrestricted	44,736	62,930	25,664	26,707	70,400	89,637
Total net assets	<u>\$ 1,358,844</u>	<u>\$ 1,343,898</u>	<u>\$ 474,184</u>	<u>\$ 463,229</u>	<u>\$ 1,833,028</u>	<u>\$ 1,807,127</u>

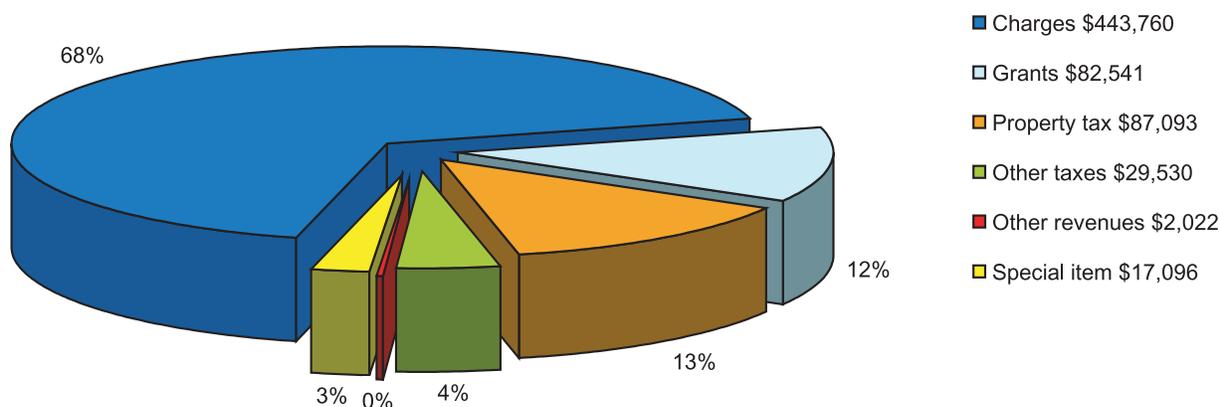
**Changes in Net Assets.** Net assets of the City's governmental activities increased 1.1 percent to \$1.36 billion. Of that balance \$1.31 billion are either restricted on how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore \$44.7 million remains to meet the City's ongoing obligations to citizens and creditors.

During the same period the net assets of the business-type activities increased 2.4 percent to \$474.2 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 \$662.0 million and total program expenses of \$636.1 million. These graphs combine governmental and business-type information.

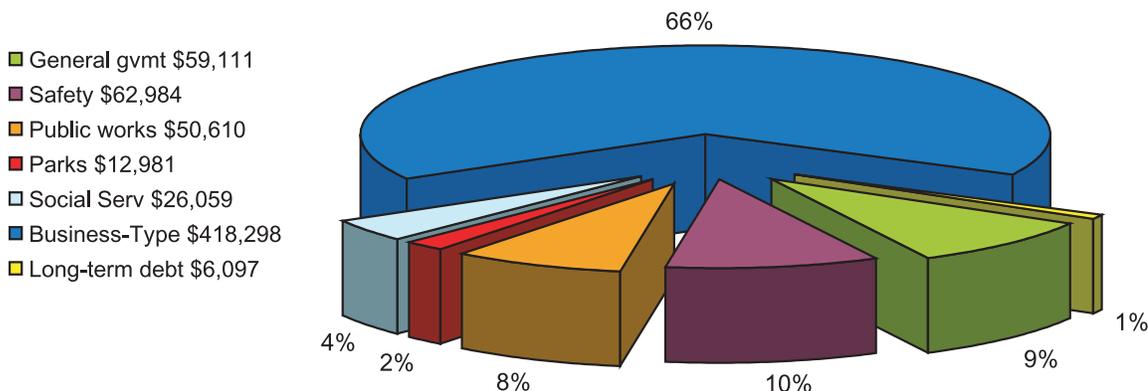
### City Wide Sources of Revenue

(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	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 18,836	\$ 17,910	\$ 424,924	\$ 403,230	\$ 443,760	\$ 421,140
Grants and contributions	45,590	32,960	2,055	2,366	47,645	35,326
General revenues:						
Property taxes	87,093	87,063	-	-	87,093	87,063
Other taxes	29,530	26,520	-	-	29,530	26,520
Investment income	183	1,274	1,578	2,251	1,761	3,525
Miscellaneous	-	-	12	138	12	138
Unrestricted grants	34,896	35,090	-	-	34,896	35,090
Gain on sale of assets	249	-	-	-	249	-
Total revenues	<u>216,377</u>	<u>200,817</u>	<u>428,569</u>	<u>407,985</u>	<u>644,946</u>	<u>608,802</u>
<b>Expenses</b>						
Governmental activities:						
General government	59,111	58,698	-	-	59,111	58,698
Public safety	62,984	60,193	-	-	62,984	60,193
Public works	50,610	42,984	-	-	50,610	42,984
Parks and recreation	12,981	14,193	-	-	12,981	14,193
Social services	26,059	20,758	-	-	26,059	20,758
Interest on long-term debt	6,097	4,418	-	-	6,097	4,418
Business-type activities:						
Electric utility	-	-	374,823	365,187	374,823	365,187
Sewer	-	-	32,726	31,852	32,726	31,852
Solid waste	-	-	4,719	5,386	4,719	5,386
Storm water	-	-	4,312	4,523	4,312	4,523
Housing management	-	-	1,718	1,496	1,718	1,496
Total expenses	<u>217,842</u>	<u>201,244</u>	<u>418,298</u>	<u>408,444</u>	<u>636,140</u>	<u>609,688</u>
Excess (deficiency) before special item and transfers	(1,465)	(427)	10,271	(459)	8,806	(886)
Special item-state highway contribution	17,096	-	-	-	17,096	-
Transfers	(684)	(3,856)	684	3,856	-	-
Increase (decrease) in net assets	<u>\$ 14,947</u>	<u>\$ (4,283)</u>	<u>\$ 10,955</u>	<u>\$ 3,397</u>	<u>\$ 25,902</u>	<u>\$ (886)</u>

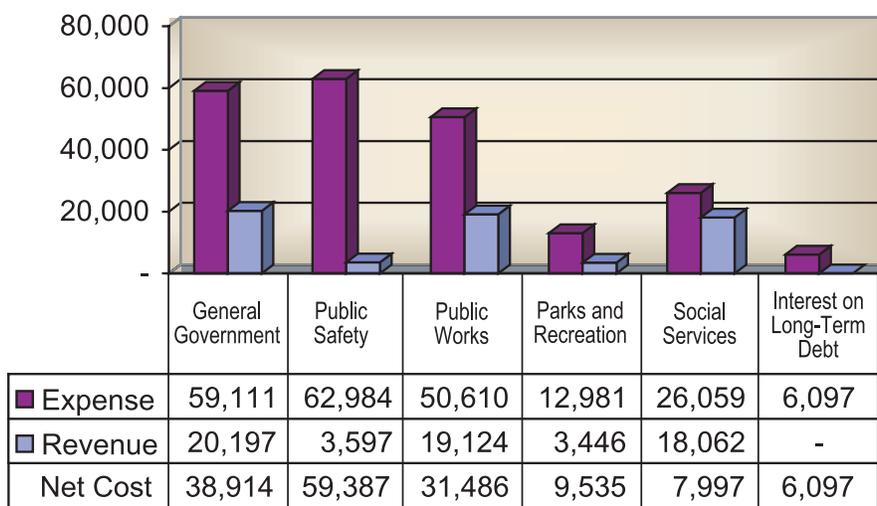
The following will consider the operations of governmental and business-type activities separately and in greater detail.

**Governmental Activities.** Current fiscal year revenues for the City's governmental activities were \$ 216.4 million compared to \$200.8 million last year, up 7.8 percent. There is also a \$17.1 million special revenue item discussed below. Current year expenses were \$217.8 million compared with \$201.2 million last year, an increase of 8.25 percent.

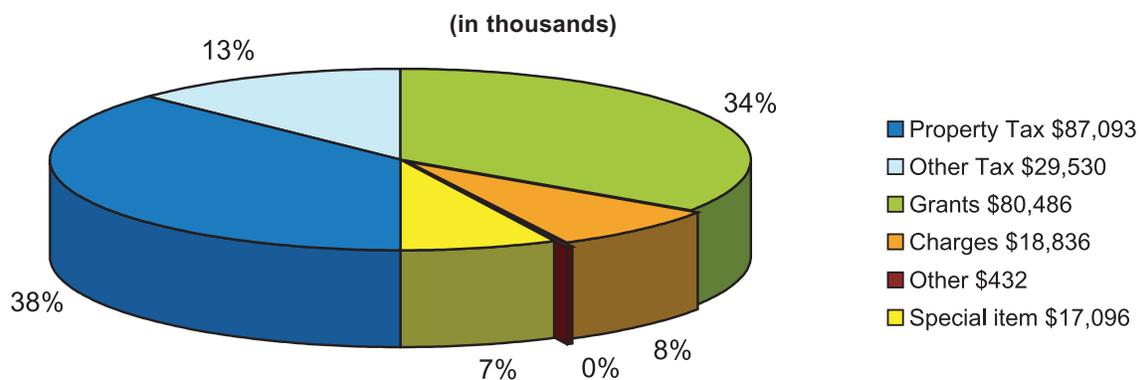
- During fiscal year 2004, transfer of custody of several highways between the City and the State of Tennessee resulted in a \$17.1 million special item on the Statement of Activities.
- The single largest source of governmental activity revenue, property taxes and in-lieu of tax receipts was flat for the year.
- Personnel costs rose approximately 2 percent primarily due to a step increase for employees 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)



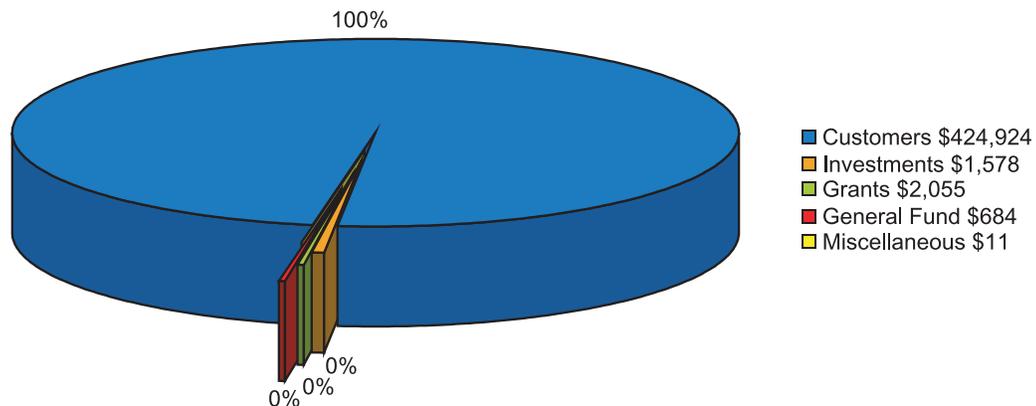
**Business-type Activities.** Revenues for the City’s business-type activities were \$428.6 million for the year just completed, an increase of \$20.6 million or 5.0 percent. The increase was partially offset by a \$9.9 million or 2.4 percent increase in expenses to \$418.3 million.

