HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements 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 (the City), as of and for the year ended June 30, 2015, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, which represent 100 percent of the assets and revenues of the discretely-presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of 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, 2015, and the respective changes in financial position and, where applicable, cash flows 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv through xxii of the Financial Section and the required supplementary information on pages B-1 through B-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga's 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, statistical tables and schedule and schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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, financial schedules, and schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Chattanooga, Tennessee
December 10, 2015

Henderson Hutcherson
& McCullough, PLLC

Management's Discussion and Analysis

As management of the City of Chattanooga (the "City"), we provide readers of the City's financial statements with this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with our Letter of Transmittal beginning on page Intro 3 and the financial statements beginning on page A-1.

Financial Highlights

- Assets and deferred outflow of resources for the primary government exceeded liabilities and deferred inflow of resources by $1.8 billion (net position*)*, an increase of $57.8 million, or 3.3 percent, at the close of the fiscal year. Of this amount there is a $172.5 million deficit unrestricted net position. The deficit increased by $64.5 million largely due to a $44.0 million increase in pension expense and $20.0 million increase in economic development costs for Volkswagen expansion incentive. Pension expense during the previous year was offset by a $65.3 million savings due to Fire and Police pension reform.

- Net position of governmental activities at June 30, 2015 was $1.2 billion, an increase of $15.0 million, or 1.3 percent. Business-type activities reported ending net position of $649.4 million, an increase of $42.8 million, or 7.0 percent due to favorable operations trend in all business-type activities.

- Long-term liabilities for the City's primary government decreased $39.3 million or 4.0 percent, during the current fiscal year. Governmental activities long-term liabilities decreased $24.8 million. $17.8 million in bonds were issued to refinance $18.3 million and 19.3 million in debt was retired. Liabilities for OPEB and employee accrued leave decreased by $2.9 million and $2.3 million respectively. Business-type activities long-term liabilities decreased $14.5 million. $8.2 million in bonds were issued to refinance $8.4 million in existing debt. An additional $19.9 million in bonds were retired. $17.1 million in notes were issued for the Interceptor Sewer System; a comparable amount of notes were retired resulting in minimal change in amount owed.

- Pension cost increased $6.7 million as EPB implemented GASB 68. This standard was implemented for the General Pension and Fire and Police Pension funds during the prior fiscal year.

- At the end of the current fiscal year, unassigned fund balance for the General Fund is $55.1 million, a decrease of $8.9 million or 13.9 percent from prior year. This represents 21.6 percent of total General Fund expenditures and transfers out. The City budgeted $20.0 million use of fund balance as a capital incentive for Volkswagen expansion. Due to favorable operations, reserves decreased by only $9.3 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's basic financial statements which consist of three parts: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This comprehensive financial report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

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

There are two government-wide financial statements:

Statement of Net Position - This statement presents information about the City's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Statement of Activities - This statement presents information showing how the City's net position changed during the most recent fiscal year. All current year revenues and expenses are reported as soon as the underlying event giving rise to the change occurs. Thus revenues and expenses are reported in this statement for items that will only result in cash flows in future fiscal years (e.g., revenue includes uncollected taxes and expenses include earned but unused vacation leave).

The government-wide financial statement reflect three distinct activities:

Governmental Activities - These activities are primarily supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, economic and community development, public safety, public works and transportation, and youth and family development.

Business-type Activities - These activities are supported by user fees and charges for service which are intended to recover all of their costs. Included are electric, sewer, water quality systems, as well as solid waste disposal. Also included is The Chattanooga Downtown Redevelopment Corporation, a legally separate entity that functions as an enterprise of the City and therefore has been included as an integral part of the primary government.

Component Units – There are two entities that are legally separate and reported separately from the primary government, however the City of Chattanooga is financially accountable for them. These include: The Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority (CARTA).

Governmental activities and business-type activities combine to comprise the primary government. The government-wide financial statements begin on page A-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. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes. Some funds are required by State or Federal law or by bond covenants. Other funds are established by the City to help manage money for specific purposes (i.e. economic development) or to show that it is meeting legal responsibilities for how certain monies are used (i.e. grants received from the U.S. Department of Housing and Urban Development or hotel-motel taxes).

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 --These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However 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 information may be useful in evaluating the City's near-term financing requirements.

Because the focus of the governmental funds statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented between the two. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities in the government-wide financial statements.

The City maintains a general fund, multiple special revenue funds, a debt service fund, a capital projects fund and one permanent 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 other supplementary information section of this report.

The City of Chattanooga adopts an annually appropriated budget for the General Fund, special revenue funds and the debt service fund. Budgetary comparisons are provided for these funds to demonstrate compliance with the budget. The General Fund budgetary comparison is found in the fund statements of this report. Additional details for the General Fund along with budgetary comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Since neither the Capital Projects Fund nor the permanent fund adopts an annual budget, they are excluded from budgetary reporting.

Governmental fund financial statements begin on page A-4 of this report.

Proprietary Funds - The City of Chattanooga maintains two types of proprietary funds: (1) enterprise funds and (2) internal service funds.

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Water Quality Management, Solid Waste and Chattanooga Downtown Redevelopment Corporation are considered major funds.
- **Internal service funds** are an accounting devise used to accumulate and allocate costs internally among the City's various functions. The City of Chattanooga accounts for fleet maintenance, technology replacement and risk financing (e.g. medical cost and third party liability claims) in the internal service fund. The internal service funds are combined into a single column in the proprietary fund statements. Because these services predominantly benefit governmental rather than business-type functions, they have been included as part of governmental activities in the government-wide financial statements.

Proprietary funds statements begin on page A-9 of this report.

Fiduciary Funds - These funds are used to account for resources held for the benefit of others outside the government. While the City is responsible for ensuring that the assets are used for their intended purposes, we exclude these activities from the government-wide financial statements since these assets cannot be used to finance City operations.

The City of Chattanooga maintains a pension trust fund and an other post-employment benefits (OPEB) trust fund as fiduciary funds to account for resources held on behalf of participants in the City pensions plans and OPEB plan. The accounting used for fiduciary funds is much like that used for proprietary funds.

Fiduciary fund financial statements begin on page A-14 of this report.

Notes to the Financial Statements

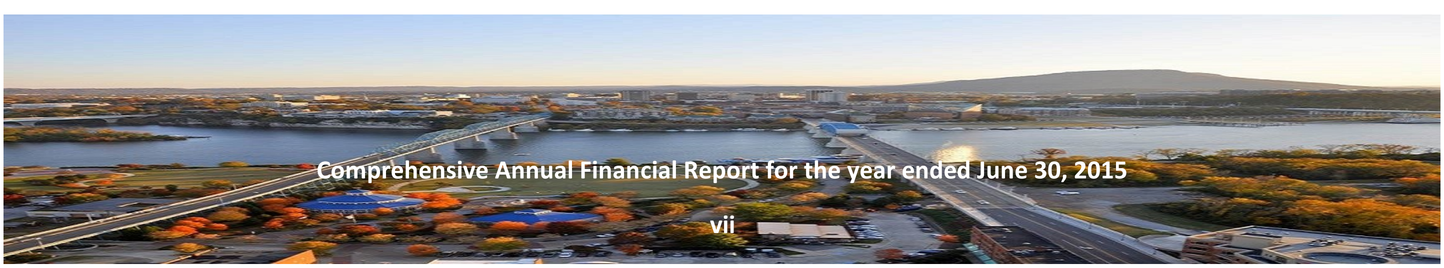
The financial statements also include notes that provide additional information that is essential to a full understanding of the government-wide and fund financial statements.

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

Supplemental Information

Required supplementary information - in addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* regarding the City's progress in funding its obligation to provide pension and OPEB benefits to its employees.

Required supplementary information begins on page B-1 of this report.



Other supplementary information - begins on page C-1 and includes:

- Combining statements for nonmajor governmental funds
- Combining statements for discretely presented component units
- A more detailed budget to actual comparison for the General Fund
- Budget to actual comparisons for special revenue funds and the debt service fund

Government-wide Overall Financial Analysis

Net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by $1.8 billion at the close of the most recent fiscal year, an increase of $60.9 million, or 3.5 percent, from last year. At the end of the fiscal year, the City of Chattanooga is once again able to report a positive net position for the government as a whole, as well as for its governmental and business-type activities individually.

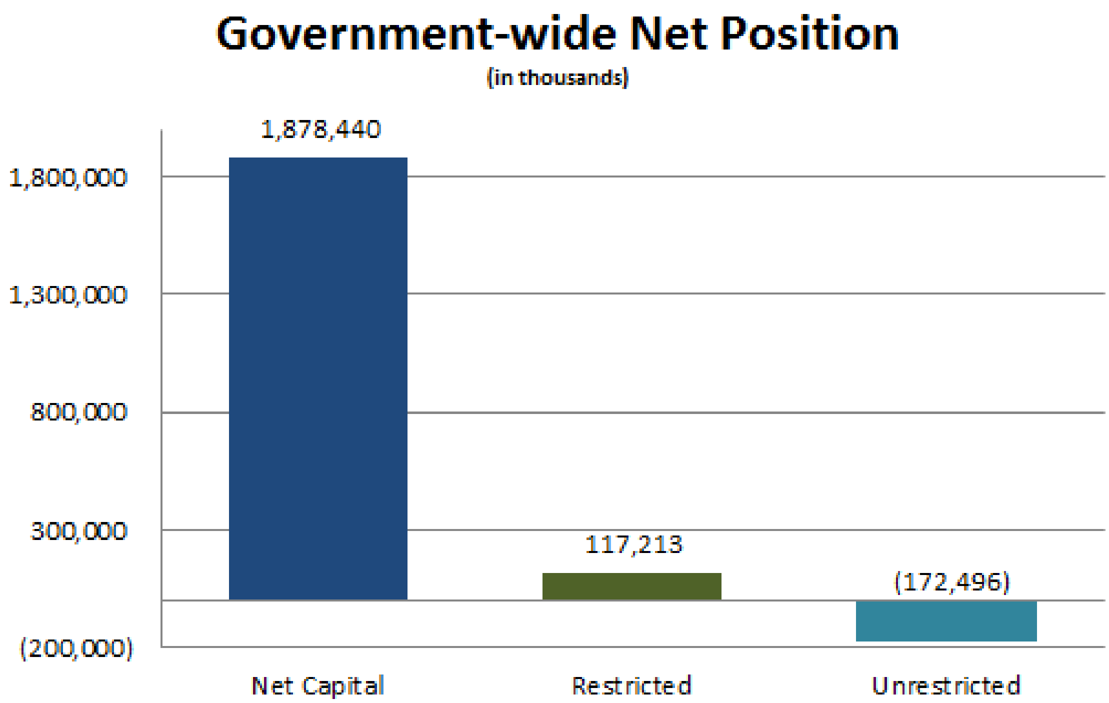
City of Chattanooga's Net Position

(in thousands)