- The largest source of business-type activity revenue is generated from the Electric Power Board. Revenue from electric customers rose \$11.9 million, 3.4 percent, while the telecommunications segment rose \$1.7 million, 20.1 percent. Total operating expenses increased only \$9.7 million or 2.7 percent. Both operating revenues and power purchases reflect the Tennessee Valley Authority rate increase effective October 1, 2003. Other operating costs were down since the area did not experience the types of major storms that occurred in fiscal year 2003. Net assets increased \$4.8 million for the year.
- The Interceptor Sewer System increased net assets by \$3.3 million in fiscal year 2004. Operating expenses were flat while operating revenues rose \$2.4 million or 7.3 percent. Increased revenues are primarily due to a rate change for sewer service charges, the largest component of revenue, which increased \$2.2 million. There was also increased usage among the regional customers.
- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. To date the City has accrued liabilities of \$5.2 million for a closed landfill and \$4.1 million for a landfill currently in operation; a \$190,000 or 2.1 percent increase over last year. Many of these costs are being financed through general obligation bonds.
- The Stormwater Fund, established to comply with EPA guidelines, now has \$24.9 million in net assets, an increase of \$1.8 million from last year. \$18.6 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City.
- The Housing Management Fund reported \$1.4 million in rental income, an increase of 17.6 percent from last year. During the same period operating expenses increased 12.1 percent to \$1.5 million as a result of increased management fees, depreciation expense and interest expense. The fund ended the year with net assets of \$4.6 million, a decrease of \$212,000, all of which is invested in capital assets.

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.

### Revenues by Source – Business-Type Activities

(in thousands)



## Expenses and Revenues – Business-Type Activities

(in thousands)

	Electric	Sewer	Solid Waste	Storm Water	Housing
Expense	\$ 374,823	\$ 32,726	\$ 4,718	\$ 4,312	\$ 1,718
Revenue	379,656	36,037	5,978	6,075	1,506
Change in net assets	\$ 4,833	\$ 3,311	\$ 1,260	\$ 1,763	\$ (212)

## Financial Analysis of the City’s Funds

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

**Governmental Funds.** Governmental funds focus on providing information on the near-term flow of resources. The City’s governmental funds reported a combined fund balance of \$106.8 million at the end of the fiscal year. 55.6 percent of this amount (\$59.4 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 \$44.1 million, of which \$7.5 million is designated for future spending. Total fund balance of the City’s General Fund increased by 21.3 percent or \$8.7 million to \$49.4 million during the fiscal year. Key factors in this growth are as follows:

- Total revenues increased \$3.3 million over the prior year. A large portion of the increase was city sales tax, up 6.8 percent or \$1.2 million, based solely on increased consumer spending. Intergovernmental revenues saw a \$522,000 increase in tourist development money and a \$692,700 increase in Federal funds for emergency response and law enforcement grants while miscellaneous revenue included a \$489,000 refund for prior year health insurance premiums and an additional \$445,000 collected from costs charged to other funds to cover indirect costs.
- Expenditures and transfers to other funds, when combined, decreased from \$164.0 million to \$163.3 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 \$41.8 million in fund balance of which \$21.6 million was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; for fiscal year 2004 there was a \$27.2 million decrease. Analysis of project income and expenditures follows.

- Cash inflows for the year include the issuance of \$2.4 million in notes, \$1.4 million from sale of property and \$6.2 million received from federal, state and county governments for projects.
- Current year expenditures of \$42.5 million include \$23.1 million for continuation of the waterfront development, \$7.3 million for street and lighting improvements, \$3.4 million for parks facilities improvements, \$3.0 million for industrial development at Enterprise South and \$2.6 for fire and police equipment.

**Proprietary Funds.** As the City completed the fiscal year its proprietary funds, which include both enterprise funds and internal service funds, had combined net assets of \$475.9 million. Of this amount, \$26.9 million was available to meet on-going obligations with the majority, \$428.8 million, invested in capital assets. Information about the major enterprise funds is presented below.

**Electric Power Board.** This fund accounts for the electric utility in the City of Chattanooga. It also has telecommunications and internet operations.

- Net assets of the Electric Power Board increased \$4.8 million to \$235.0 million for fiscal year 2004. The increase is primarily due to net investment in utility plant of \$15.1 million.
- EPB has \$16.9 million available to finance day-to-day operations (unrestricted net assets).

**Interceptor Sewer System.** This fund accounts for the operations and capital improvements of the wastewater treatment plant.

- The Interceptor Sewer System reported an increase of \$3.3 million in net assets to \$228.0 million.
- Unrestricted net assets, those that can be used to finance on-going operations, increased \$9.0 million to \$28.8 million. An additional \$11.0 million is restricted for future capital spending.

**Solid-waste Fund.** This fund accounts for solid waste disposal including a municipal landfill and various recycling programs.

- 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. However during fiscal year 2004, net assets increased by \$1.3 million.
- The major customer of the landfill is the City itself. Accordingly we have begun reporting City payments as tipping fees instead of transfers. For fiscal year 2004 this was \$4.8 million.

**Stormwater Management.** This fund accounts for operations and capital improvements for the City's storm water management program as mandated by the EPA.

- Fiscal year 2004 is the first year for the Stormwater Fund to be presented as a major fund.
- All components of net assets increased during the year. Investment in capital increased \$1.2 million to \$18.6 million, the amount set aside for capital improvements increased, and the amount available to fund day-to-day operations increased to \$5.4 million from \$5.2 million. This overall increase is a result of improved revenue collections as well as reduced operating costs.

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

When comparing the final budgeted revenues to actual, there was a \$2.5 million surplus for the year primarily due to additional intergovernmental and miscellaneous revenue. Expenditures were less than budgetary estimates in all departments by a combined \$5.0 million resulting in excess revenues over expenditures of \$7.5 million on a budgetary basis in General Fund. The reduction in expenditures is largely due to the implementation of a vacancy control and performance management program.

# Capital Asset and Debt Administration

**Capital Assets.** At the end of this year, the City had \$2.1 billion (net of accumulated depreciation) invested in capital assets, an increase of 3.2 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	
	2004	2003	2004	2003	2004	2003
Non-depreciable:						
Land & Easements	\$ 950,594	\$ 930,234	\$ 13,596	\$ 14,648	\$ 964,190	\$ 944,882
Work in progress	88,656	57,126	17,678	9,061	106,334	66,187
Depreciable:						
Buildings	70,061	76,590	52,071	52,437	122,132	129,027
Equipment	27,815	26,155	218,078	213,134	245,893	239,289
Improvements	6,888	6,628	-	-	6,888	6,628
Infrastructure	361,256	369,196	323,655	309,138	684,911	678,334
Total	<u>\$ 1,505,270</u>	<u>\$ 1,465,929</u>	<u>\$ 625,078</u>	<u>\$ 598,418</u>	<u>\$ 2,130,348</u>	<u>\$ 2,064,347</u>

This year's major capital asset additions include:

- Street improvements of \$30.3 million, including \$8 million of donated streets from contractors and \$17.1 million resulting from custodial changes in highways.
- \$22.4 million on the 21<sup>st</sup> Century Waterfront development, \$1.2 million Dupont Soccer Complex and \$1.1 million for development of the Enterprise South Industrial Park in work-in-progress.
- Electric Power Board investment of \$27.1 million in plant assets for the year. This includes \$25.3 million in power distribution systems and \$1.8 million for telecommunications and internet.
- \$21.3 million was capitalized as new infrastructure for the Interceptor Sewer System.

The City's capital improvement program anticipates spending another \$111.4 million for various capital projects over the next five years. There are plans to issue an additional \$11.2 million in debt during fiscal year 2005 to help finance these projects.

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

**Debt Administration.** At year-end the City had \$469.5 million in long-term debt outstanding. This is a \$4.8 million increase (1.0 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	
	2004	2003	2004	2003	2004	2003
General obligation bonds (backed by the City)	\$ 128,898	\$ 132,761	\$ 137,667	\$ 149,195	\$ 266,565	\$ 281,956
Revenue bonds (backed by specific revenues)	-	-	35,200	36,800	35,200	36,800
Notes payable	7,159	5,620	40,606	24,118	47,765	29,738
Capital leases	119,725	115,925	253	271	119,978	116,196
Total	<u>\$ 255,782</u>	<u>\$ 254,306</u>	<u>\$ 213,726</u>	<u>\$ 210,384</u>	<u>\$ 469,508</u>	<u>\$ 464,690</u>

- The City of Chattanooga maintains a “AA” rating from both Standard & Poor’s and Fitch Investor’s Service for general obligation debt.
- City Charter limits the amount of general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City’s corporate limits. For the current fiscal year that limit is \$323.7 million. The City’s tax-supported debt of \$80.7 million is well within that limit.

During the year the City issued the following new debt:

- \$16.9 in additional draws on a \$37.3 million state revolving loan approved in fiscal year 2003. The loan is financing Interceptor Sewer System (a business-type activity) projects already in progress.
- A \$3.8 million capital lease agreement for the purchase of a digital upgrade to the City’s 800 MHz system. This lease is to be entirely funded by a Hamilton County Homeland Security Grant and the Hamilton County 911 Board. The lease is a governmental activity.
- \$6.0 million in state revolving loan funds were approved for governmental activities capital. At year-end \$1.9 million had been drawn down for the projects.
- Draws of \$321,300 were made on a \$5.0 million Fannie Mae loan approved in FY04 to fund the Hope VI project, a governmental activity. The loan will be repaid by Community Development Block Grant program revenue.
- Final draws of \$137,900 and \$145,700 for governmental and business-type activities respectively were made on 1997 and 1998 loan agreements.

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 2005:

- The local unemployment rate remains significantly below the national average at 3.5 percent.
- Interest rates on investments are expected to remain near an historical low.
- Expected increase of 5.1 percent in State sales tax.

Anticipated revenues in the General Fund budget are \$164.9 million, down 5.7 percent from the 2004 budget. This decrease is primarily due to the passage of a referendum to increase the county-wide sales tax by one-half cent (from 1.75% to 2.25%) effective July 1, 2004. This county-wide tax supercedes the City-only half cent sales tax which generated over \$17 million during fiscal year 2004 and was used exclusively for education and economic development on a 50/50 basis. Fifty percent of the half-cent tax collections will remain with the County for education while the remainder will be distributed to the City in accordance with TCA 67-6-701 et seq. Distributions to the City are estimated at \$8.9 million for fiscal year 2005.

Budgeted expenditures are expected to increase 1.3 percent to \$164.9 million from \$162.8 million. With the exception of salaries and medical costs, departmental operations are expected to grow less than 1 percent over the prior year. No change in fund balance of the General Fund is expected for fiscal year 2005.

As for the City's business-type activities, we expect that the 2005 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)



# Chattanooga

TENNESSEE

*Guy Lee*  
'93

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Components Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,785,572	\$ 59,937,979	\$ 96,723,551	\$ 7,061,810
Investments	37,125,400	53,341,559	90,466,959	131,425
Receivables, net of allowance for uncollectibles	114,855,268	41,149,088	156,004,356	2,609,020
Net investment in capital lease	-	-	-	115,925,472
Due from component units	400,000	-	400,000	-
Due from primary government	-	-	-	531,730
Deferred charges	-	3,749,794	3,749,794	1,842,064
Inventories	1,936,054	5,576,020	7,512,074	302,282
Prepaid items	8,000	-	8,000	602,903
Other assets	-	7,471,671	7,471,671	-
Restricted assets:				
Cash and cash equivalents	3,784,380	3,690,784	7,475,164	1,167,792
Investments	28,377,192	8,725,453	37,102,645	14,294,235
Receivables	-	816,752	816,752	231,252
Net pension assets	8,279,442	-	8,279,442	161,485
Land and other nondepreciable assets	1,039,250,126	31,274,466	1,070,524,592	10,032,475
Other capital assets, net of accumulated depreciation	466,020,078	593,803,656	1,059,823,734	67,745,587
<b>Total assets</b>	<b>1,736,821,512</b>	<b>809,537,222</b>	<b>2,546,358,734</b>	<b>222,639,532</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	14,766,458	77,787,646	92,554,104	4,885,283
Customer deposits	-	12,539,000	12,539,000	-
Due to component units	531,730	-	531,730	-
Due to primary government	-	-	-	400,000
Contracts payable	403,801	979,671	1,383,472	962,450
Deferred revenue	90,242,992	-	90,242,992	265,219
Accrued closure and post-closure care	-	9,295,666	9,295,666	-
Accrued postretirement benefits	-	10,269,000	10,269,000	-
Other liabilities	-	9,570,002	9,570,002	-
Long-term liabilities:				
Due within one year	10,908,129	14,314,113	25,222,242	545,000
Due in more than one year	261,124,061	200,597,678	461,721,739	144,324,090
<b>Total liabilities</b>	<b>377,977,171</b>	<b>335,352,776</b>	<b>713,329,947</b>	<b>151,382,042</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,281,946,535	428,283,728	1,710,230,263	61,554,861
Restricted for:				
Capital projects	32,161,572	-	32,161,572	-
Debt service	-	-	-	14,755,064
Renewal and replacement	-	20,235,990	20,235,990	398,064
Unrestricted	44,736,234	25,664,728	70,400,962	(5,450,499)
<b>Total net assets</b>	<b>\$ 1,358,844,341</b>	<b>\$ 474,184,446</b>	<b>\$ 1,833,028,787</b>	<b>\$ 71,257,490</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, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities:				
General government	\$ 59,111,511	\$ 11,498,936	\$ 5,687,665	\$ 3,010,965
Public safety	62,984,029	860,843	885,703	1,850,541
Public works	50,609,639	2,362,151	4,958,304	11,803,502
Parks and recreation	12,981,174	2,781,111	472,102	192,958
Social services	26,058,655	1,333,014	16,728,168	-
Interest on long-term debt	6,097,267	-	-	-
Total governmental activities	<u>217,842,275</u>	<u>18,836,055</u>	<u>28,731,942</u>	<u>16,857,966</u>
Business-type activities:				
Electric utility	374,823,000	377,241,000	-	1,334,000
Sewer	32,725,763	35,153,919	-	521,640
Solid waste/sanitation	4,718,858	5,635,502	199,048	-
Storm water	4,312,010	5,388,577	-	-
Housing management	1,718,091	1,505,627	-	-
Total business-type activities	<u>418,297,722</u>	<u>424,924,625</u>	<u>199,048</u>	<u>1,855,640</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 636,139,997</u>	<u>\$ 443,760,680</u>	<u>\$ 28,930,990</u>	<u>\$ 18,713,606</u>
Component units:				
Airport authority	7,499,489	6,205,712	\$ -	\$ 4,049,255
Transportation authority	14,552,481	3,940,500	5,640,929	4,082,850
Downtown redevelopment	17,322,392	17,019,755	-	-
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 39,374,362</u>	<u>\$ 27,165,967</u>	<u>\$ 5,640,929</u>	<u>\$ 8,132,105</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	
			Gain on sale of capital assets	
			Special item - contribution of highways by state government	
			Transfers	
			Total general revenues and transfers	
			Change in net assets	
			Net assets, beginning	
			Net assets, ending	

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Components Units
Governmental Activities	Business-type Activities	Total	
\$ (38,913,945)	\$ -	\$ (38,913,945)	\$ -
(59,386,942)	-	(59,386,942)	-
(31,485,682)	-	(31,485,682)	-
(9,535,003)	-	(9,535,003)	-
(7,997,473)	-	(7,997,473)	-
(6,097,267)	-	(6,097,267)	-
<u>(153,416,312)</u>	<u>-</u>	<u>(153,416,312)</u>	<u>-</u>
-	3,752,000	3,752,000	-
-	2,949,796	2,949,796	-
-	1,115,692	1,115,692	-
-	1,076,567	1,076,567	-
-	(212,464)	(212,464)	-
<u>-</u>	<u>8,681,591</u>	<u>8,681,591</u>	<u>-</u>
<u>(153,416,312)</u>	<u>8,681,591</u>	<u>(144,734,721)</u>	<u>-</u>
-	-	-	2,755,478
-	-	-	(888,202)
-	-	-	(302,637)
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,564,639</u>
87,092,991	-	87,092,991	-
19,643,028	-	19,643,028	-
6,082,207	-	6,082,207	-
3,804,195	-	3,804,195	-
182,951	1,577,971	1,760,922	621,939
-	11,435	11,435	4,077,325
34,896,500	-	34,896,500	-
249,007	-	249,007	-
17,096,131	-	17,096,131	-
(683,952)	683,952	-	-
<u>168,363,058</u>	<u>2,273,358</u>	<u>170,636,416</u>	<u>4,699,264</u>
14,946,746	10,954,949	25,901,695	6,263,903
<u>1,343,897,595</u>	<u>463,229,497</u>	<u>1,807,127,092</u>	<u>64,993,587</u>
<u>\$ 1,358,844,341</u>	<u>\$ 474,184,446</u>	<u>\$ 1,833,028,787</u>	<u>\$ 71,257,490</u>

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,425,913	\$ 12,400,830	\$ 15,299,925	\$ 39,126,668
Investments	34,443,731	29,666,125	1,392,736	65,502,592
Receivables, net of allowance for uncollectibles:				
Taxes	86,429,552	-	-	86,429,552
Accounts	-	62,301	2,154,093	2,216,394
Notes	1,500,000	-	-	1,500,000
Other	3,889,066	-	-	3,889,066
Due from other funds	-	1,183,524	-	1,183,524
Due from component units	400,000	-	-	400,000
Due from other governments	16,986,068	2,841,759	744,312	20,572,139
Inventories	1,037,298	-	-	1,037,298
Prepaid items	8,000	-	-	8,000
	<u>\$ 156,119,628</u>	<u>\$ 46,154,539</u>	<u>\$ 19,591,066</u>	<u>\$ 221,865,233</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,215,106	\$ 3,083,920	\$ 1,403,780	\$ 8,702,806
Due to other funds	2,145,333	-	1,183,524	3,328,857
Due to other governments	1,029,467	354,103	-	1,383,570
Due to component unit	-	531,730	-	531,730
Deferred revenue	99,370,361	-	1,320,923	100,691,284
Contracts payable	-	403,801	-	403,801
	<u>106,760,267</u>	<u>4,373,554</u>	<u>3,908,227</u>	<u>115,042,048</u>
<b>Fund balances:</b>				
Reserved for:				
Encumbrances	2,754,314	21,634,315	356,327	24,744,956
Inventories	1,037,298	-	-	1,037,298
Prepaid items	8,000	-	-	8,000
Capital improvements	-	20,146,670	-	20,146,670
Notes receivable	1,500,000	-	-	1,500,000
Unreserved, designated for:				
Debt service	-	-	5,222,704	5,222,704
Subsequent years' expenditures	7,456,854	-	-	7,456,854
Unreserved, undesignated, reported in:				
General fund	36,602,895	-	-	36,602,895
Special revenue	-	-	10,103,808	10,103,808
	<u>49,359,361</u>	<u>41,780,985</u>	<u>15,682,839</u>	<u>106,823,185</u>
Total liabilities and fund balances	<u>\$ 156,119,628</u>	<u>\$ 46,154,539</u>	<u>\$ 19,591,066</u>	<u>\$ 221,865,233</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, 2004