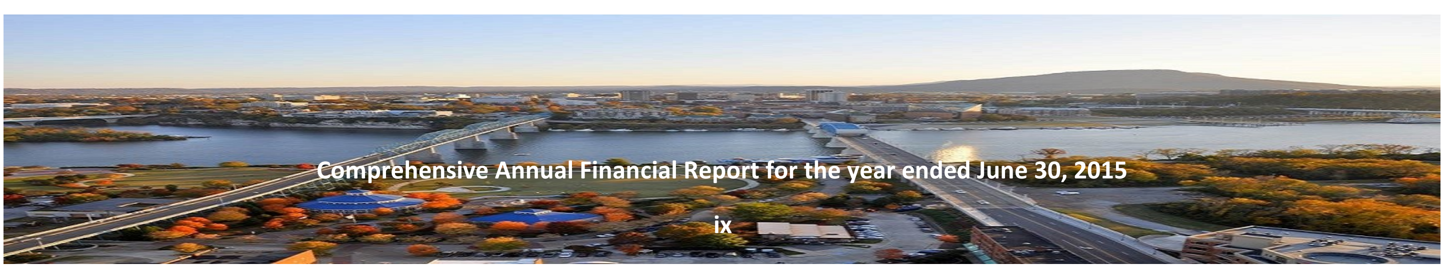
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	$ 260,825	$ 262,261	$ 412,194	$ 411,907	$ 673,019	$ 674,168
Capital assets	1,472,295	1,489,132	964,104	935,840	2,436,399	2,424,972
Total assets	1,733,120	1,751,393	1,376,298	1,347,747	3,109,418	3,099,140
Total deferred outflows of resources	28,443	21,040	11,512	4,737	39,955	25,777
Long-term liabilities outstanding	405,393	430,173	546,840	564,492	952,233	994,665
Other liabilities	26,387	27,401	186,587	181,522	212,974	208,923
Total liabilities	431,780	457,574	733,427	746,014	1,165,207	1,203,588
Total deferred inflows of resources	155,982	156,080	5,027	3,032	161,009	159,112
Net position:						
Net investment in capital assets	1,275,429	1,204,845	603,011	573,918	1,878,440	1,778,763
Restricted	47,791	47,932	69,422	46,645	117,213	94,577
Unrestricted	(149,419)	(93,998)	(23,077)	(17,125)	(172,496)	(111,123)
Total net position	$ 1,173,801	$ 1,158,779	$ 649,356	$ 603,438	$ 1,823,157	$ 1,762,217

By far the largest portion of the City's net position, $1.9 billion, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc.), less any related outstanding debt that was issued to acquire those assets. While capital assets are used to provide services to citizens, these assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, $117.2 million, represents resources that are subject to external restrictions on how they may be used. There is a $172.5 million deficit in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 8.



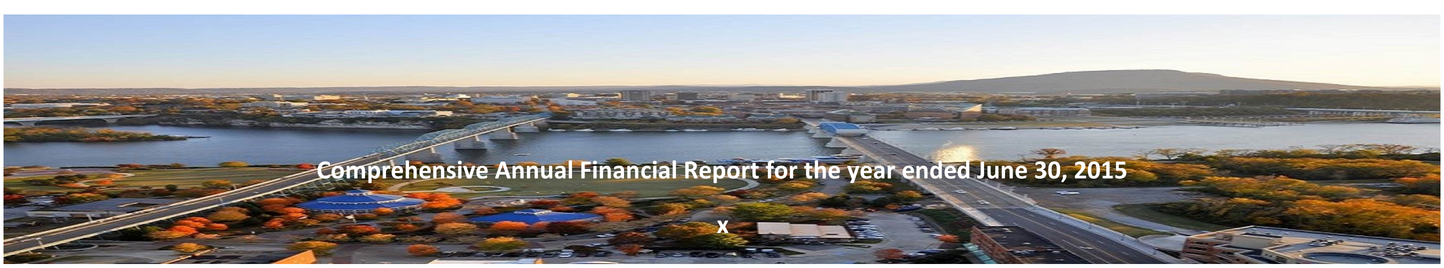
The chart on the next page provides revenue and expense details for Governmental Activities, Business-type Activities and the Primary Government as a whole.



City of Chattanooga's Changes in Net Position

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	$ 21,898	$ 20,860	$ 781,226	$ 761,199	$ 803,124	$ 782,059
Operating grants	36,065	28,079	-	-	36,065	28,079
Capital grants	1,557	216	739	1,833	2,296	2,049
General revenues:						
Property taxes	127,520	125,641	-	-	127,520	125,641
Other taxes	23,361	22,733	-	-	23,361	22,733
Investment income	955	1,332	1,186	990	2,141	2,322
Miscellaneous	1,525	263	-	-	1,525	263
Unrestricted grants and contributions	75,505	70,668	-	-	75,505	70,668
Total revenues	288,386	269,792	783,151	764,022	1,071,537	1,033,814
Expenses						
Governmental activities:						
General government	68,923	70,744	-	-	68,923	70,744
Economic and community development	25,728	6,785			25,728	6,785
Public safety	82,129	38,176	-	-	82,129	38,176
Public works and transportation	66,225	64,730	-	-	66,225	64,730
Youth and family development	23,455	21,716			23,455	21,716
Interest on long-term debt	6,904	6,820	-	-	6,904	6,820
Business-type activities:						
Electric utility	-	-	655,053	639,501	655,053	639,501
Sewer	-	-	48,141	48,360	48,141	48,360
Solid waste	-	-	4,126	4,393	4,126	4,393
Water quality	-	-	13,152	13,176	13,152	13,176
Downtown Redevelopment			16,761	16,049	16,761	16,049
Total expenses	273,364	208,971	737,233	721,479	1,010,597	930,450
Increase (decrease) in net position	15,022	60,821	45,918	42,543	60,940	103,364
Net position, beginning	1,158,779	1,097,958	603,438	564,061	1,762,217	1,662,019
Prior period adjustment	-	-	-	(3,166)	-	(3,166)
Net position, ending	$ 1,173,801	$ 1,158,779	$ 649,356	$ 603,438	$ 1,823,157	$ 1,762,217

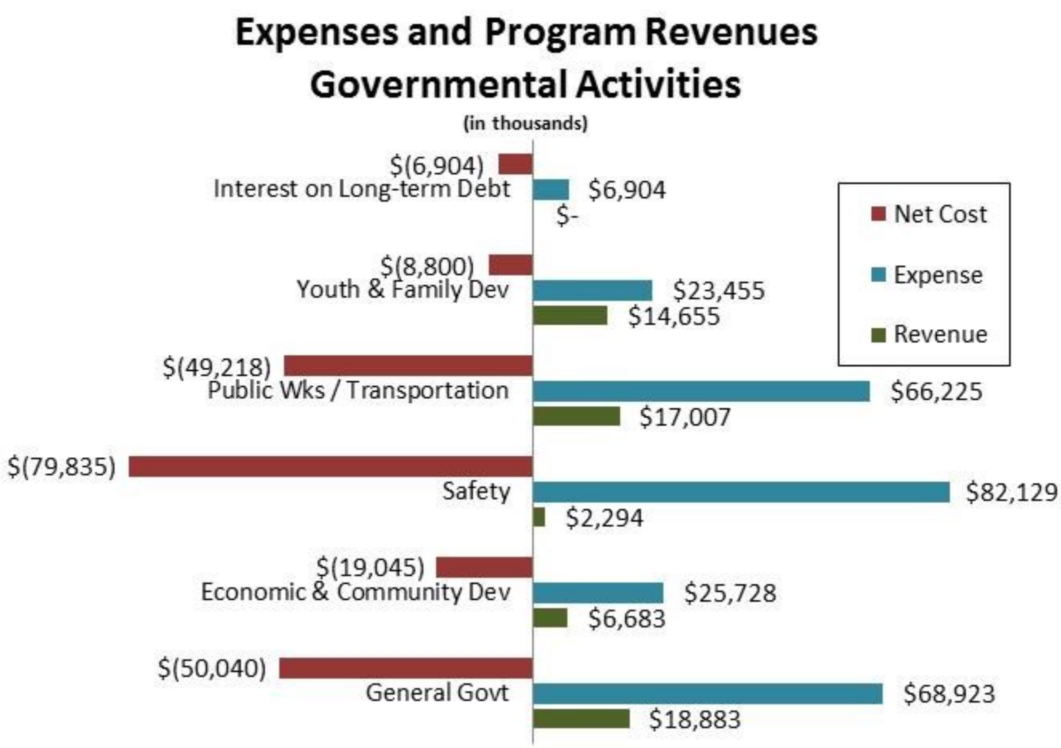


Governmental Activities

During the current fiscal year, net position of the City's governmental activities increased $15.0 million from the prior year for an ending balance of $1.2 billion. Overall revenue increased $18.6 million or 6.9 percent. $8.0 million of the increase is from operating grants primarily from donations of streets. County-wide sales tax, after the accrual of earned revenue, increased by $3.5 million or 6.9 percent over prior year and property tax increased by $1.9 million or 1.5 percent. There was a one-time infusion of $1.4 million from the state for old Metropolitan Planning Organization projects.

Expenses for the current year increased $64.4 million or 30.8 percent. In the prior year there was a $65.3 million reduction in expenses relating to the Fire and Police Pension reform, a one-time savings. The City paid $20.0 million of a $26.2 million incentive for expansion of an automotive plant and building a research facility which will bring 2,000 additional jobs to the Chattanooga area.

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

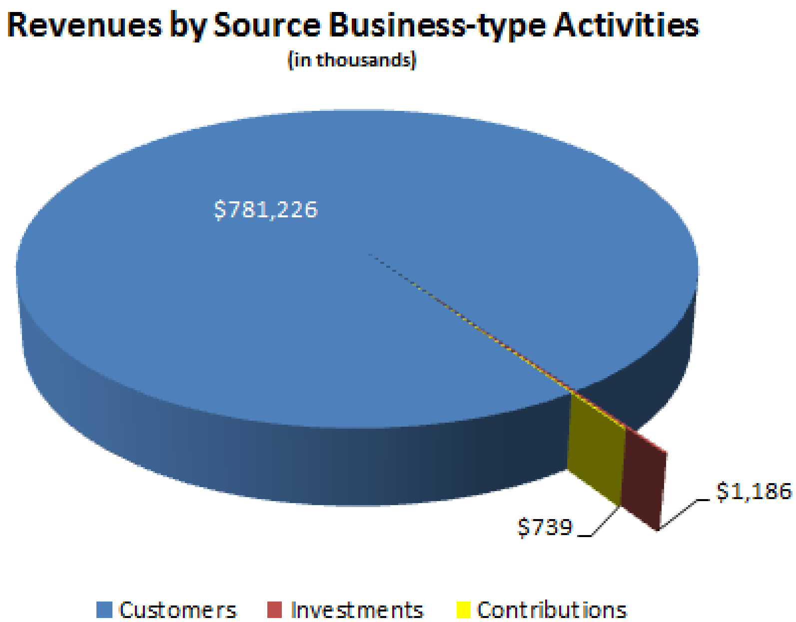


Business-type Activities

During the current year, net position of the business-type activities increased $45.9 million or 7.6 percent, to $649.4 million. This net position is dedicated solely to finance the continuing operations of the electric, sewer, water quality systems, solid waste disposal and downtown redevelopment operations.

Revenues for the City's business-type activities were $783.2 million for the year just completed; this is a $19.1 million or 2.5 percent increase. Expenses increased $15.8 million or 2.2 percent resulting in total expense of $737.2 million for the year. Please see Enterprise Fund detail for additional information.

As you can see from the following graph, the major source of revenue for business-type activities is customer charges.



The following table provides a summary for each business-type activity. Each is discussed in more detail with the proprietary fund information.

Expenses and Revenues - Business-type Activities
(in thousands)

	Electric	Sewer	Solid Waste	Water Quality	Downtown Revelopment	Total
Expenses	$ 655,053	$ 48,141	$ 4,126	$ 13,152	$ 16,761	$737,233
Revenues	672,186	64,420	7,380	19,959	19,206	783,151
Change in net position	$ 17,133	$ 16,279	$ 3,254	$ 6,807	$ 2,445	$ 45,918

Financial Analysis of the City's Funds

As noted earlier, the City of Chattanooga uses fund accounting to help 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.