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

Fund balances - total governmental funds		\$ 106,823,185
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.		1,504,785,694
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.		10,448,292
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.		8,279,442
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.		1,697,334
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	\$ (128,897,803)	
Less net deferred refunding and original premiums and discounts	114,615	
Notes payable	(7,158,924)	
Capital leases	(119,725,472)	
Compensated absences	(15,804,790)	
Accrued interest payable	<u>(1,717,232)</u>	
		<u>(273,189,606)</u>
Net assets of governmental activities		<u>\$ 1,358,844,341</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, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 113,383,882	\$ -	\$ 2,040,244	\$ 115,424,126
Licenses and permits	7,168,267	-	-	7,168,267
Intergovernmental	40,985,665	6,163,609	24,455,047	71,604,321
Charges for services	3,166,443	-	123,317	3,289,760
Fines, forfeitures, and penalties	1,112,159	-	-	1,112,159
Investment income	676,088	590,850	256,603	1,523,541
Miscellaneous	<u>5,455,941</u>	<u>3,433,629</u>	<u>1,590,149</u>	<u>10,479,719</u>
Total revenues	<u>171,948,445</u>	<u>10,188,088</u>	<u>28,465,360</u>	<u>210,601,893</u>
<b>EXPENDITURES</b>				
Current:				
General government	49,532,529	-	19,632,084	69,164,613
Public safety	61,216,949	-	132,865	61,349,814
Public works	25,772,165	-	4,051,621	29,823,786
Parks and recreation	12,157,458	-	-	12,157,458
Community development	-	-	8,278,495	8,278,495
Capital outlay/fixed assets	-	42,457,922	919,278	43,377,200
Debt service:				
Principal retirement	-	-	4,725,541	4,725,541
Interest and fiscal charges	-	-	6,168,282	6,168,282
Total expenditures	<u>148,679,101</u>	<u>42,457,922</u>	<u>43,908,166</u>	<u>235,045,189</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,269,344</u>	<u>(32,269,834)</u>	<u>(15,442,806)</u>	<u>(24,443,296)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	5,130,128	13,858,926	18,989,054
Transfers out	(14,587,963)	(2,481,063)	(2,603,980)	(19,673,006)
Proceeds of bonds and notes	<u>-</u>	<u>2,401,534</u>	<u>-</u>	<u>2,401,534</u>
Total other financing sources (uses)	<u>(14,587,963)</u>	<u>5,050,599</u>	<u>11,254,946</u>	<u>1,717,582</u>
Net change in fund balance	8,681,381	(27,219,235)	(4,187,860)	(22,725,714)
FUND BALANCE, beginning	<u>40,677,980</u>	<u>69,000,220</u>	<u>19,870,699</u>	<u>129,548,899</u>
FUND BALANCE, ending	<u>\$ 49,359,361</u>	<u>\$ 41,780,985</u>	<u>\$ 15,682,839</u>	<u>\$ 106,823,185</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, 2004

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	\$ (22,725,714)
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.	43,819,372
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(32,088,161)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of the following:	
Streets contributed by developers	\$ 8,037,701
Highways contributed by state government	<u>17,096,131</u>
	25,133,832
The net effect of various transactions involving capital assets is to decrease net assets.	(1,219,738)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	2,372,526
The net revenues of internal service funds are reported with governmental activities.	795,596
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.	(329,676)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. Revenues relating to prior periods that become available in the current year are not reported as revenues in the statement of activities.	<u>(811,291)</u>
Change in net assets of governmental activities	<u>\$ 14,946,746</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 112,919,073	\$ 112,919,073	\$ 113,383,882	\$ 464,809
Licenses and permits	6,636,139	6,636,139	7,168,267	532,128
Intergovernmental	39,297,625	39,297,625	40,985,665	1,688,040
Charges for services	3,820,460	3,820,460	3,166,443	(654,017)
Fines, forfeitures, and penalties	1,616,082	1,616,082	1,112,159	(503,923)
Miscellaneous	5,142,135	5,142,135	6,132,029	989,894
Total revenues	<u>169,431,514</u>	<u>169,431,514</u>	<u>171,948,445</u>	<u>2,516,931</u>
<b>EXPENDITURES</b>				
General government	45,043,568	45,043,568	43,112,771	(1,930,797)
Finance and Administration	9,037,596	9,037,596	8,215,844	(821,752)
Police	37,462,731	37,462,731	37,075,400	(387,331)
Fire	25,852,681	25,852,681	24,337,120	(1,515,561)
Public Works	25,823,672	25,823,672	25,810,148	(13,524)
Parks and Recreation	12,467,079	12,467,079	12,172,151	(294,928)
Total expenditures	<u>155,687,327</u>	<u>155,687,327</u>	<u>150,723,434</u>	<u>(4,963,893)</u>
Excess of revenues over expenditures	<u>13,744,187</u>	<u>13,744,187</u>	<u>21,225,011</u>	<u>7,480,824</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(14,804,750)</u>	<u>(14,804,750)</u>	<u>(14,587,963)</u>	<u>216,787</u>
Total other financing sources (uses)	<u>(14,804,750)</u>	<u>(14,804,750)</u>	<u>(14,587,963)</u>	<u>216,787</u>
Net change in fund balance	<u>\$ (1,060,563)</u>	<u>\$ (1,060,563)</u>	6,637,048	<u>\$ 7,697,611</u>
Adjustment for encumbrances			<u>2,044,333</u>	
Net change in fund balance (GAAP basis)			8,681,381	
FUND BALANCE at beginning of year (GAAP basis)			<u>40,677,980</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 49,359,361</u>	
<b>EXPLANATION OF DIFFERENCES:</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 171,948,445	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 171,948,445</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 150,723,434	
Adjustment for encumbrances			<u>(2,044,333)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 148,679,101</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, 2004

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 42,343,000	\$ 6,798,689	\$ 4,029,632	\$ 6,569,693	\$ 196,965	\$ 59,937,979	\$ 1,443,284
Investments	28,768,000	24,573,559	-	-	-	53,341,559	-
Receivables:							
Customer service	35,187,000	4,556,623	138,928	713,266	-	40,595,817	91,174
Other	373,000	42,044	-	-	7,746	422,790	-
Less allowance for doubtful accounts	(599,000)	(1,750)	(1,420)	(351,090)	-	(953,260)	-
Inventories	4,980,000	596,020	-	-	-	5,576,020	898,756
Due from other funds	-	-	-	-	-	-	2,145,333
Due from other governments	-	-	85,000	-	122,741	207,741	156,943
Other current assets	3,034,000	-	-	-	62,671	3,096,671	-
<b>Total current assets</b>	<b>114,086,000</b>	<b>36,565,185</b>	<b>4,252,140</b>	<b>6,931,869</b>	<b>390,123</b>	<b>162,225,317</b>	<b>4,735,490</b>
<b>NONCURRENT ASSETS</b>							
Restricted assets:							
Cash and cash equivalents	-	-	3,690,784	-	-	3,690,784	-
Investments	-	1,346,571	7,378,882	-	-	8,725,453	-
Accounts receivable	-	804,056	12,696	-	-	816,752	-
<b>Total restricted assets</b>	<b>-</b>	<b>2,150,627</b>	<b>11,082,362</b>	<b>-</b>	<b>-</b>	<b>13,232,989</b>	<b>-</b>
Capital assets:							
Land	3,079,000	7,928,833	1,517,514	987,330	83,789	13,596,466	-
Buildings	16,110,000	41,277,997	1,717,098	-	8,687,987	67,793,082	589,948
Vehicles and machinery	375,501,000	11,616,514	5,053,529	1,144,998	957	393,316,998	1,154,632
Construction in progress	17,678,000	-	-	-	-	17,678,000	-
Sewer system	-	410,053,295	-	-	-	410,053,295	-
Storm water system	-	-	-	41,142,881	-	41,142,881	-
Telecommunications system	17,644,000	-	-	-	-	17,644,000	-
	430,012,000	470,876,639	8,288,141	43,275,209	8,772,733	961,224,722	1,744,580
Less accumulated depreciation	(177,144,000)	(148,618,681)	(4,064,242)	(5,617,579)	(702,098)	(336,146,600)	(1,260,070)
<b>Net capital assets</b>	<b>252,868,000</b>	<b>322,257,958</b>	<b>4,223,899</b>	<b>37,657,630</b>	<b>8,070,635</b>	<b>625,078,122</b>	<b>484,510</b>
Other assets:							
Deferred charges	2,174,000	1,282,407	170,149	123,238	-	3,749,794	-
Conservation loans receivable	876,000	-	-	-	-	876,000	-
TVA discounted energy units	4,375,000	-	-	-	-	4,375,000	-
<b>Total other assets</b>	<b>7,425,000</b>	<b>1,282,407</b>	<b>170,149</b>	<b>123,238</b>	<b>-</b>	<b>9,000,794</b>	<b>-</b>
<b>Total noncurrent assets</b>	<b>260,293,000</b>	<b>325,690,992</b>	<b>15,476,410</b>	<b>37,780,868</b>	<b>8,070,635</b>	<b>647,311,905</b>	<b>484,510</b>
<b>Total assets</b>	<b>\$ 374,379,000</b>	<b>\$ 362,256,177</b>	<b>\$ 19,728,550</b>	<b>\$ 44,712,737</b>	<b>\$ 8,460,758</b>	<b>\$ 809,537,222</b>	<b>\$ 5,220,000</b>

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

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Current maturities of long-term liabilities	\$ 1,600,000	\$ 9,428,095	\$ 1,842,382	\$ 1,443,636	\$ -	\$ 14,314,113	\$ -
Accounts payable and accrued liabilities	70,817,000	2,230,822	624,381	363,205	3,752,238	77,787,646	467,202
Accrued claims	-	-	-	-	-	-	2,674,000
Deposits	12,539,000	-	-	-	-	12,539,000	-
Contracts payable	-	979,671	-	-	-	979,671	-
Conservation advances	384,000	-	-	-	-	384,000	-
Other current liabilities	5,085,000	-	-	-	-	5,085,000	-
<b>Total current liabilities</b>	<b>90,425,000</b>	<b>12,638,588</b>	<b>2,466,763</b>	<b>1,806,841</b>	<b>3,752,238</b>	<b>111,089,430</b>	<b>3,141,202</b>
<b>LONG-TERM LIABILITIES</b>							
Notes and capital leases payable	-	38,979,942	-	1,297,915	-	40,277,857	-
Compensated absences	1,021,000	553,940	97,287	129,881	-	1,802,108	381,464
Accrued closure and post closure care	-	-	9,295,666	-	-	9,295,666	-
Revenue bonds payable	33,600,000	-	-	-	-	33,600,000	-
General obligation bonds payable	-	83,325,692	26,167,218	16,439,734	-	125,932,644	-
Deferred refunding	-	(3,991,727)	(612,416)	(438,160)	-	(5,042,303)	-
Original issue premium	-	2,699,809	761,226	566,337	-	4,027,372	-
Other noncurrent liabilities	4,043,000	-	-	-	58,002	4,101,002	-
Accrued postretirement benefits	10,269,000	-	-	-	-	10,269,000	-
<b>Total long-term liabilities</b>	<b>48,933,000</b>	<b>121,567,656</b>	<b>35,708,981</b>	<b>17,995,707</b>	<b>58,002</b>	<b>224,263,346</b>	<b>381,464</b>
<b>Total liabilities</b>	<b>139,358,000</b>	<b>134,206,244</b>	<b>38,175,744</b>	<b>19,802,548</b>	<b>3,810,240</b>	<b>335,352,776</b>	<b>3,522,666</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	218,100,000	188,234,666	(1,450,396)	18,562,835	4,836,623	428,283,728	484,510
Restricted for renewal and replacement	-	11,037,994	8,251,200	946,796	-	20,235,990	-
Unrestricted	16,921,000	28,777,273	(25,247,998)	5,400,558	(186,105)	25,664,728	1,212,824
<b>Total net assets</b>	<b>\$ 235,021,000</b>	<b>\$ 228,049,933</b>	<b>\$ (18,447,194)</b>	<b>\$ 24,910,189</b>	<b>\$ 4,650,518</b>	<b>\$ 474,184,446</b>	<b>\$ 1,697,334</b>

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Funds
	Major Funds			Other Fund			
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>OPERATING REVENUES</b>							
Charges for sales and services:							
Electric sales	\$ 360,507,000	\$ -	\$ -	\$ -	\$ -	\$ 360,507,000	\$ -
Sewer charges	-	35,153,919	-	-	-	35,153,919	-
Waste charges	-	-	5,635,502	-	-	5,635,502	-
Stormwater fees	-	-	-	5,303,080	-	5,303,080	-
Rent	-	-	-	-	1,399,490	1,399,490	-
Other services	16,734,000	-	-	85,497	106,137	16,925,634	10,071,382
Other	-	-	199,048	-	-	199,048	-
Total operating revenues	<u>377,241,000</u>	<u>35,153,919</u>	<u>5,834,550</u>	<u>5,388,577</u>	<u>1,505,627</u>	<u>425,123,673</u>	<u>10,071,382</u>
<b>OPERATING EXPENSES</b>							
Power purchases	295,544,000	-	-	-	-	295,544,000	-
Sewer plant operations	-	16,118,439	-	-	-	16,118,439	-
Solid waste operations	-	-	2,247,325	-	-	2,247,325	-
Storm water operations	-	-	-	2,561,350	-	2,561,350	-
Pump station operations	-	1,832,865	-	-	-	1,832,865	-
Housing management operations	-	-	-	-	928,637	928,637	-
Municipal garage operations	-	-	-	-	-	-	1,590,178
Maintenance and repairs	12,809,000	-	-	-	-	12,809,000	6,026,907
Depreciation and amortization	15,093,000	9,608,433	611,108	889,434	374,507	26,576,482	103,723
Closure/postclosure costs	-	-	430,624	-	-	430,624	-
Liability insurance	-	-	-	-	-	-	1,554,978
Other	48,377,000	97,340	-	-	189,618	48,663,958	-
Total operating expenses	<u>371,823,000</u>	<u>27,657,077</u>	<u>3,289,057</u>	<u>3,450,784</u>	<u>1,492,762</u>	<u>407,712,680</u>	<u>9,275,786</u>
<b>OPERATING INCOME</b>	<u>5,418,000</u>	<u>7,496,842</u>	<u>2,545,493</u>	<u>1,937,793</u>	<u>12,865</u>	<u>17,410,993</u>	<u>795,596</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment income	1,081,000	356,615	137,285	2,607	464	1,577,971	-
Interest expense	(1,572,000)	(5,068,686)	(1,429,801)	(860,751)	(225,329)	(9,156,567)	-
Other income (expense)	(1,428,000)	4,779	6,656	(475)	-	(1,417,040)	-
Total nonoperating revenues (expenses)	<u>(1,919,000)</u>	<u>(4,707,292)</u>	<u>(1,285,860)</u>	<u>(858,619)</u>	<u>(224,865)</u>	<u>(8,995,636)</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>3,499,000</u>	<u>2,789,550</u>	<u>1,259,633</u>	<u>1,079,174</u>	<u>(212,000)</u>	<u>8,415,357</u>	<u>795,596</u>
Capital contributions	1,334,000	521,640	-	-	-	1,855,640	-
Transfers in	-	-	-	683,952	-	683,952	-
<b>CHANGE IN NET ASSETS</b>	<u>4,833,000</u>	<u>3,311,190</u>	<u>1,259,633</u>	<u>1,763,126</u>	<u>(212,000)</u>	<u>10,954,949</u>	<u>795,596</u>
<b>NET ASSETS, beginning</b>	<u>230,188,000</u>	<u>224,738,743</u>	<u>(19,706,827)</u>	<u>23,147,063</u>	<u>4,862,518</u>	<u>463,229,497</u>	<u>901,738</u>
<b>NET ASSETS, ending</b>	<u>\$ 235,021,000</u>	<u>\$ 228,049,933</u>	<u>\$ (18,447,194)</u>	<u>\$ 24,910,189</u>	<u>\$ 4,650,518</u>	<u>\$ 474,184,446</u>	<u>\$ 1,697,334</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, 2004

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 374,431,000	\$ 37,300,829	\$ 5,493,172	\$ 5,313,946	\$ 1,456,827	\$ 423,995,774	\$ 690,743
Receipts from interfund services provided	-	-	-	-	-	-	8,964,024
Receipts from operating grants	-	-	199,048	-	-	199,048	-
Payments to suppliers	(315,244,000)	(13,361,903)	(1,939,519)	(873,428)	(1,037,127)	(332,455,977)	(6,295,876)
Payments to employees	(20,250,000)	(5,067,059)	(650,868)	(1,681,495)	(146,620)	(27,796,042)	(2,757,951)
Payments in lieu of taxes	(8,935,000)	-	-	-	-	(8,935,000)	-
Net cash provided by (used in) operating activities	<u>30,002,000</u>	<u>18,871,867</u>	<u>3,101,833</u>	<u>2,759,023</u>	<u>273,080</u>	<u>55,007,803</u>	<u>600,940</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers in	-	-	-	683,952	-	683,952	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>683,952</u>	<u>-</u>	<u>683,952</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital debt	-	17,003,841	-	-	(4,627)	16,999,214	-
Principal paid on capital debt	(1,600,000)	(9,046,514)	(1,719,811)	(1,295,335)	(45,863)	(13,707,523)	-
Interest paid on capital debt	(1,813,000)	(4,994,518)	(1,402,369)	(879,510)	(225,329)	(9,314,726)	-
Capital grants and contributions	1,334,000	521,640	-	-	-	1,855,640	-
Additions to capital assets	(32,027,000)	(21,945,429)	(225,527)	(798,129)	(26,802)	(55,022,887)	-
Net cash flows used in capital and related financing activities	<u>(34,106,000)</u>	<u>(18,460,980)</u>	<u>(3,347,707)</u>	<u>(2,972,974)</u>	<u>(302,621)</u>	<u>(59,190,282)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Purchases of investments	(3,500,000)	(178,767,789)	(53,412,951)	-	-	(235,680,740)	-
Proceeds from sales and maturities of investments	19,195,000	175,230,606	50,500,464	-	-	244,926,070	-
Interest on investments	667,000	356,432	164,513	2,607	464	1,191,016	-
Net cash flows provided by (used in) investing activities	<u>16,362,000</u>	<u>(3,180,751)</u>	<u>(2,747,974)</u>	<u>2,607</u>	<u>464</u>	<u>10,436,346</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	12,258,000	(2,769,864)	(2,993,848)	472,608	(29,077)	6,937,819	600,940
Cash and cash equivalents, beginning of year	<u>30,085,000</u>	<u>9,568,553</u>	<u>10,714,264</u>	<u>6,097,085</u>	<u>226,042</u>	<u>56,690,944</u>	<u>842,344</u>
Cash and cash equivalents, end of year	<u>\$ 42,343,000</u>	<u>\$ 6,798,689</u>	<u>\$ 7,720,416</u>	<u>\$ 6,569,693</u>	<u>\$ 196,965</u>	<u>\$ 63,628,763</u>	<u>\$ 1,443,284</u>
<b>CLASSIFIED AS:</b>							
Current assets	\$ 42,343,000	\$ 6,798,689	\$ 4,029,632	\$ 6,569,693	\$ 196,965	59,937,979	\$ 1,443,284
Restricted assets	-	-	3,690,784	-	-	3,690,784	-

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						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES							
OPERATING INCOME	\$ 5,418,000	\$ 7,496,842	\$ 2,545,493	\$ 1,937,793	\$ 12,865	\$ 17,410,993	\$ 795,596
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	15,780,000	9,608,433	611,108	889,434	374,507	27,263,482	103,723
Provision for uncollectible accounts	-	88,049	220	(8,343)	-	79,926	-
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(3,146,000)	2,021,269	(142,770)	(66,288)	(55,930)	(1,389,719)	(15,446)
Decrease in due from other funds	-	32,813	-	528	-	33,341	(500,000)
Increase in due from other governments	-	-	-	-	-	-	98,831
Decrease in inventory	677,000	220,926	-	-	-	897,926	20,586
(Increase) decrease in prepaid items	(1,022,000)	-	-	-	17,473	(1,004,527)	-
Increase in deferred charges	(1,813,000)	(22,530)	-	-	-	(1,835,530)	-
Increase (decrease) in accounts payable	10,342,000	(714,322)	(32,746)	(8,934)	(68,018)	9,517,980	89,091
Increase (decrease) in accrued liabilities	(390,000)	(125,566)	134,059	2,549	-	(378,958)	139,000
Increase (decrease) in other assets/liabilities	2,185,000	265,953	7,610	12,284	(7,817)	2,463,030	-
Increase (decrease) in compensated absences	1,971,000	-	(21,141)	-	-	1,949,859	(130,441)
TOTAL ADJUSTMENTS	24,584,000	11,375,025	556,340	821,230	260,215	37,596,810	(194,656)
Net cash provided by (used in) operating activities	\$ 30,002,000	\$ 18,871,867	\$ 3,101,833	\$ 2,759,023	\$ 273,080	\$ 55,007,803	\$ 600,940

CITY OF CHATTANOOGA, TENNESSEE  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 June 30, 2004

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 6,664
Investments:		
U.S. Government securities	38,858,853	-
Municipal bonds	120,953	-
Corporate bonds	36,377,708	-
Foreign bonds	2,803,771	-
Corporate stocks	174,159,290	-
Mutual funds	110,811,568	67,922
Temporary investments	18,564,095	4,666
Limited partnerships	12,452,248	-
Other investments	875,000	-
Receivables:		
Accrued income	1,109,670	212
Contributions	251,642	-
Due from plan custodian	2,926,664	-
Total assets	399,311,462	79,464
<b>LIABILITIES</b>		
Due to plan custodian	2,506,776	-
Accounts payable and accrued expenses	546,795	-
Total liabilities	3,053,571	-
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	\$ 396,257,891	\$ 79,464