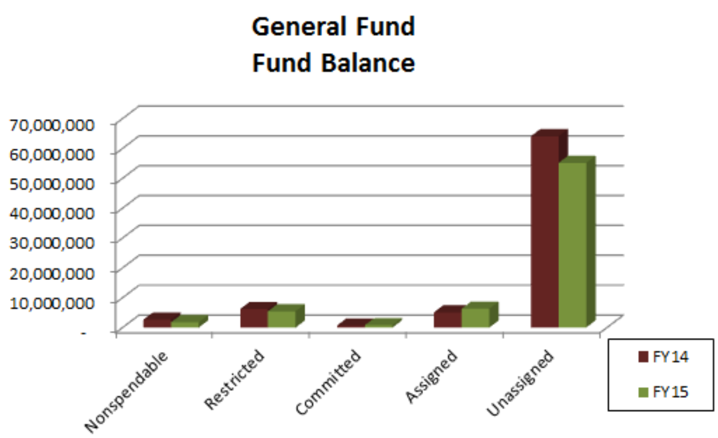
Governmental Funds

Governmental funds focus on the near-term flow of resources and balance of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's resources available for discretionary use since it represents the portion of fund balance which has not been limited for a specific purpose.

The City's governmental funds reported a combined fund balance of $136.9 million at the end of the fiscal year. Of this amount 40.2 percent or $55.1 million, is available for spending at the City's discretion (unassigned fund balance). Total fund balance is made up of the following:

- $7.4 million is in non-spendable form such as inventories and notes receivable.
- $57.6 million is restricted for particular purposes due to restrictions placed by grants, bond covenants, other governments or by City ordinance.
- $9.5 million is committed for specific purposes based on City resolutions.
- $7.4 million is assigned for particular purposes such as under control of boards or designated purpose by management.
- $55.1 million is unassigned for General Fund discretionary use.

General Fund: This is the chief operating fund of the City. Total fund balance of the General Fund decreased by 11.8 percent or $9.3 million to $69.4 million during the fiscal year. Unassigned fund balance decreased $8.9 million or 13.9 percent to $55.1 million. During fiscal year 2015 there was a $26.5 million planned use of operational dollars and fund balance for pay-as-you-go capital and economic development incentives.



As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to General Fund expenditures. Unassigned fund balance represents approximately 21.6 percent of total General Fund expenditures and transfers out, while total fund balance represents 27.2 percent of that same amount.

Revenues: Total revenues increased $8.3 million or 3.5 percent, from the prior year. All major revenue sources are discussed as follows.

- Tax revenue is $3.6 million or 2.6 percent higher than in the prior year. During the current fiscal year, property tax, along with payments in lieu of tax (PILOT), increased $2.8 million or 2.2 percent over last year with all of the growth in property taxes. A large PILOT agreement expired causing a 0.5 percent decrease in PILOT revenue which returned to the tax rolls. Liquor and beer taxes are up $96,000 or 1.2 percent while gross receipts increased $105,000 or 2.2 percent. Franchise fees are $700,000 or 17.5 percent higher than prior year primarily from the gas company whose agreement included a one-percent increase beginning in 2015.

- Licenses and permits are up $191,000 or 3.3 percent. Building related permits increased $166,600 or 6.5 percent highlighting the health of the local economy. A new revenue source is an economic development fee imposed as part of all new PILOT agreements which added $125,000 during the year. These increases are partially offset by a $93,300 or 5.1 percent decrease in parking meters revenue due to reduced downtown activities resulting from inclement weather.

- Intergovernmental revenues increased $3.3 million or 4.4 percent over the prior year. This is primary resulting from a $3.4 million or 6.7 percent increase in local option sales tax, another indicator of the health of the local economy. State shared sales tax is up $676,000 or 5.7 percent. These increases are offset by a $969,000 or 71.3 percent decrease in the congestion mitigation grant from the State of Tennessee as the final phase of the project was completed.

- Charges for services decreased 9.5 percent or $0.5 million. The primary decrease is a $342,000 write-off of uncollectible loans under the Chattanooga Opportunity Fund that promotes growth of small businesses. Another major variance during the year is a $258,300 decrease in ambulance and fire service fees since the Metropolitan Medical Response System funding has ended.

- Fines, forfeitures and penalties increased $645,000 or 32.0 percent primarily due to increased fine collection from automated traffic enforcement.

- Investment income increased $279,000 or 45.2 percent resulting from an effort to search out alternative investment vehicles available per the City's investment policy to maximize return while safeguarding assets.

- Major changes in miscellaneous income include a $316,500 increase of indirect cost recovery from

other funds and a $307,500 increase in both the sale of back tax lots and equipment. These were offset by a $140,000 decrease in transitional revenue provided by the Parking Authority as they become the City's administrator of downtown parking.

Expenditures: Total expenditures increased $7.0 million or 3.6 percent, from the previous year. Major changes during fiscal year 2015 are discussed below:

- Salaries for full-time employees increased $1.7 million or 2.8 percent; civilian employees received a 1.5 percent increase while sworn employees now have a career ladder program fully in place. Healthcare costs for active employees increased $655,500 or 5.2 percent while other post-employment benefits for healthcare increased $479,000 or 4.5 percent. These increases are offset by a $3.2 million decrease in fire and police pension costs resulting from plan changes which reduced the City's contribution rate from 35.86 percent to 26.19 percent for the year. There was also a $1.1 million reduction resulting from the final payment in the prior year for construction of the wellness center.
- In the operations area, technology related costs increased $480,000 or 19.9 percent, and liability insurance premiums increased $700,000 or 87.5 percent due to increased claims payout. Two unusual items relating to the vehicle lease program and debt payments also occurred in 2015. Restoration of the capital component of the vehicle lease which had been suspended in the prior year increased vehicle lease costs by $3.6 million or 112.5 percent. Fiscal year 2015 was the first of six $1.96 million annual payments to the Hamilton County Department of Education for past mixed-drink taxes as part of a settlement.
- Transfers out included an additional $26.5 million for economic development projects.

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 $43.0 million in fund balance; of that amount $0.9 million is nonspendable for long-term note receivables leaving $42.1 million restricted for completion of capital projects. Fund balance for this fund fluctuates from year-to-year based on debt issued and project expenditures; new debt increases fund balance while project expenditures decreases it. For fiscal year 2015 there was a $160,000 decrease in fund balance. Analysis of project income and expenditures follows.

Project inflows for the year of $55.8 million include $19.6 million in proceeds including bond premiums to refinance existing debt. Transfers of $33.0 million include $30.6 million from General Fund, $1.6 million from Hotel Motel Tax, $0.5 million from Narcotics and $0.3 million from Community Development. The transfers from General Fund include $26.5 million planned use of operational dollars and fund balance for pay-as-you-go capital; the remaining came from dollars earmarked for economic development and special programs.

Current year project outflows of $55.9 million include $16.9 million of economic development projects, $5.7 million for waterfront improvements, $4.7 million for street, sidewalk, bridge and tunnel projects, $2.4 million for ballfields, parks and family centers, $1.5 million for safety building improvements and equipment. Transfers out of $1.4 million are funding of internal service technology replacement and a brownfield grant match.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, have combined net position of $691.3 million. Net investment in capital assets is $617.4 million, with an additional $69.4 million restricted for future use, leaving $4.4 million available to meet on-going obligations.

Enterprise Funds - Total net position of the enterprise funds is $649.4 million; an increase of $45.9 million or 7.6 percent. Details for each fund are presented as follows:

- **Electric Power Board** – The largest enterprise fund is EPB, which has both an electric and a fiber optic division. Total net position increased $17.1 million or 6.0 percent to $302.2 million, mainly due to a reduction in electric bond liabilities of $7.4 million as well as a reduction of fiber optics debt of $14.2 million. Operating revenues are up $16.4 million or 2.5 percent. A closer examination reveals that electric sales decreased $2.0 million or 0.4 percent while fiber optic sales increased by $16.8 million or 18.7 percent due to the continued success of the residential service offerings. Combined operating expenses, which includes tax equivalents and depreciation, increased $15.9 million or 2.6 percent which is consistent with higher operating revenues.

- **Interceptor Sewer System** – Net position of the Interceptor Sewer System increased $16.3 million or 6.0 percent, to $286.0 million. Operating revenues rose $0.9 million or 1.4 percent while operating expenses were flat. Unrestricted net position (available to finance on-going operations) decreased $5.9 million or 24.8 percent to $17.9 million. An additional $48.3 million is restricted for future capital spending, an increase of $24.6 million; this increase is the result of contracts issued in compliance with an Environmental Protection Agency (EPA) order; please refer to Note 14 for additional information.

- **Solid Waste** – The City of Chattanooga operates a municipal solid waste landfill. For the first time since EPA mandated establishing closure and post closure requirements, the fund shows a positive net position of $2.7 million. To date the City has accrued liabilities of $5.7 million for closure and post closure care costs with $9.0 million in investments to cover the costs.

- **Water Quality Management** – The Water Quality Fund, established to comply with EPA guidelines, now has $61.7 million in net position, an increase of $6.8 million or 12.4 percent from last year. Net investment in capital is $33.6 million leaving the amount available to fund day-to-day operations (unrestricted net position) at $27.2 million. Unrestricted net position increased 21.9 percent, $4.9 million.

- **Chattanooga Downtown Redevelopment Corporation** – The Chattanooga Downtown Redevelopment Corporation (CDRC) remains in a negative net asset position of $3.2 million. However, during the fiscal year net position increased $2.4 million following a continual improvement trend.

Internal Service Fund -- The internal service fund is used to account for the City's vehicle operation and maintenance program, employee medical benefits program, technology replacement and third party liability claims. Net position for this fund increased $5.0 million or 13.5 percent. This increase is primarily comprised of $2.1 million in health premiums over claims, $1.8 million in fleet program reserves for future vehicle purchases and $1.0 million set aside for technology purchases.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget

The City's budget ordinance provides for the basic functions of City government, encompassing all major funds and appropriations to agencies. The budget ordinance authorizes the City Finance Officer to make reallocations within the General Fund with a report to City Council.

There is an increase in transfers between the original budget and the final amended budget of $20.5 million which is primarily related to the $20.0 incentive to Volkswagen which was included in the capital budget after the operations budget was passed.

Final Budget Compared to Actual Results

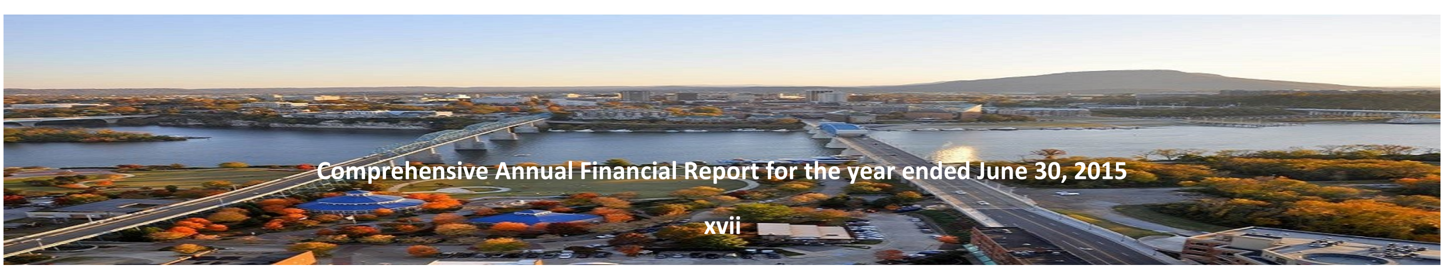
Revenues exceeded budget for the year by $9.1 million. All revenue categories with the exception of charges for service and miscellaneous exceeded expectations. All major revenue categories are addressed below.