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, 2004

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 8,159,926	\$ -
Employee	3,489,597	-
Total contributions	11,649,523	-
Investment income:		
Net appreciation in fair market value of investments	55,312,028	2,477
Interest	5,880,466	1,191
Dividends	3,243,372	-
	64,435,866	3,668
Less investment expense	(1,632,355)	-
Net investment income	62,803,511	3,668
Total additions	74,453,034	3,668
<b>DEDUCTIONS</b>		
Benefits paid to participants	24,494,322	-
Administrative expenses	709,295	261
Total deductions	25,203,617	261
<b>CHANGE IN NET ASSETS</b>	49,249,417	3,407
Net assets, beginning	347,008,474	76,057
Net assets, ending	\$ 396,257,891	\$ 79,464

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, 2004

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,646,634	\$ 1,547,561	\$ 3,867,615	\$ 7,061,810
Investments	24,516	106,909	-	131,425
Accounts receivable	1,717,975	485,146	405,899	2,609,020
Net investment in capital lease	-	-	115,925,472	115,925,472
Due from primary government	-	-	531,730	531,730
Deferred charges	213,180	-	1,628,884	1,842,064
Inventories	-	143,142	159,140	302,282
Prepaid items	213,938	235,826	153,139	602,903
Net pension asset	-	161,485	-	161,485
Restricted assets:				
Cash and cash equivalents	269,792	898,000	-	1,167,792
Investments	4,511,211	-	9,783,024	14,294,235
Receivables	84,052	-	147,200	231,252
Land and other nondepreciable assets	6,285,179	3,097,296	650,000	10,032,475
Other capital assets, net of accumulated depreciation	<u>39,887,650</u>	<u>27,181,333</u>	<u>676,604</u>	<u>67,745,587</u>
<b>Total assets</b>	<u>54,854,127</u>	<u>33,856,698</u>	<u>133,928,707</u>	<u>222,639,532</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	459,062	869,154	3,557,067	4,885,283
Contracts payable	962,450	-	-	962,450
Due to primary government	-	400,000	-	400,000
Revenue bonds payable	15,573,201	-	129,200,000	144,773,201
Original issue premium	-	-	95,889	95,889
Deferred revenue	<u>3,574</u>	<u>261,645</u>	<u>-</u>	<u>265,219</u>
<b>Total liabilities</b>	<u>16,998,287</u>	<u>1,530,799</u>	<u>132,852,956</u>	<u>151,382,042</u>
<b>NET ASSETS</b>				
Invested in capital assets (net of related debt)	30,599,628	30,278,629	676,604	61,554,861
Restricted for:				
Debt service	4,865,055	106,909	9,783,100	14,755,064
Renewal and replacement	-	-	398,064	398,064
Unrestricted	<u>2,391,157</u>	<u>1,940,361</u>	<u>(9,782,017)</u>	<u>(5,450,499)</u>
<b>Total net assets</b>	<u>\$ 37,855,840</u>	<u>\$ 32,325,899</u>	<u>\$ 1,075,751</u>	<u>\$ 71,257,490</u>

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



CITY OF CHATTANOOGA, TENNESSEE  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2004

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CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

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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 enterprise funds in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

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, 2004. 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 13.

**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 2004 the City appropriated no funds to these organizations.

(C) Basic Financial Statements

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 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 new reporting 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.

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

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

### 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 eliminated the presentation of Account Groups, but provided for these records to be maintained and incorporated 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 encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

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

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2004, no 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, 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 2003 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2003, 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, 2004, are recorded as deferred revenues at June 30, 2004.

## **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. The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

## **6) Payments Between the City and Component Units**

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

## **7) Indirect Costs**

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

## **8) Estimates**

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

### **(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 alter these managerial decisions.

## NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### **Compliance with Finance Related Legal and Contractual Provisions**

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

### **Excess of Expenditures Over Appropriations in Individual Funds**

For the year ended June 30, 2004, 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 \$18,447,194 at June 30, 2004. 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 3. CASH AND INVESTMENTS

The City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” for 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, 2004, 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. Government agency securities	0.49	\$63,313,419
Certificates of deposit classified as investments	<u>0.84</u>	<u>2,189,173</u>
Total	<u>0.50</u>	<u>\$65,502,592</u>
Primary Government – Business-Type Activities:		
U.S. Government agency securities	0.46	\$51,160,441
Certificates of deposit classified as investments	<u>0.44</u>	<u>10,906,571</u>
Total	<u>0.47</u>	<u>\$62,067,012</u>
Component Units:		
U.S. Treasury Notes	0.52	\$ 3,758,703
U.S. Government agency securities	0.46	10,641,547
Cash equivalents classified as investments	<u>0.00</u>	<u>25,410</u>
Total	<u>0.48</u>	<u>\$14,425,660</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, 2004, 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 \$10,641,547 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.

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	\$ 2,608,938
U.S. Treasury bills	AAA	2,148,450
U.S. Government agency securities	AAA	19,136,738
Domestic corporate bonds	AAA	208,379
Domestic corporate bonds	AA	1,050,899
Domestic corporate bonds	A	8,668,922
Domestic corporate bonds	B	9,337
Domestic corporate bonds	BA	996,290
Domestic corporate bonds	BAA	2,091,910
Domestic corporate bonds	D	411,250
Mutual funds	Not rated	53,614,153
Domestic equity securities	Not rated	81,631,476
Limited Partnerships	Not rated	<u>12,452,248</u>
		<u>\$185,028,990</u>
	<u>S &amp; P or Moody's Rating</u>	<u>Fair Value</u>
<u>Firemen's and Policemen's Insurance and Pension Fund</u>		
U.S. Government securities	AAA	\$ 3,203,189
U.S. Government agency securities	AAA	11,761,538
Domestic corporate bonds	AAA	3,188,195
Domestic corporate bonds	AA	6,806,167
Domestic corporate bonds	A	9,648,063
Foreign bonds	A	1,576,805
Domestic corporate bonds	BAA	3,298,296
Municipal bonds	BAA	120,953
Foreign bonds	BAA	1,226,966
Mutual funds	Not rated	57,197,415
Domestic equity securities	Not rated	92,527,814
Money market funds	Not rated	18,564,095
Investment in real estate corporation	Not rated	<u>875,000</u>
		<u>\$209,994,496</u>

NOTE 4. RECEIVABLES

Receivables at June 30, 2004, consist of the following:

	Governmental Activities Funds			Business-Type Activities	Total
	General	Capital Projects	Other Governmental		
<b>Primary Government</b>					
Receivables:					
Taxes	\$ 88,885,395	\$ -	\$ -	\$ -	\$ 88,885,395
Accounts	-	62,301	2,157,636	816,752	3,036,689
Notes	1,500,000	-	-	-	1,500,000
Customer service	-	-	-	40,595,817	40,595,817
Other	3,889,066	-	-	1,383,790	5,272,856
Intergovernmental	<u>16,986,068</u>	<u>2,841,759</u>	<u>744,312</u>	<u>122,741</u>	<u>20,694,880</u>
Gross receivables	111,260,529	2,904,060	2,901,948	42,919,100	159,985,637
Less:					
Allowance for uncollectibles	<u>(2,455,843)</u>	<u>-</u>	<u>(3,543)</u>	<u>(953,260)</u>	<u>(3,412,646)</u>
Net receivables	<u>\$108,804,686</u>	<u>\$2,904,060</u>	<u>\$2,898,405</u>	<u>\$41,965,840</u>	<u>\$156,572,991</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, 2004.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Receivable Fund	Payable Fund	Amount
Liability Insurance	General Fund	\$ 2,145,333
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	<u>1,183,524</u>
		<u>\$ 3,328,857</u>

NOTE 6. INTERFUND TRANSFERS

Transfer To	Transfer From	Amount
Nonmajor Governmental Funds	General Fund	\$11,376,042
Debt Service		\$7,636,840
Human Services		1,333,477
Public Library		2,405,725
Nonmajor Enterprise Funds (Storm Water)	General Fund	683,952
Nonmajor Governmental Funds (Debt Service)	Nonmajor Governmental Funds	2,482,884
	Community Development	\$ 1,821
	Capital Projects	2,481,063
Capital Projects Fund	Nonmajor Governmental Funds	2,602,159
	Community Development Fund	614,020
	Hotel/Motel Tax	1,988,139
Capital Projects Fund	General Fund	<u>2,527,969</u>
Total interfund transfers		<u>\$19,673,006</u>

## NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 is as follows:

### Primary Government

#### Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	\$ 930,233,565	\$24,452,192	\$ 4,092,171	\$ 950,593,586
Construction in Progress	<u>57,126,003</u>	<u>37,051,478</u>	<u>5,520,941</u>	<u>88,656,540</u>
Total non-depreciable assets	<u>987,359,568</u>	<u>61,503,670</u>	<u>9,613,112</u>	<u>1,039,250,126</u>
Depreciable Assets:				
Buildings	109,268,720	988,958	4,420,737	105,836,941
Vehicles and machinery	78,157,639	8,850,784	2,490,122	84,518,301
Improvements other than buildings	19,566,358	852,511	94,961	20,323,908
Infrastructure	<u>548,325,573</u>	<u>20,315,220</u>	<u>7,238,701</u>	<u>561,402,092</u>
Total depreciable assets	<u>755,318,290</u>	<u>31,007,473</u>	<u>14,244,521</u>	<u>772,081,242</u>
Less Accumulated Depreciation for:				
Buildings	32,679,267	3,093,420	(3,628)	35,776,315
Vehicles and machinery	52,002,804	6,614,417	1,913,891	56,703,330
Improvements other than buildings	12,938,046	542,392	44,287	13,436,151
Infrastructure	<u>179,129,119</u>	<u>21,941,655</u>	<u>925,406</u>	<u>200,145,368</u>
Total accumulated depreciation	<u>276,749,236</u>	<u>32,191,884</u>	<u>2,879,956</u>	<u>306,061,164</u>
Depreciable Assets, net	<u>478,569,054</u>	<u>(1,184,411)</u>	<u>11,364,565</u>	<u>466,020,078</u>
Governmental activities capital assets, net	<u>\$1,465,928,622</u>	<u>\$60,319,259</u>	<u>\$20,977,677</u>	<u>\$1,505,270,204</u>