- Total tax revenue for the year was higher than budget expectations by $2.9 million or 2.0 percent. Property taxes, inclusive of payments in lieu of tax, exceeded budget, $2.4 million or 1.9 percent. The remaining amount is franchise taxes of $308,000 and liquor taxes of $230,000, both exceeding budget estimates.

- Licenses and permits are $601,000 or 11.2 percent above budget primarily from building related permits and fees as well as new economic development fees related to PILOT agreements.

- Intergovernmental revenue is $5.0 million or 6.8 percent more than budget, primarily due to sales tax and state income tax. State shared income tax is $938,000 higher than budget. State shared sales tax is $315,000 over estimate while local option sales tax is $3.4 million over estimate.

- Charges for services are $446,000 under budget or 8.1 percent. Rental of city facilities is up $260,000 and convenience fees for credit card charges is up $154,000. This is offset by golf revenues being $288,000 under budget and write-offs of $342,000 uncollectible economic development loans.



- Fines and forfeitures are $1.8 million above estimates. This is primarily due to higher than expected collections under the traffic enforcement based on prior year results.
- Miscellaneous revenue is $1.0 million below budget primarily due to reclassification of revenue sources.

Expenditures were less than budgetary estimates by $5.0 million or 2.4 percent. All departments were under budget. Personnel costs, which are budgeted at 100 percent of authorized positions, are $3.1 million below budget due to vacancies. Operations are down by $1.7 million or 2.1 percent. As previously mentioned, General Fund transferred $26.5 million to capital for economic development which includes $22.9 million use of fund balance. Because revenues were better than anticipated and expenditures were lower, only $9.3 million of reserves were used.

Capital Assets and Debt Administration

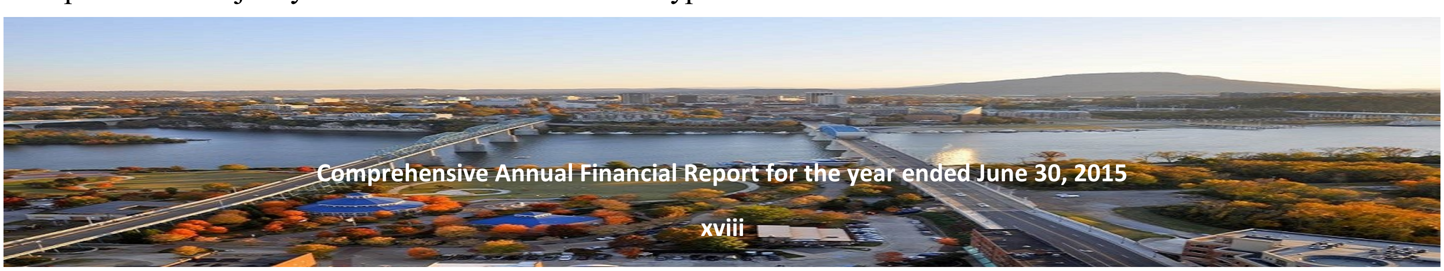
Capital Assets

At the end of this year, the City had $2.4 billion net investment in capital assets, an increase of $11.4 million or 0.5 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. Net investment in capital assets for governmental funds decreased by $16.8 million or 1.1 percent while business type net investment in capital assets increased by $28.3 million or 3.0 percent. The following table shows the net investment in capital assets by both governmental activities and business-type activities.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Non-depreciable:						
Land & Easements	$ 1,045,748	$1,040,673	$ 20,517	$ 20,021	$ 1,066,265	$ 1,060,694
Construction in progress	77,087	69,219	66,019	46,768	$ 143,106	115,987
Depreciable:					$ -	
Buildings & Improvements	107,490	113,894	82,628	83,248	$ 190,118	197,142
Vehicles & Machinery	25,167	29,024	90,393	90,193	$ 115,560	119,217
Infrastructure	216,804	236,322	704,549	695,609	$ 921,353	931,931
Total	$ 1,472,296	$1,489,132	$ 964,104	$ 935,839	$ 2,436,402	$ 2,424,971

The majority of capital asset changes are in the construction in progress and infrastructure areas.

- Construction-in-progress additions for governmental activities include $5.7 million of waterfront improvements, $2.7 million for paving/sidewalks/road improvements, $1.2 million for the Hixson Community Center, $0.3 million for the Shepherd Community Center, $0.3 million in park improvements, and $0.5 million for municipal billing and collection software. $3.6 million of road improvements at Goodwin Road were capitalized. Construction of projects related to the sewer system's consent decree comprised the majority of the increase in business-type activities.



- The infrastructure decrease in governmental activities is primarily due to depreciation of roads, $24.6 million. Business-type activities infrastructure assets increased primarily from a $25.1 million addition to the electric distribution system and $13.3 million addition to the fiber optic network. These increases were partially offset by depreciation.

- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year governmental activities recognized depreciation expense of $36.9 million while business-type activities recognized depreciation expense of $68.9 million.

More detailed information about the City's capital assets is presented in the Note 5 to the financial statements.

Debt Administration

At June 30 the City had $668.3 million in long-term debt outstanding. This is a $30.4 million decrease or 4.3 percent, from last year. Detail is provided in the table and narrative that follows.

The City of Chattanooga maintains an "AAA" rating from Standard & Poor's and "AA+" from Fitch Inc. for general obligation debt. The City Charter limits the amount of net general obligation debt to 10 percent of the assessed value of all taxable property within City corporate limits. The City's general obligation debt, net of self-supporting debt, is $153.3 million; this is 30.4 percent of its current limit of $504.5 million. As of year-end, EPB had $263.9 million in revenue bond debt outstanding compared to $270.1 million last year. These bonds are rated "AA+" by Standard & Poor's and by Fitch.

City of Chattanooga's Long-term Debt
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds (backed by the City)	$ 174,575	$ 187,632	$ 35,275	$ 43,598	$209,850	$231,230
Revenue bonds (backed by specific revenues)	-	-	369,545	381,105	369,545	381,105
Notes payable and other	26,990	33,678	61,742	52,400	88,732	86,078
Capital leases	174	232	-	6	174	238
Total	$ 201,739	$ 221,542	$ 466,562	$ 477,109	$668,301	$698,651

During the year the City issued the following new debt:

- The City issued $25.9 million in bonds to refund $26.7 million. $17.8 million of the refunding bonds were related to governmental activities while $8.2 million were related to business-type activities.
- The Interceptor Sewer System drew down $17.1 million from a state revolving fund loan for consent

decree projects.

- A total of $46.6 million in debt was retired during the fiscal year; $32.1 million in bond principal payments were made with an additional $14.5 million in note repayments.

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the budget for 2016:

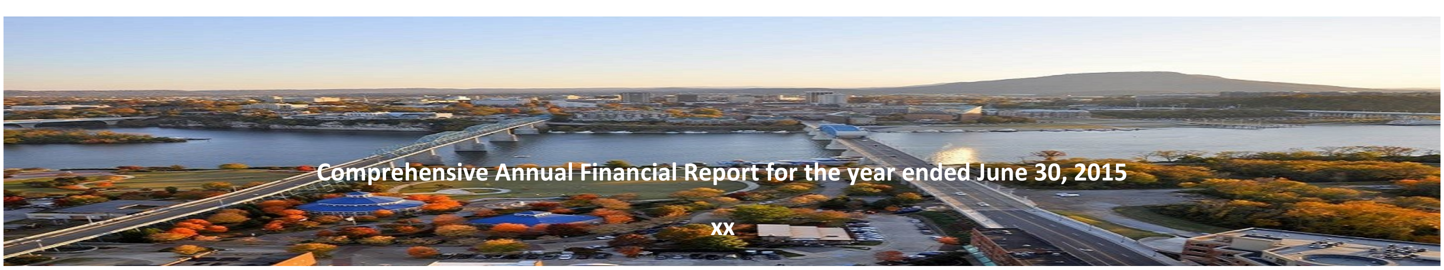
- Anticipated revenues in the General Fund are $240.0 million, up $3.3 million or 1.4 percent from the 2015 budget. The City conservatively forecasts property tax at 95 percent of the tax levy. The fiscal year 2016 budget includes no increase in the property tax rate yet provides sufficient revenue to fund the priorities of residents and meet the City's financial obligations.

- Major revenue increases include property tax revenue of $1.1 million or 1.0 percent, state income taxes of $0.6 million or 17 percent, local sales taxes $0.4 million or 1.0 percent, and additional local sales tax designated for economic development $0.9 million or 7.5 percent. There is an $0.8 million reduction in charges for services as management of civic facilities was contracted out to achieve better efficiencies.

- Expenditures of $245.1 million reflect an elevated awareness of constituent priorities in the following areas: safer streets; growing the local economy; smarter students and stronger families; stronger neighborhoods; and a high performing government. Expenditures are expected to be $15.1 million less in 2016, primarily because 2015 included is a $20 million incentive for Volkswagen plant expansion, with the balance of $6.3 million due this year. This incentive is expected to create 2,000 new jobs.

- The City of Chattanooga uses Budgeting for Outcomes (BFO) approach to establish the annual financial plan for undesignated general funds ($221,000,000). This approach is based on collaboration, transparency and delivery of services that matter most to citizens. Requests in the form of offers are prioritized by results areas and funded as revenue permits.

    - The 2016 budget funds 29 offers totaling $107,835,671 (48.8 percent) of the budget for safer streets. This continues funding for 486 police officers, an all-time high, to implement a community-based policing model. Also included is funding for the pay plan for sworn personnel, maintaining a full-time Federal prosecutor, and funding for a family justice center.



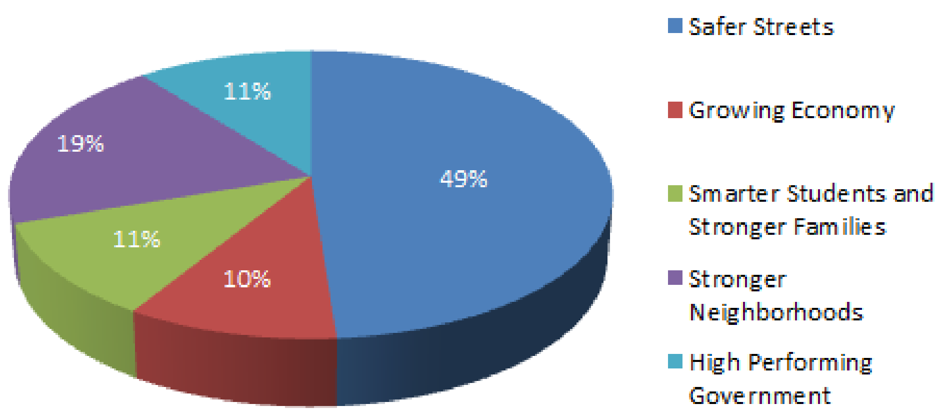
- 24 offers were funded a total of $22,265,564 (10.1 percent) for growing the local economy. These offers which invest in the new Innovation District and continue the small business incentives of the prior year, will ensure Chattanoogans have the skills to compete, while strengthening infrastructure to support business expansion.

- $24,133,965 (10.9 percent) of the budget provides funding for 21 offers for smarter students and stronger families. These dollars will support children from cradle to career, providing character education, and creating effective programming for parents and seniors.

- Stronger neighborhoods received $43,188,848 (19.5 percent) to fund 16 offers. This will provide opportunities for every citizen to live in a thriving neighborhood with recreation opportunities and access to variety of transportation options.

- Effective use of every tax dollar is ensured by funding 23 offers totaling $23,575,952 (10.7 percent) for high performing government. These offers focus on long term financial health of the City and providing customer service.

Funding of Results Areas



- The budget provides a 1.5 percent pay raise for civilian employees and a career ladder program for sworn personnel. The City is committed to fund a compensation program that ensures recruitment and retention of well qualified professionals to deliver services to the citizens of this community. This includes 100 percent funding of the actuarially determining contribution amounts for the pension and OPEB.

Requests for Information

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 assets it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department
101 East 11th Street; Suite 101
Chattanooga, Tennessee 37402
(423) 643-7363
www.chattanooga.gov

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

Chattanooga Metropolitan Airport Authority
1001 Airport Road, Suite 14
Chattanooga, TN 37421
(423) 855-2202
www.chattairport.com

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406
(423) 629-1411
www.gocarta.org

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 94,514,624	$ 140,479,510	$ 234,994,134	$ 9,562,093
Investments	49,859,727	42,502,335	92,362,062	-
Receivables, net of allowance for uncollectible	174,523,090	91,327,415	265,850,505	4,228,356
Internal balances	(90,436,286)	90,436,286	-	-
Due from component units	738,461	-	738,461	-
Inventories	2,764,802	14,242,859	17,007,661	768,392
Prepaid items	20,268	8,718,317	8,738,585	1,684,840
Restricted assets:				
Cash and cash equivalents	15,898,758	4,144,456	20,043,214	2,784,463
Investments	689,452	20,318,284	21,007,736	-
Endowment investments	4,652,501	-	4,652,501	-
Receivables	91,261	-	91,261	262,537
Other	-	24,124	24,124	-
Other post employment benefit assets	-	-	-	86,101
Equity interest in joint venture	7,507,586	-	7,507,586	-
Land and other nondepreciable assets	1,122,834,405	86,535,069	1,209,369,474	12,564,263
Other capital assets, net of accumulated depreciation	349,461,313	877,569,032	1,227,030,345	124,846,449
Total assets	1,733,119,962	1,376,297,687	3,109,417,649	156,787,494
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	2,656,334	2,999,221	5,655,555	-
Deferred pension outflows	25,786,581	8,512,363	34,298,944	1,460,067
Total deferred outflows of resources	28,442,915	11,511,584	39,954,499	1,460,067
LIABILITIES				
Accounts payable and accrued liabilities	25,274,225	154,937,663	180,211,888	3,903,203
Due to primary government	-	-	-	738,461
Customer deposits	-	22,176,000	22,176,000	-
Contracts payable	664,352	791,632	1,455,984	177,019
Unearned grants revenue	447,929	-	447,929	-
Other liabilities	-	8,681,000	8,681,000	-
Long-term liabilities:				
Due within one year	18,727,009	28,176,443	46,903,452	935,041
Due in more than one year	386,666,220	518,663,943	905,330,163	23,091,872
Total liabilities	431,779,735	733,426,681	1,165,206,416	28,845,596
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	130,481,884	-	130,481,884	59,381
Deferred pension inflows	25,499,752	5,027,002	30,526,754	786,540
Total deferred inflows of resources	155,981,636	5,027,002	161,008,638	845,921
NET POSITION				
Net investment in capital assets	1,275,429,168	603,011,447	1,878,440,615	125,440,945
Restricted for:				
Capital projects	43,042,465	-	43,042,465	-
Debt service	-	9,668,284	9,668,284	3,047,000
Renewal and replacement	-	59,753,138	59,753,138	-
Permanent endowments:				
Expendable	4,664,769	-	4,664,769	-
Nonexpendable	84,395	-	84,395	-
Unrestricted	(149,419,291)	(23,077,281)	(172,496,572)	68,099
Total net position	$ 1,173,801,506	$ 649,355,588	$ 1,823,157,094	$ 128,556,044

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 68,922,709	$ 16,177,424	$ 2,595,031	$ 109,891
Economic and community development	25,728,093	3,645,518	3,037,283	-
Public safety	82,128,786	934,476	1,321,018	37,861
Public works and transportation	66,224,659	581,137	15,016,450	1,408,997
Youth and family development	23,455,413	559,531	14,095,398	-
Interest on long-term debt	6,904,505	-	-	-
Total governmental activities	273,364,165	21,898,086	36,065,180	1,556,749
Business-type activities:				
Electric utility, including fiber optics	655,053,000	671,251,000	-	738,000
Sewer	48,140,755	64,055,861	-	-
Solid waste	4,126,419	7,314,317	-	-
Water quality management	13,151,961	19,945,571	-	1,109
Downtown redevelopment	16,760,841	18,659,044	-	-
Total business-type activities	737,232,976	781,225,793	-	739,109
TOTAL PRIMARY GOVERNMENT	$ 1,010,597,141	$ 803,123,879	$ 36,065,180	$ 2,295,858
COMPONENT UNITS				
Airport authority	$ 20,569,416	$ 18,537,138	$ -	$ 5,270,361
Transportation authority	23,340,699	8,073,698	7,628,263	4,859,004
TOTAL COMPONENT UNITS	$ 43,910,115	$ 26,610,836	$ 7,628,263	$ 10,129,365

General revenues:
- Property taxes
- Other taxes
  - Liquor and beer taxes
  - Hotel-Motel tax
  - Local gross receipts tax
  - Franchise taxes
  - Other taxes
- Grants and contributions not allocated to specific programs:
  - County-wide sales taxes
  - City allocation of state sales taxes
  - City allocation of state income taxes
  - City allocation of other shared taxes
- Unrestricted investment earnings
- Miscellaneous
- Gain on sale of capital assets
- Gain on equity interest in joint venture

Total general revenues and transfers

Change in net position

Net position, beginning, as previously reported

Change in accounting principle

Net position, beginning, as restated

Net position, ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (50,040,363)	$ -	$ (50,040,363)	$ -
(19,045,292)	-	(19,045,292)	
(79,835,431)	-	(79,835,431)	-
(49,218,075)	-	(49,218,075)	-
(8,800,484)	-	(8,800,484)	-
(6,904,505)	-	(6,904,505)	-
(213,844,150)	-	(213,844,150)	-
-	16,936,000	16,936,000	-
-	15,915,106	15,915,106	-
-	3,187,898	3,187,898	-
-	6,794,719	6,794,719	-
-	1,898,203	1,898,203	-
-	44,731,926	44,731,926	-
(213,844,150)	44,731,926	(169,112,224)	-
-	-	-	3,238,083
-	-	-	(2,779,734)
-	-	-	458,349
127,519,982	-	127,519,982	-
7,606,018	-	7,606,018	-
5,995,649	-	5,995,649	-
4,899,150	-	4,899,150	-
4,725,955	-	4,725,955	-
134,509	-	134,509	-
54,802,189	-	54,802,189	-
12,699,074	-	12,699,074	-
4,412,843	-	4,412,843	-
3,591,182	-	3,591,182	-
954,972	1,186,019	2,140,991	14,570
-	-	-	2,238,527
1,501,675	-	1,501,675	-
23,684	-	23,684	-
228,866,882	1,186,019	230,052,901	2,253,097
15,022,732	45,917,945	60,940,677	2,711,446
1,158,778,774	606,603,643	1,765,382,417	136,114,063
-	(3,166,000)	(3,166,000)	(10,269,465)
1,158,778,774	603,437,643	1,762,216,417	125,844,598
$ 1,173,801,506	$ 649,355,588	$ 1,823,157,094	$ 128,556,044

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 12,914,271	$ 43,692,663	$ 20,444,576	$ 77,051,510
Investments	49,859,727	689,452	4,652,501	55,201,680
Receivables, net of allowance for uncollectibles:				
Property taxes	121,366,185	-	-	121,366,185
Other taxes	11,460,772	-	1,221,969	12,682,741
Notes	1,040,491	958,413	13,762,221	15,761,125
Other	1,292,836	10,438	243,641	1,546,915
Due from other funds	-	204,418	90,515	294,933
Due from other governments	19,326,138	910,101	2,802,659	23,038,898
Inventories	887,113	-	-	887,113
Prepaid items	8,000	-	12,268	20,268
Total assets	$ 218,155,533	$ 46,465,485	$ 43,230,350	$ 307,851,368
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable	$ 4,311,553	$ 1,278,974	$ 1,623,559	$ 7,214,086
Accrued payroll	5,447,835	-	558,429	6,006,264
Accrued OPEB contributions	11,845	-	-	11,845
Due to other funds	-	1,490,515	204,418	1,694,933
Due to other governments	281,288	-	-	281,288
Contracts payable	-	653,531	10,821	664,352
Unearned grants revenue	-	-	447,929	447,929
Total liabilities	10,052,521	3,423,020	2,845,156	16,320,697
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	128,901,400	-	-	128,901,400
Unavailable revenue - other local taxes	1,485,190	-	637,777	2,122,967
Unavailable revenue - shared tax revenue	8,058,717	-	417,905	8,476,622
Unavailable revenue - CDBG loans	-	-	14,873,736	14,873,736
Unavailable revenue - other	221,541	-	-	221,541
Total deferred inflows of resources	138,666,848	-	15,929,418	154,596,266
FUND BALANCES				
Nonspendable	1,783,514	958,413	4,664,769	7,406,696
Restricted	5,449,595	42,084,052	10,026,682	57,560,329
Committed	795,692	-	8,656,519	9,452,211
Assigned	6,293,667	-	1,107,806	7,401,473
Unassigned	55,113,696	-	-	55,113,696
Total fund balances	69,436,164	43,042,465	24,455,776	136,934,405
Total liabilities, deferred inflows of resources and fund balances	$ 218,155,533	$ 46,465,485	$ 43,230,350	$ 307,851,368

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 POSITION

June 30, 2015

Differences in amounts reported for governmental activities in the statement of net position on page A-1:

Fund balances - total governmental funds		$ 136,934,405
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		1,457,880,644
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and are deferred in the funds.		24,114,382
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial resource and is not reported in the funds.		7,507,586
The internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position		41,935,901
Contributions to pension plans made after the measurement date are recorded as expenditures in governmental fund but must be deferred in the statement of net position in addition to certain other items:		
Contribution to pension plans	$ 17,377,018	
Deferred experience loss pension plans	8,409,563	25,786,581
The City's other post-employment benefit plan has not been fully funded. This OPEB obligation is considered a long term obligation and is not reported in the funds.		(26,541,722)
The City's pollution remediation obligation is considered a long term obligation		(1,233,350)
Net pension liabilities are not due and payable in the current period and are not reported in the funds:		
General pension	(22,479,318)	
Fire and police pension	(126,527,803)	(149,007,121)
Long-term liabilities are not due and payable in the current period and 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 due in one year and due in more than one year, are reported in the statement of net position. This item consists of:		
General obligation serial bonds	(174,575,355)	
Add net deferred refunding, issue premiums and discounts	(5,104,007)	
Notes payable	(26,990,086)	
Capital leases	(174,098)	
Capital lease payable to CDRC - reported as internal balance	(90,436,286)	
Compensated absences	(18,684,082)	
Accrued interest payable	(2,112,134)	(318,076,048)
Certain amounts related to the net pension liability are deferred and amortized over time. These are not reported in the funds:		
Investment gain - pension plans	(21,673,011)	
Assumption change - pension plans	(3,826,741)	(25,499,752)
Net position of governmental activities		$ 1,173,801,506