#### Business-Type Activities:

Non-Depreciable Assets:				
Land	\$ 14,647,976	\$ 38,490	\$ 1,090,000	\$ 13,596,466
Construction in Progress	<u>9,060,686</u>	<u>9,738,000</u>	<u>1,120,686</u>	<u>17,678,000</u>
Total non-depreciable assets	<u>23,708,662</u>	<u>9,776,490</u>	<u>2,210,686</u>	<u>31,274,466</u>
Depreciable Assets:				
Buildings	66,665,988	1,197,094	70,000	67,793,082
Vehicles and machinery	376,781,941	20,524,095	3,989,038	393,316,998
Sewer system	388,523,966	21,529,329	-	410,053,295
Storm water system	39,872,304	1,270,577	-	41,142,881
Telecommunications	<u>15,857,000</u>	<u>1,840,000</u>	<u>53,000</u>	<u>17,644,000</u>
Total depreciable assets	<u>887,701,199</u>	<u>46,361,095</u>	<u>4,112,038</u>	<u>929,950,256</u>
Less Accumulated Depreciation for:				
Buildings	14,229,191	2,116,067	623,000	15,722,258
Vehicles and machinery	163,647,393	14,390,592	2,799,025	175,238,960
Sewer system	127,774,122	7,671,358	-	135,445,480
Storm water system	3,796,437	815,465	-	4,611,902
Telecommunications	<u>3,545,000</u>	<u>1,583,000</u>	<u>-</u>	<u>5,128,000</u>
Total accumulated depreciation	<u>312,992,143</u>	<u>26,576,482</u>	<u>3,422,025</u>	<u>336,146,600</u>
Depreciable Assets, net	<u>574,709,056</u>	<u>19,784,613</u>	<u>690,013</u>	<u>593,803,656</u>
Business-type activities capital assets, net	<u>\$ 598,417,718</u>	<u>\$29,561,103</u>	<u>\$ 2,900,699</u>	<u>\$ 625,078,122</u>

**Discretely Presented Component Units**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 4,380,320	\$ -	\$ -	\$ 4,380,320
Construction in Progress	<u>2,170,684</u>	<u>4,327,813</u>	<u>846,342</u>	<u>5,652,155</u>
Total non-depreciable assets	<u>6,551,004</u>	<u>4,327,813</u>	<u>846,342</u>	<u>10,032,475</u>
Depreciable Assets:				
Buildings	47,598,324	809,057	-	48,407,381
Vehicles and machinery	36,818,077	2,629,882	686,161	38,761,798
Improvements other than buildings	<u>29,629,273</u>	<u>2,504,678</u>	<u>1,660</u>	<u>32,132,291</u>
Total depreciable assets	<u>114,045,674</u>	<u>5,943,617</u>	<u>687,821</u>	<u>119,301,470</u>
Less Accumulated Depreciation for:				
Buildings	23,138,150	2,098,085	-	25,236,235
Vehicles and machinery	20,797,283	1,529,433	682,441	21,644,275
Improvements other than buildings	<u>2,581,950</u>	<u>2,093,423</u>	<u>-</u>	<u>4,675,373</u>
Total accumulated depreciation	<u>46,517,383</u>	<u>5,720,941</u>	<u>682,441</u>	<u>51,555,883</u>
Depreciable Assets, net	<u>67,528,291</u>	<u>222,676</u>	<u>5,380</u>	<u>67,745,587</u>
Component units capital assets, net	<u>\$ 74,079,295</u>	<u>\$ 4,550,489</u>	<u>\$ 851,722</u>	<u>\$ 77,778,062</u>

**Depreciation expense is charged to functions as follows:****Primary Government – Governmental Activities:**

General government	\$ 7,788,440
Public Safety	1,923,887
Public Works	21,491,470
Parks and Recreation	836,455
Social Services	<u>151,632</u>
Total	<u>\$32,191,884</u>

**Primary Government – Business-Type Activities:**

Sewer	\$ 9,608,433
Solid Waste/Sanitation	611,108
Storm Water	889,434
Housing Management	374,507
Electric Utility	<u>15,093,000</u>
Total	<u>\$26,576,482</u>

**Discretely Presented Component Units:**

Transportation Authority	\$ 3,193,863
Airport Authority	2,487,064
Downtown Redevelopment	<u>40,014</u>
Total	<u>\$ 5,720,941</u>

NOTE 8. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2004, were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<b>Primary Government</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General obligation serial bonds	\$132,760,450	\$ -	\$ 3,862,647	\$128,897,803	\$ 3,990,447
Notes payable	5,620,284	2,401,534	862,894	7,158,924	904,104
Capital leases payable	115,925,472	3,800,000	-	119,725,472	882,809
Compensated absences	<u>15,939,075</u>	<u>7,898,856</u>	<u>7,473,325</u>	<u>16,364,606</u>	<u>5,130,769</u>
Total governmental activities	<u>\$270,245,281</u>	<u>\$14,100,390</u>	<u>\$12,198,866</u>	272,146,805	<u>\$10,908,129</u>
Net deferred refunding and original issue premiums and discounts				(114,615)	
				<u>\$272,032,190</u>	
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>EPB:</b>					
Revenue bonds	\$ 36,800,000	\$ -	\$ 1,600,000	\$ 35,200,000	\$ 1,600,000
Compensated absences	<u>1,179,000</u>	<u>-</u>	<u>158,000</u>	<u>1,021,000</u>	<u>-</u>
	<u>37,979,000</u>	<u>-</u>	<u>1,758,000</u>	<u>36,221,000</u>	<u>1,600,000</u>
<b>Interceptor Sewer System:</b>					
General obligation serial bonds	100,678,646	-	8,648,654	92,029,992	8,704,300
Notes payable	22,541,798	17,003,841	379,968	39,165,671	420,183
Capital leases payable	271,196	-	17,892	253,304	18,850
Compensated absences	<u>814,478</u>	<u>455,373</u>	<u>431,149</u>	<u>838,702</u>	<u>284,762</u>
	<u>124,306,118</u>	<u>17,459,214</u>	<u>9,477,663</u>	<u>132,287,669</u>	<u>9,428,095</u>
<b>Solid Waste/Sanitation Fund:</b>					
General obligation serial bonds	29,697,177	-	1,719,811	27,977,366	1,810,147
Compensated absences	<u>150,662</u>	<u>21,774</u>	<u>42,915</u>	<u>129,521</u>	<u>32,235</u>
	<u>29,847,839</u>	<u>21,774</u>	<u>1,762,726</u>	<u>28,106,887</u>	<u>1,842,382</u>
<b>Storm Water Fund:</b>					
General obligation serial bonds	18,818,729	-	1,158,889	17,659,840	1,220,106
Notes payable	1,576,339	-	136,446	1,439,893	141,978
Compensated absences	<u>195,153</u>	<u>149,038</u>	<u>132,758</u>	<u>211,433</u>	<u>81,552</u>
	<u>20,590,221</u>	<u>149,038</u>	<u>1,428,093</u>	<u>19,311,166</u>	<u>1,443,636</u>
Total business-type activities	<u>\$212,723,178</u>	<u>\$17,630,026</u>	<u>\$14,426,482</u>	215,926,722	<u>\$14,314,113</u>
Net deferred refunding and original issue premiums and discounts				(1,014,931)	
				<u>\$214,911,791</u>	

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
<b>Discretely Presented Component Units</b>					
Metropolitan Airport Authority:					
Revenue bonds	\$ 16,175,000	\$ -	\$ 505,000	\$ 15,670,000	\$ 545,000
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>\$145,375,000</u>	<u>\$ -</u>	<u>\$ 505,000</u>	144,870,000	<u>\$ 545,000</u>
Original issue premiums and discounts				<u>(910)</u>	
				<u>\$144,869,090</u>	

In prior years 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, 2004, the liabilities for the bonds refunded in 1986, 1992, 1996, 1998, 2002, and 2003 were \$8,575,000, \$21,630,000, \$13,350,000, \$26,715,000, \$50,350,000, and \$44,120,000, respectively.

Debt related to governmental activities at June 30, 2004, 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%	\$ 7,235,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	36,995,200
Public Improvement Refunding, Series 2002	4.00% - 5.375%	12,588,100
Refunding Bonds, 2002 Series A	3.00% - 5.00%	5,303,903
Hotel-Motel Tax Pledge, Series 2002	3.00% - 5.00%	54,990,000
General Obligation, 2003 Series A	2.50% - 4.20%	<u>11,785,000</u>
Total payable from the Debt Service Fund		<u>\$128,897,803</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, 2004, is \$182,343.

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 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, 2004, is \$4,990,023.

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 \$6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2004, is \$1,629,320.

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, 2004, is \$35,949.

Fannie Mae American Communities Fund - In July 2003, the City entered into an agreement with Fannie Mae to borrow up to \$5,000,000 for the purpose of funding HOPE VI projects. The loan will be repaid over a 10-year period at variable rates of interest. Interest rates are adjusted quarterly to the published 3-month LIBOR plus 1.5% (2.62% at June 30, 2004). The balance at June 30, 2004, is \$321,289.

Southside Capital Lease - 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% local option sales tax allocated to economic development, 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. The City's lease payment was \$4,447,999 for the year ended June 30, 2004. The recorded liability under this capital lease at June 30, 2004, is \$115,925,472.

The debt service reserve fund held by the fiscal agent at June 30, 2004 is \$9,783,024. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling \$3,800,000. The lease term is six years and provides for annual payments beginning July 1, 2004.

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, 2004, 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%	\$ 35,200,000
Interceptor Sewer System Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	16,787,209
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	13,389,700
Municipal Public Improvement Refunding, Series 2002	3.00% - 4.50%	22,381,986
Refunding Bonds, 2002 Series A	3.00% - 5.00%	28,331,097
Refunding Bonds, 2003 Series B	3.00% - 3.25%	11,140,000
1992 State Revolving Sewer Loan*	3.98%	1,439,893
Northwest Georgia Sewer Expansion Project	4.00%	5,845,918
State Revolving Loan 2003	2.98%	31,879,860
City of Collegedale Capital Lease	Variable	253,304
Solid Waste/Sanitation Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	9,247,402
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	3,686,100
Municipal Public Improvement, Series 2001	4.50% - 5.00%	6,295,100
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	8,748,764
Storm Water Fund:		
1992 State Revolving Sewer Loan*	3.98%	1,439,893
Municipal Public Improvement, Series 1998	4.75% - 5.375%	6,910,389
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	2,528,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	1,869,700
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	<u>6,351,151</u>
Total payable from business-type activities		<u>\$213,726,066</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, 2004, is \$2,879,786.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2004, is \$5,845,918.