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, 2015

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 145,713,796	$ -	$ 5,916,859	$ 151,630,655
Licenses and permits	5,990,129	-	529,108	6,519,237
Intergovernmental	78,810,735	2,372,630	23,738,595	104,921,960
Charges for services	5,080,230	-	516,690	5,596,920
Fines, forfeitures and penalties	2,661,973	-	59,515	2,721,488
Investment income	895,509	43,511	172,673	1,111,693
Contributions and donations	633,037	178,285	171,317	982,639
Sale of property	777,257	647,325	2,308	1,426,890
Miscellaneous	5,380,610	17,590	1,319,834	6,718,034
Total revenues	245,943,276	3,259,341	32,426,899	281,629,516
EXPENDITURES				
Current:				
General government	53,011,063	-	6,008,375	59,019,438
Finance and administration	5,128,912	-	-	5,128,912
Economic and community development	6,832,886	-	1,784,891	8,617,777
Public safety	93,205,693	-	242,019	93,447,712
Public works and transportation	34,032,876	-	3,789,882	37,822,758
Youth and family development	8,986,605	-	14,757,885	23,744,490
Capital outlay	-	35,186,418	-	35,186,418
Debt service:				
Principal retirement	1,960,580	-	17,364,333	19,324,913
Interest and fiscal charges	-	-	7,421,843	7,421,843
Total expenditures	203,158,615	35,186,418	51,369,228	289,714,261
Excess (deficiency) of revenues over (under) expenditures	42,784,661	(31,927,077)	(18,942,329)	(8,084,745)
OTHER FINANCING SOURCES (USES)				
Transfers in	33,055	32,952,527	26,647,189	59,632,771
Transfers out	(52,093,530)	(1,433,055)	(7,506,186)	(61,032,771)
Refunding bonds issued	-	17,753,440	-	17,753,440
Premium on bonds issued	-	1,735,417	-	1,735,417
Notes issued	-	83,132	-	83,132
Payments to refunded bonds escrow agent	-	(19,324,578)	-	(19,324,578)
Total other financing sources (uses)	(52,060,475)	31,766,883	19,141,003	(1,152,589)
Net change in fund balances	(9,275,814)	(160,194)	198,674	(9,237,334)
FUND BALANCES, beginning	78,711,978	43,202,659	24,257,102	146,171,739
FUND BALANCES, ending	$ 69,436,164	$ 43,042,465	$ 24,455,776	$ 136,934,405

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, 2015

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

Net change in fund balances - total governmental funds		$ (9,237,334)
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 position.		13,663,490
Depreciation expense for governmental capital assets are included in the governmental activities.		(36,924,426)
Contributions of capital assets are not reflected in the governmental funds but are reported in the statement of activities. This item consists primarily of streets contributed by developers.		8,181,150
The net effect of various transactions involving capital assets is to decrease net positions.		(2,754)
The gain of equity interest in joint venture is reported in the statement of activities. This gain does not use current financial resources and is not reflected in the governmental funds.		23,684
Bond proceeds and notes issues provide financial resources to governmental funds while repayment of principal consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and deferred amounts on refundings when debt is first issued; these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt is as follows:		
Principal paid	$ 19,324,913	
Payment of capital lease	3,570,878	
Bonds issued	(17,753,440)	
Premiums on bonds issued	(1,735,417)	
Note issued	(83,132)	
Escrow payment	19,324,578	
Amortization	430,536	
Change in accrued interest payable	(3,000)	23,075,916
Net gain of the internal service fund are reported with governmental activities.		4,996,686
Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. This item consists of:		
Change in personal leave liability	2,263,901	
Change in pension expense	7,542,147	
Change in pollution remediation liability	(38,855)	
Change in OPEB liability	2,926,173	12,693,366
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources. This item consists of:		
Change in deferred revenue to earned revenue	(1,447,046)	(1,447,046)
Change in net position of governmental activities		$ 15,022,732

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 - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2015

	Budget Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
REVENUES				
Taxes	$ 142,858,560	$ 142,858,560	$ 145,713,796	$ 2,855,236
Licenses and permits	5,388,975	5,388,975	5,990,129	601,154
Intergovernmental	73,862,576	73,798,773	78,810,735	5,011,962
Charges for services	5,526,408	5,526,408	5,080,230	(446,178)
Fines, forfeitures and penalties	874,700	874,700	2,661,973	1,787,273
Investment income	572,000	572,000	895,509	323,509
Miscellaneous	7,787,491	7,787,491	6,790,904	(996,587)
Total revenues	236,870,710	236,806,907	245,943,276	9,136,369
EXPENDITURES				
General government	42,153,836	44,492,039	42,662,903	(1,829,136)
Executive	2,044,083	1,744,083	1,682,108	(61,975)
Finance and administration	5,206,170	5,206,170	5,128,912	(77,258)
General services	7,268,108	7,268,108	6,966,688	(301,420)
Human resources	1,901,766	1,901,766	1,699,364	(202,402)
Economic and community development	7,169,719	7,169,719	6,832,886	(336,833)
Police	57,777,365	58,013,561	57,190,695	(822,866)
Fire	36,344,472	36,344,472	36,014,998	(329,474)
Public works	27,253,595	27,253,595	26,681,975	(571,620)
Transportation	7,409,275	7,409,275	7,350,901	(58,374)
Youth and family development	9,366,755	9,366,755	8,986,605	(380,150)
Debt service - principal retirement	1,960,580	1,960,580	1,960,580	-
Total expenditures	205,855,724	208,130,123	203,158,615	(4,971,508)
Excess of revenues over expenditures	31,014,986	28,676,784	42,784,661	14,107,877
OTHER FINANCING SOURCES (USES)				
Transfers in	558,744	558,744	33,055	(525,689)
Transfers out	(31,540,586)	(52,093,530)	(52,093,530)	-
Total other financing sources (uses)	(30,981,842)	(51,534,786)	(52,060,475)	(525,689)
Net change in fund balances	33,144	(22,858,002)	(9,275,814)	13,582,188
FUND BALANCES, beginning	78,711,978	78,711,978	78,711,978	-
FUND BALANCES, ending	$ 78,745,122	$ 55,853,976	$ 69,436,164	$ 13,582,188

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Total	
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 78,918,000	$ 26,082,350	$ 2,979,939	$ 26,589,485	$ 5,909,736	$ 140,479,510	$ 33,361,872
Investments	-	42,502,335	-	-	-	42,502,335	-
Receivables:							
Customer service	65,946,000	10,998,007	89,008	2,878,677	-	79,911,692	905,131
Other	-	65,374	205	300	1,245,034	1,310,913	-
Less allowance for doubtful accounts	(1,300,000)	(2,034,607)	(100)	(1,710,077)	(41,887)	(5,086,671)	-
Inventories	13,066,000	1,076,715	-	-	100,144	14,242,859	1,877,689
Due from other funds	-	-	-	-	-	-	1,400,000
Due from other governments	4,819,000	9,043,312	24,648	1,304,521	-	15,191,481	51,817
Prepaid items	8,441,000	-	-	-	277,317	8,718,317	-
Total current assets	169,890,000	87,733,486	3,093,700	29,062,906	7,490,344	297,270,436	37,596,509
Noncurrent Assets:							
Restricted Assets:							
Cash and cash equivalents	-	-	650,800	3,493,656	-	4,144,456	-
Investments	-	1,650,000	9,000,000	-	9,668,284	20,318,284	-
Investment in capital lease	-	-	-	-	90,436,286	90,436,286	-
Other	-	593	19,493	4,038	-	24,124	-
Total restricted assets	-	1,650,593	9,670,293	3,497,694	100,104,570	114,923,150	-
Capital Assets:							
Land	6,476,000	10,577,590	1,517,514	1,945,448	-	20,516,552	-
Construction in progress	11,302,000	50,523,706	-	4,192,811	-	66,018,517	7,500
Buildings	72,446,000	57,912,566	1,965,137	10,601,459	766,146	143,691,308	5,322,108
Equipment	108,653,000	33,962,156	4,028,737	1,601,714	4,725,539	152,971,146	3,188,168
Vehicles	-	3,001,727	1,741,167	2,361,167	23,465	7,127,526	25,935,188
Infrastructure	747,477,000	420,590,367	9,520,509	41,032,542	-	1,218,620,418	-
	946,354,000	576,568,112	18,773,064	61,735,141	5,515,150	1,608,945,467	34,452,964
Less accumulated depreciation	(333,261,000)	(282,133,168)	(9,122,238)	(17,788,180)	(2,536,780)	(644,841,366)	(20,037,890)
Net capital assets	613,093,000	294,434,944	9,650,826	43,946,961	2,978,370	964,104,101	14,415,074
Total assets	782,983,000	383,819,023	22,414,819	76,507,561	110,573,284	1,376,297,687	52,011,583
DEFERRED OUTFLOWS OF RESOURCES							
Deferred refunding	-	270,203	282,642	95,756	2,350,620	2,999,221	-
Deferred pension outflows	7,097,000	714,225	90,452	610,686	-	8,512,363	-
Total deferred outflows of resources	7,097,000	984,428	373,094	706,442	2,350,620	11,511,584	-

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Total	
(Continued from previous page)							
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable	$131,889,000	$ 17,790,642	$ 230,673	$ 573,812	$ 1,421,811	$ 151,905,938	$ 9,539,376
Accrued payroll	-	333,942	36,892	269,791	523,943	1,164,568	109,232
Other accrued liabilities	-	215,944	147,538	106,004	1,241,330	1,710,816	-
Due to other governments	-	-	-	-	156,341	156,341	-
Current maturities of long-term liabilities:							
Bonds payable	8,075,000	3,419,459	1,716,798	1,303,267	4,675,000	19,189,524	-
Notes payable	-	8,378,949	74,316	-	-	8,453,265	-
Compensated absences	205,000	61,872	8,501	52,478	-	327,851	30,725
Landfill postclosure costs	-	-	205,803	-	-	205,803	-
Due to other funds	-	-	-	-	-	-	-
Contracts payable	-	740,534	-	51,098	-	791,632	-
Total current liabilities	140,169,000	30,941,342	2,420,521	2,356,450	8,018,425	183,905,738	9,679,333
Long-term liabilities:							
Bonds payable	262,318,000	10,207,230	11,135,717	9,173,942	108,147,627	400,982,516	-
Notes payable	-	52,914,815	373,879	-	-	53,288,694	-
Compensated absences	401,000	815,943	112,945	691,227	-	2,021,115	396,349
OPEB liability	8,894,000	-	-	-	-	8,894,000	-
Pension liability	6,134,000	2,564,009	324,716	2,192,312	-	11,215,037	-
Landfill postclosure costs	-	-	5,537,581	-	-	5,537,581	-
Customer deposits	22,176,000	-	-	-	-	22,176,000	-
Other noncurrent liabilities	45,406,000	-	-	-	-	45,406,000	-
Total long-term liabilities	345,329,000	66,501,997	17,484,838	12,057,481	108,147,627	549,520,943	396,349
Total liabilities	485,498,000	97,443,339	19,905,359	14,413,931	116,166,052	733,426,681	10,075,682
DEFERRED INFLOWS OF RESOURCES							
Investment gains pension	2,426,000	876,045	110,946	749,047	-	4,162,038	-
Assumption change pension	-	436,481	55,278	373,205	-	864,964	-
Total deferred inflows of resources	2,426,000	1,312,526	166,224	1,122,252	-	5,027,002	-
NET POSITION							
Net investment in capital assets	342,700,000	219,784,694	3,982,874	33,565,508	2,978,371	603,011,447	14,415,074
Restricted for renewal and replacement	-	48,319,314	10,559,864	873,960	-	59,753,138	-
Restricted for debt service	-	-	-	-	9,668,284	9,668,284	-
Unrestricted	(40,544,000)	17,943,578	(11,826,408)	27,238,352	(15,888,803)	(23,077,281)	27,520,827
Total net position	$302,156,000	$286,047,586	$ 2,716,330	$ 61,677,820	$ (3,242,148)	$ 649,355,588	$ 41,935,901