State Revolving Loan 2003 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2023 at 2.98% interest. The principal is not due until the project is substantially complete. The balance at June 30, 2004, is \$31,879,860.

Capital Leases - The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2014 at variable rates of interest. The balance on this capital lease at June 30, 2004, is \$253,304.

Component Units debt at June 30, 2004, 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%	3,045,000
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>\$144,870,000</u>

Principal and interest requirements to maturity for bonds, notes and capital leases, 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>
2005	\$ 5,777,360	\$ 13,382,605	\$ 13,915,564	\$ 9,157,774
2006	5,923,136	13,181,502	13,988,009	8,587,949
2007	9,027,812	13,250,335	14,443,305	7,961,572
2008	8,092,242	12,873,613	12,785,591	7,384,023
2009	9,525,953	12,483,997	14,748,420	6,833,007
2010-2014	44,264,497	55,677,169	55,701,908	25,476,957
2015-2019	44,383,231	44,316,992	41,169,317	13,824,677
2020-2024	50,989,810	31,416,482	42,588,752	7,357,986
2025-2029	60,111,666	15,201,052	4,385,200	261,680
2030-2031	17,686,492	1,024,447	-	-
	<u>\$255,782,199</u>	<u>\$212,808,194</u>	<u>\$213,726,066</u>	<u>\$86,845,625</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 545,000	\$ 7,415,667
2006	585,000	7,408,028
2007	3,200,000	7,335,577
2008	3,490,000	7,194,997
2009	4,295,000	7,045,575
2010-2014	21,085,000	32,605,998
2015-2019	28,435,000	27,255,645
2020-2024	28,050,000	20,005,497
2025-2029	37,175,000	10,606,500
2030-2032	18,010,000	1,026,844
	<u>\$144,870,000</u>	<u>\$127,900,328</u>

## 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 provides alternative benefits for up to 3 years of credited service to eligible members with at least 26 years of credited service.

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

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 18.39 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 provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service.

Current membership in each of these plans was comprised of the following as of June 30, 2004:

<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	700	635
Vested terminated employees	60	5
Active employees	1,569	792
Actuarial update	1-1-2004	1-1-2004

**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	12/31/03	\$2,204,619	100.00%	\$(3,943,428)
	12/31/02	1,017,617	100.00%	(3,884,735)
	12/31/01	19,882	N/A	(4,498,226)
Firemen's and Policemen's Fund	12/31/03	5,719,267	100.00%	(4,336,014)
	12/31/02	4,518,985	100.00%	(4,372,825)
	12/31/01	2,104,019	100.00%	(4,350,397)

**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	4.07%	18.39%
Contribution rates for plan members	2.00%	8.00%
Annual pension cost	\$2,204,619	\$5,719,267
Contributions made by employer	2,106,187	6,053,739
Contributions made by plan members	1,033,327	2,456,270
Actuarial valuation date for current contributions	January 1, 2004	January 1, 2004
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	5.00%	3.25%
Inflation rate	3.00%	3.00%

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

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Annual required contribution	\$ 2,168,721	\$ 5,636,207
Interest on net pension obligation (asset)	(301,067)	(360,758)
Adjustment to annual required contribution	<u>336,965</u>	<u>443,818</u>
Annual pension cost	2,204,619	5,719,267
Contributions made	<u>(2,263,312)</u>	<u>(5,682,456)</u>
Increase in net pension obligation (asset)	(58,693)	36,811
Net pension obligation (asset) at beginning of year	<u>(3,884,735)</u>	<u>(4,372,825)</u>
Net pension obligation (asset) at end of year	<u><u>\$(3,943,428)</u></u>	<u><u>\$(4,336,014)</u></u>

### 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>			
Receivables:			
Accrued income	\$ 619,015	\$ 490,655	\$ 1,109,670
Contributions:			
Employer	169,315	-	169,315
Employee	82,327	-	82,327
Due from plan custodian	<u>-</u>	<u>2,926,664</u>	<u>2,926,664</u>
Total receivables	<u>870,657</u>	<u>3,417,319</u>	<u>4,287,976</u>
Investments, at fair value:			
U.S. Government securities	23,894,126	14,964,727	38,858,853
Municipal bonds	-	120,953	120,953
Corporate bonds	13,436,987	22,940,721	36,377,708
Foreign bonds	-	2,803,771	2,803,771
Corporate stocks	81,631,476	92,527,814	174,159,290
Mutual funds	53,614,153	57,197,415	110,811,568
Temporary investments	-	18,564,095	18,564,095
Limited Partnerships	12,452,248	-	12,452,248
Other investments	<u>-</u>	<u>875,000</u>	<u>875,000</u>
Total investments	<u>185,028,990</u>	<u>209,994,496</u>	<u>395,023,486</u>
Total assets	<u>185,899,647</u>	<u>213,411,815</u>	<u>399,311,462</u>

LIABILITIES

Due to plan custodian	-	2,506,776	2,506,776
Accrued expenses	<u>258,659</u>	<u>288,136</u>	<u>546,795</u>
Total liabilities	<u>258,659</u>	<u>2,794,912</u>	<u>3,053,571</u>

NET ASSETS HELD IN TRUST  
FOR PENSION BENEFITS

<u>\$185,640,988</u>	<u>\$210,616,903</u>	<u>\$396,257,891</u>
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**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	\$ 2,106,187	\$ 6,053,739	\$ 8,159,926
Employee	<u>1,033,327</u>	<u>2,456,270</u>	<u>3,489,597</u>
Total contributions	<u>3,139,514</u>	<u>8,510,009</u>	<u>11,649,523</u>
Investment income:			
Net appreciation in fair market value of investments	25,846,744	29,465,284	55,312,028
Interest	2,092,534	3,787,932	5,880,466
Dividends	<u>1,505,535</u>	<u>1,737,837</u>	<u>3,243,372</u>
	29,444,813	34,991,053	64,435,866
Less investment expense	(695,009)	(937,346)	(1,632,355)
Net investment income	<u>28,749,804</u>	<u>34,053,707</u>	<u>62,803,511</u>
Total additions	<u>31,889,318</u>	<u>42,563,716</u>	<u>74,453,034</u>
<b>DEDUCTIONS</b>			
Benefits paid to participants	8,503,403	15,990,919	24,494,322
Administrative expenses	<u>267,130</u>	<u>442,165</u>	<u>709,295</u>
Total deductions	<u>8,770,533</u>	<u>16,433,084</u>	<u>25,203,617</u>
NET INCREASE	23,118,785	26,130,632	49,249,417
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
Beginning of year	<u>162,522,203</u>	<u>184,486,271</u>	<u>347,008,474</u>
End of year	<u>\$185,640,988</u>	<u>\$210,616,903</u>	<u>\$396,257,891</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 9.71% of annual covered payroll.

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

EPB's annual pension cost of the Plan for the current year was \$1,782,067. 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, 2003, 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>
6/30/04	\$1,782,067	100%	\$ -
6/30/03	1,310,481	100%	-
6/30/02	1,148,796	100%	-

## EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 13 percent of salary in a tax-deferred savings plan. EPB contributes up to 3 percent of an employee's salary. EPB contributions are fully vested and amounted to \$538,000 in 2004.

## Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Actuarially determined employer contribution requirements were met for the year ended June 30, 2004. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/04	\$397,790	100%	\$(161,485)
6/30/03	374,804	100%	(172,677)
6/30/02	347,184	100%	88,655

### 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, 2004, there were 834 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, 2004, the City recognized expenditures of approximately \$5,158,282, which was offset by \$1,254,387 of retiree contributions.

### NOTE 10. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2004, outstanding funds advanced by TVA totaled \$1,286,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2004, the outstanding receivables for loans made from these funds amounted to \$1,249,000. A total of approximately \$78,417,000 has been loaned to EPB's customers since the programs were begun in 1977.

### NOTE 11. 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, 2003	\$12,054,077
Deferrals of compensation	741,553
Earnings	1,115,272
Withdrawals	(565,712)
Administrative expenses	<u>(370)</u>
Asset balance at June 30, 2004	<u>\$13,344,820</u>

## NOTE 12. 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, 2004. The total contractual commitments outstanding as of June 30, 2004, aggregated approximately \$33,455,000. The City has sufficient funds available to cover these commitments.

## NOTE 13. 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 the 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 Hamilton County, Tennessee, as tenants in common, jointly and severally lease from the Corporation the trade center and parking garage. The total amount of rent payable by the City and County is designed to fund the debt of the Corporation and a portion of the Corporation's operating expense. The lease shall remain in effect until such time as the 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, 2004, lease payments from the City's General Fund were \$1,420,159.

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

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, 2004, is as follows:

ASSETS

Cash	\$ 1,316,730
Accounts receivable, net	2,057,429
Inventories	66,032
Prepaid items	18,315
Capital assets, net	13,318,815
Other assets	<u>32,986</u>
Total assets	<u>\$16,810,307</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 391,587
Accrued interest	77,184
Advance deposits	65,880
Bonds payable	<u>4,058,048</u>
Total liabilities	<u>4,592,699</u>

NET ASSETS

Invested in capital assets, net of related debt	9,293,753
Unrestricted	<u>2,923,855</u>
Total net assets	<u>12,217,608</u>
Total liabilities and net assets	<u>\$16,810,307</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	\$ 5,619,864
Total operating expenses	<u>6,798,532</u>
Loss from operations	(1,178,668)
Nonoperating revenues	3,106,664
Nonoperating expenses	<u>257,625</u>
Net income	1,670,371
Net assets at July 1, 2003	<u>10,547,237</u>
Net assets at June 30, 2004	<u>\$12,217,608</u>

#### NOTE 14. 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, 2004, 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 15. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of 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 \$9,295,666 at June 30, 2004, is based on the use of 100 percent of the capacity of the Summit landfill, and 82 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is 2.5 years. The City will recognize the remaining estimated costs of closure and postclosure care of \$903,289 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of \$10,198,955 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, 2004. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

#### NOTE 16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The General Fund accounts for all exposures, except for torts, which are accounted for in the 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, 2004, 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, 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	481,384	2,535,000
Incurred claims (including IBNRs)	21,611,723	1,412,820
Claim payments	<u>(21,575,665)</u>	<u>(1,273,820)</u>
Unpaid claims, June 30, 2004	<u>\$ 517,442</u>	<u>\$ 2,674,000</u>

#### NOTE 17. COMPONENT UNIT SWAPTION

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

##### Objective:

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

Terms:

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

Fair value:

At June 30, 2004, the swap had a negative fair value of \$2,182,000, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

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