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities -
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Total	Internal Service Fund
OPERATING REVENUES							
Charges for services:							
Electric	$543,843,000	$ -	$ -	$ -	$ -	$543,843,000	$ -
Fiber optic	106,849,000	-	-	-	-	106,849,000	-
Sewer	-	60,393,355	-	-	-	60,393,355	-
Waste disposal	-	-	6,950,958	-	-	6,950,958	-
Water quality	-	-	-	19,944,072	-	19,944,072	-
Lease rental revenue	-	-	-	-	4,559,693	4,559,693	-
Conference center	-	-	-	-	13,329,156	13,329,156	-
Parking garage	-	-	-	-	770,195	770,195	-
Other services	20,349,000	3,239,317	218,602	-	-	23,806,919	54,645,008
Other	-	409,502	25,481	1,499	-	436,482	3,327,000
Total operating revenues	671,041,000	64,042,174	7,195,041	19,945,571	18,659,044	780,882,830	57,972,008
OPERATING EXPENSES							
Power purchases	443,970,000	-	-	-	-	443,970,000	-
Other electric operations	55,848,000	-	-	-	-	55,848,000	-
Fiber optic operations	69,177,000	-	-	-	-	69,177,000	-
Sewer plant operations	-	31,664,899	-	-	-	31,664,899	-
Waste disposal operations	-	-	3,036,713	-	-	3,036,713	-
Closure/postclosure costs	-	-	203,341	-	-	203,341	-
Water quality operations	-	-	-	11,579,436	-	11,579,436	-
Conference center operations	-	-	-	-	11,193,364	11,193,364	-
Parking garage operations	-	-	-	-	335,472	335,472	-
Fleet operations	-	-	-	-	-	-	14,552,953
Liability insurance	-	-	-	-	-	-	1,216,689
Health services	-	-	-	-	-	-	35,321,782
Technology replacement	-	-	-	-	-	-	377,492
Depreciation	51,910,000	14,686,610	509,996	1,311,205	502,431	68,920,242	3,582,212
Other	12,540,000	-	-	-	6,890	12,546,890	-
Total operating expenses	633,445,000	46,351,509	3,750,050	12,890,641	12,038,157	708,475,357	55,051,128
OPERATING INCOME (LOSS)	37,596,000	17,690,665	3,444,991	7,054,930	6,620,887	72,407,473	2,920,880
NONOPERATING REVENUES (EXPENSES)							
Investment income	197,000	364,175	65,710	12,663	546,471	1,186,019	-
Interest expense	(13,961,000)	(1,767,807)	(333,610)	(250,767)	(4,722,684)	(21,035,868)	-
Tax equivalent	(6,909,000)	-	-	-	-	(6,909,000)	-
Other income	210,000	13,687	119,276	-	-	342,963	675,806
Other expense	(738,000)	(21,439)	(42,759)	(10,553)	-	(812,751)	-
Total nonoperating revenues (expenses)	(21,201,000)	(1,411,384)	(191,383)	(248,657)	(4,176,213)	(27,228,637)	675,806
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	16,395,000	16,279,281	3,253,608	6,806,273	2,444,674	45,178,836	3,596,686
Capital contributions	738,000	-	-	1,109	-	739,109	-
Transfers in	-	-	-	-	-	-	1,400,000
CHANGE IN NET POSITION	17,133,000	16,279,281	3,253,608	6,807,382	2,444,674	45,917,945	4,996,686
NET POSITION, beginning, as previously reported	288,189,000	269,768,305	(537,278)	54,870,438	(5,686,822)	606,603,643	36,939,215
CHANGE IN ACCOUNTING PRINCIPLE	(3,166,000)	-	-	-	-	(3,166,000)	-
NET POSITION, beginning, as restated	285,023,000	269,768,305	(537,278)	54,870,438	(5,686,822)	603,437,643	36,939,215
NET POSITION, ending	$302,156,000	$286,047,586	$ 2,716,330	$ 61,677,820	$ (3,242,148)	$649,355,588	$ 41,935,901

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds						
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Total	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 686,859,000	$ 67,268,926	$ 6,924,839	$ 20,171,353	$ 18,819,927	$ 800,044,045	$ 56,194,853
Receipts from operating grants	-	-	238,079	-	-	238,079	-
Payments to suppliers	(544,365,000)	(21,814,032)	(1,089,888)	(3,773,816)	(11,687,124)	(582,729,860)	(47,499,909)
Payments to employees	(38,472,000)	(8,177,270)	(1,970,083)	(7,338,521)	-	(55,957,874)	(3,298,160)
Payments in lieu of taxes	(18,402,000)	-	-	-	-	(18,402,000)	-
Net cash from operating activities	85,620,000	37,277,624	4,102,947	9,059,016	7,132,803	143,192,390	5,396,784
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	-	-	-	-	-	3,623,340
Transfers out	-	-	-	-	-	-	(2,223,340)
Net cash flows used in noncapital financing	-	-	-	-	-	-	1,400,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(11,817,000)	(8,145,392)	(1,723,522)	(1,255,760)	(4,520,000)	(27,461,674)	-
Payments made to escrow agent	-	(2,417,479)	(5,087,940)	-	-	(7,505,419)	-
Interest paid on capital debt	(13,914,000)	(1,953,622)	(423,821)	(370,463)	(5,033,569)	(21,695,475)	-
Line of credit	(9,382,000)	-	-	-	-	(9,382,000)	-
Proceeds from capital debt	-	19,421,938	4,674,278	(7,349)	3,570,878	27,659,745	-
Capital grants and contributions	738,000	-	-	1,109	-	739,109	(1,716,000)
Additions to capital assets	(71,981,000)	(21,174,069)	(495,641)	(2,708,371)	(1,215,579)	(97,574,660)	(221,490)
Premium on debt	-	229,091	456,915	112,772	-	798,778	-
Net cash flows used in capital and related financing activities	(106,356,000)	(14,039,533)	(2,599,731)	(4,228,062)	(7,198,270)	(134,421,596)	(1,937,490)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investments	-	(73,514,368)	(27,650,800)	-	(48,502,206)	(149,667,374)	-
Proceeds from sales and maturities			18,650,800	-	-	18,650,800	-
of investments	-	55,694,800	-	-	48,623,094	104,317,894	-
Interest	197,000	363,880	48,910	12,663	546,471	1,168,924	-
Net cash flows from investing activities	197,000	(17,455,688)	(8,951,090)	12,663	667,359	(25,529,756)	-
Net increase (decrease) in cash and cash equivalents	(20,539,000)	5,782,403	(7,447,874)	4,843,617	601,892	(16,758,962)	4,859,294
Cash and cash equivalents, beginning of year	99,457,000	20,299,947	11,078,613	25,239,524	5,307,844	161,382,928	28,502,578
Cash and cash equivalents, end of year	$ 78,918,000	$ 26,082,350	$ 3,630,739	$ 30,083,141	$ 5,909,736	$ 144,623,966	$ 33,361,872
CLASSIFIED AS:							
Current assets	$ 78,918,000	$ 26,082,350	$ 2,979,939	$ 26,589,485	$ 5,909,736	$ 140,479,510	$ 33,361,872
Restricted assets	-	-	650,800	3,493,656	-	4,144,456	-
	$ 78,918,000	$ 26,082,350	$ 3,630,739	$ 30,083,141	$ 5,909,736	$ 144,623,966	$ 33,361,872

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended June 30, 2015

(Continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 37,596,000	$ 17,690,665	$ 3,444,991	$ 7,054,930	$ 6,620,887	$ 72,407,473	$ 2,920,880
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	51,910,000	14,686,610	509,996	1,311,205	502,431	68,920,242	3,582,212
Loss on donation of assets	-	-	12,572	-	-	12,572	-
Loss/disposal of capital assets	-	-	-	-	13,806	13,806	109,395
Miscellaneous nonoperating expenses	210,000	-	-	-	-	210,000	675,806
Tax equivalents transferred to City	(6,909,000)	-	-	-	-	(6,909,000)	-
Provision for uncollectible accounts	-	896,589	-	(234,051)	2,353	664,891	-
(Increase) decrease in:							
Accounts receivable	(56,000)	2,316,477	(51,600)	118,681	158,532	2,486,090	(1,761,712)
Due from other funds	-	-	-		-	-	(23)
Due from other governments	1,875,000	-	19,477	331,278	-	2,225,755	-
Inventory	(257,000)	(192,228)	-		6,844	(442,384)	178,400
Prepaid Items	396,000	-	-		-	396,000	-
Increase (decrease) in:							
Accounts payable	(339,000)	2,024,362	64,058	491,678	319,813	2,560,911	87,751
Accrued claims	-	-	-	-	(367,160)	(367,160)	-
Accrued liabilities	-	9,363	2,933	(47,152)	-	(34,856)	-
Claims liabilities	-	-	-	-	-	-	(348,427)
Other assets/liabilities	2,378,000	(71,059)	101,244	22,573	(124,703)	2,306,055	-
Net pension liability	(713,000)	-	-	-	-	(713,000)	-
OPEB	(471,000)	-	-	-	-	(471,000)	-
Compensated absences	-	(83,155)	(724)	9,874	-	(74,005)	(47,498)
Total adjustments	48,024,000	19,586,959	657,956	2,004,086	511,916	70,784,917	2,475,904
Net cash from operating activities	$ 85,620,000	$ 37,277,624	$ 4,102,947	$ 9,059,016	$ 7,132,803	$ 143,192,390	$ 5,396,784

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2015

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
ASSETS		
Investments:		
Corporate bonds and notes	$ 7,349,375	$ 19,932,820
Preferred securities	-	3,288,057
Corporate stocks	-	120,562,168
Foreign equity	-	6,605,821
Mutual funds - preferred securities	-	3,345,455
Mutual funds - equity	15,268,503	76,098,212
Mutual funds - fixed income	9,828,856	65,325,744
Real estate	-	16,092,880
Hedge funds	2,578,128	119,847,307
Other investments	-	65,346,791
Temporary investments	4,468,736	5,968,673
Receivables:		
Accrued income	8,286	273,446
Due from plan custodian	822,822	-
Total assets	40,324,706	502,687,374
LIABILITIES		
Accounts payable and accrued liabilities:		
Accrued payable	-	289,128
Due to plan custodian	255,063	-
Total liabilities	255,063	289,128
NET POSITION		
Restricted		
Held in trust for other postemployment benefits and net position restricted for pensions	$ 40,069,643	$ 502,398,246

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

Year Ended June 30, 2015

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 12,910,915	$ 19,040,417
Plan member	2,663,542	4,668,944
Other	-	185,330
Total contributions	15,574,457	23,894,691
Investment income:		
Net appreciation (depreciation) in fair market value of investments	20,100	11,655,581
Interest	-	372,128
Dividends	417,763	5,548,910
	437,863	17,576,619
Less investment loss	(61,556)	(1,335,239)
Net investment income (loss)	376,307	16,241,380
Total additions	15,950,764	40,136,071
DEDUCTIONS		
Benefits paid to participants	11,422,171	45,613,063
Administrative expenses	24,385	1,002,614
Total deductions	11,446,556	46,615,677
CHANGE IN NET POSITION	4,504,208	(6,479,606)
NET POSITION - beginning	35,565,435	508,877,852
NET POSITION - ending	$ 40,069,643	$ 502,398,246

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2015

	Chattanooga Metropolitan Airport Authority	CARTA	Total
ASSETS			
Cash and cash equivalents	$ 7,662,097	$ 1,899,996	$ 9,562,093
Accounts receivable	2,809,795	1,418,561	4,228,356
Inventories	159,128	609,264	768,392
Prepaid items	959,598	725,242	1,684,840
Other post employment benefit assets	-	86,101	86,101
Restricted assets:			
Cash and cash equivalents	2,784,463	-	2,784,463
Receivables	262,537	-	262,537
Land and other nondepreciable assets	9,270,744	3,293,519	12,564,263
Other capital assets, net of accumulated depreciation	102,845,358	22,001,091	124,846,449
Total assets	126,753,720	30,033,774	156,787,494
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	5,423	1,454,644	1,460,067
Total deferred outflows of resources	5,423	1,454,644	1,460,067
LIABILITIES			
Accounts payable and accrued liabilities	1,396,492	2,506,711	3,903,203
Contracts payable	177,019	-	177,019
Due to primary government	-	738,461	738,461
Net pension obligation	890,448	11,358,348	12,248,796
Net OPEB obligation	146,811	-	146,811
Capital lease obligations	58,660	-	58,660
Notes payable	-	181,981	181,981
Revenue bonds payable	11,390,665	-	11,390,665
Total liabilities	14,060,095	14,785,501	28,845,596
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	59,381	-	59,381
Deferred pension inflows	455,824	330,716	786,540
Total deferred inflows of resources	515,205	330,716	845,921
NET POSITION			
Net investment in capital assets	100,666,778	24,774,167	125,440,945
Restricted for debt service and construction	3,047,000	-	3,047,000
Unrestricted	8,470,065	(8,401,966)	68,099
Total net position	$ 112,183,843	$ 16,372,201	$ 128,556,044

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS

Year Ended June 30, 2015

		Program Revenues			Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Total
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY							
Airport operations	$ 20,569,416	$ 18,537,138	$ -	$ 5,270,361	$ 3,238,083	$ -	$ 3,238,083
CARTA							
CARTA operations	23,340,699	8,073,698	7,628,263	4,859,004	-	(2,779,734)	(2,779,734)
Total component units	$ 43,910,115	$ 26,610,836	$ 7,628,263	$ 10,129,365	3,238,083	(2,779,734)	458,349
		General revenues:					
		Investment income			13,417	1,153	14,570
		Miscellaneous			2,212,468	26,059	2,238,527
		Total general revenues			2,225,885	27,212	2,253,097
		CHANGE IN NET POSITION			5,463,968	(2,752,522)	2,711,446
		Net position, beginning, as previously reported			107,913,715	28,200,348	136,114,063
		Change in accounting principle			(1,193,840)	(9,075,625)	(10,269,465)
		Net position, beginning, as restated			106,719,875	19,124,723	125,844,598
		Net position, ending			$ 112,183,843	$ 16,372,201	$ 128,556,044

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869 and 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. The City Charter was amended in 1990 to create the office of Mayor, with all executive and administrative authority formerly vested in the Board of Commissioners; the Mayor is elected at-large. Further, the City Council was created with all legislative authority formerly vested in the Board of Commissioners. City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City. The Mayor is not a member of the City Council.

The accompanying financial statements present the City and its component units, entities for which the City is financially accountable. The primary government includes EPB and the Chattanooga Downtown Redevelopment Corporation (CDRC) as enterprise funds. EPB, a separately administered organization, is not legally separate since the City affirms all board member appointments and approves all disbursements of EPB funds. The CDRC is a blended component unit which, in substance, is part of the primary government's operations, even though it is a legally separate entity. Discretely-presented component units are reported in a separate column from the primary government in the government-wide financial statements to emphasize they are legally separate from the City.

The City reports the following blended component unit:

Chattanooga Downtown Redevelopment Corporation (CDRC) – The CDRC facilitates redevelopment projects in downtown Chattanooga. The Mayor, City Council Chairperson, and Chief Finance Officer are permanent members of the board; the City appoints the remaining board members. CDRC has the authority to issue its own debt, but the City has agreed to finance any operating deficits of the CDRC. The CDRC is reported as an enterprise fund and does not issue separate financial statements.

The City reports the following discretely-presented component units:

Chattanooga Metropolitan Airport Authority (Airport Authority) – The Airport Authority was established under Tennessee Code Annotated Section 42-4-101 for the management, operation and maintenance of Lovell Field. The City appoints all board members and is secondarily responsible for retirement of the revenue bonds recorded as a liability of the Airport Authority. Separately issued financial statements can be obtained from:

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

Chattanooga Area Regional Transit Authority (CARTA) – CARTA was established under Tennessee Code Annotated 7-56; CARTA is responsible for the public transportation system. The City appoints ten members of the twelve-member board. CARTA has the authority to issue its own debt; the City finances the majority of CARTA's operating deficits. Separately issued financial statements can be obtained from:

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

<u>Basis of Presentation</u>

Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the enterprise funds. Fiduciary funds are excluded from the government-wide financial statements.

As discussed earlier, the City has two discretely-presented component units. Neither the Chattanooga Metropolitan Airport Authority nor the Chattanooga Area Regional Transit Authority is considered to be a major component unit; they are combined into a single column in the government-wide financial statements.

Transfers within governmental activities and business-type activities are eliminated upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities, including a capital lease, are reported in the government-wide financial statements as "internal balances." Transactions between the primary government and its discretely-presented component units are reported as external transactions, that is as revenues and expenses.

Fund Financial Statements

The fund financial statements provide information about City funds, including fiduciary funds and the blended component unit. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Because the emphasis of fund financial statements is on major governmental and enterprise funds, each major fund is displayed in a separate column. Remaining funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

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

The City reports the following major enterprise funds:

EPB - The EPB Fund accounts for the cost of providing electric and fiber optic service for residential and commercial customers of Chattanooga and Hamilton County, Tennessee.

Interceptor Sewer System - The Interceptor Sewer System Fund accounts for sanitary sewer services provided to the residents of the City and to portions of northwest Georgia.

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

Water Quality Management - The Water Quality Management Fund accounts for costs associated with the City's water quality management program as mandated by the Environmental Protection Agency and the State of Tennessee.

Chattanooga Downtown Redevelopment Corporation – The Chattanooga Downtown Redevelopment Corporation Fund accounts for the operations of The Chattanoogan Hotel, the Southside Parking Garage, and other activities including redevelopment financing. The CDRC is a blended component unit of the City.

Additionally, the City reports the following fund types:

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

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

Internal Service - The Internal Service Fund is used to account for medical and pharmaceutical services, fleet services, technology replacement and risk management activities provided to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

Other Postemployment Benefits Trust - The Other Postemployment Benefits Trust Fund accounts for resources held in trust for a defined benefit postemployment health and medical care plan for City retirees and their dependents.

Pension Trust - The Pension Trust Fund accounts for resources held in trust for both the General and the Fire and Police defined benefit pension plans to provide disability and retirement benefits for City employees and retirees.

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. Any residual balances outstanding at year end are reported as due to/due from other funds or component units.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The City considers revenues as available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary, Pension and Other Postemployment Benefit Trust Funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, special revenue funds and the debt service fund. The capital projects fund is appropriated on a project-length basis.

The appropriated budget is approved by fund and department. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the fund level. The City Finance Officer has been delegated the authority to make intrafund transfers within the general fund; no individual transfer shall exceed 5% of the fund's total appropriations. Amounts transferred are reported to City Council as required by T.C.A. 6-56-209.

All unencumbered and unexpended appropriations lapse at the end of the fiscal year. Encumbrances are commitments related to unperformed contracts for goods or services (i.e., purchase orders). Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances are carried forward to the subsequent year and become part of the subsequent year's budget for annually budgeted funds.

Appropriations for capital projects 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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

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

Investments

Investments, including pension and other post-employment benefit investments, are reported at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. 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. Any change in the value of investments recorded at fair value is included in investment income.

Internal Balances

Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances. Internal balances include a capital lease payable in governmental activities with a corresponding capital lease receivable in CDRC, a blended component unit, in business-type activities.

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) or the weighted average method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The costs of inventories and prepaid items are recorded as expenditures/expenses at the time individual inventory items are consumed (consumption method).

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (such as roads, bridges, sidewalks, sewers, lighting systems, drainage systems, and similar items) are reported in the government-wide and proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 ($15,000 for software, $25,000 for infrastructure) and an estimated useful life of three years or greater.

The initial capitalization of infrastructure assets reported by governmental activities was based on replacement cost deflated to the acquisition year. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs. Donated capital assets are recorded at their estimated fair value at the date of contribution. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets construction. 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.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Useful Life
Buildings	5 - 30 years
Vehicles and machinery	5 - 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Solid waste system	30 years
Water quality management system	50 years
Communications system	5 - 30 years
Electric System	10 - 40 years
Public domain infrastructure	10 - 50 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City reports deferred gains on refunding and deferred contributions on pension plans. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred contributions for the pension plans were made during the fiscal year but are after the measurement date of the actuarial report. These amounts will be recognized during the next measurement period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and will not be recognized as in inflow of resources (revenue) until that period. The City has three items that qualify for reporting in this category: (1) Unavailable revenue for property taxes recorded as receivables for the current calendar year tax levy which is not due until October 1. This amount, reported on the governmental funds balance sheet, will be recognized as revenue next year as it is received. (2) Unavailable revenue received after the availability period. This includes property taxes received after 60 days plus other local taxes and intergovernmental revenues received after 30. They are reported as deferred inflows on the governmental funds balance sheet and will be recognized as revenue next year. (3) Unavailable revenue relating to loans. (4) Certain amounts related to pensions must be deferred. Differences between projected and actual earnings on pension plan investments are deferred and amortized over five years. Changes in pension plan assumptions are deferred and amortized over the expected remaining service lives of employees.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pensions and pension expense, information about the fiduciary net position of the General Pension Plan and the Fire and Police Pension Plan and additions/deductions from the plan net positions have been determined on the same basis as they are reported by the plans.

Benefit payments (including refunds of employee contributions) are recognized in the fund financial statements when due and payable in accordance with the benefit terms. Payments made after the measurement date are deferred in government-wide statements. Investments are reported at fair value.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report for each category of fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes.

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by an ordinance of the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by ordinance.

Assigned Fund Balance - represents amounts the City intends to use for specific purposes as expressed by City Council resolution or an official delegated the authority to assign amounts. The City Finance Officer has been granted the ability to assign amounts to a specific purpose as part of the annual budget ordinance. This is the residual classification for all governmental funds other than the General Fund.

Unassigned Fund Balance - represents the residual classification for the General Fund or deficit balances in other funds.

<u>Revenues, Expenditures/Expenses</u>

Program Revenues

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than program revenues.

Property Taxes

Property taxes are levied annually by the City 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.

Indirect Costs

Certain indirect costs are included in program expense reported for individual functions.

Compensated Absences

The City of Chattanooga allows employees to accumulate earned but unused personal leave benefits which are eligible for payment upon separation from employment. The benefit is set by prescribed formula based on length of service. The City limits personal leave to twenty (20) days for library employees and one hundred fifty (150) days for all other employees hired on or before March 27, 1990, and one hundred (100) days for all other employees hired thereafter.

Expenditures for compensated absences are reported in governmental funds as they mature (i.e., accrued leave outstanding following an employee's resignation or retirement). The liability for compensated absences attributable to the City's governmental activities is recorded in the government-wide financial statements. In prior year's general fund and special revenue funds have been used to liquidate this liability. 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 proprietary funds.

Proprietary Funds Operating and Non-operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

<u>Deficit Net Position</u>

The Downtown Redevelopment Fund, a major enterprise fund, has a deficit in net position of $3,242,148 at June 30, 2015. This deficit resulted from the settlement of a swap option in fiscal year 2011. The deficit decreased by $2,444,674 from the prior fiscal year.

NOTE 3. CASH AND INVESTMENTS

Cash Deposits with Financial Institutions

The City utilizes a pooled cash concept for its funds which are collateralized. 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.

Investments

The City utilizes a pooled investment concept. 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. At June 30, 2015, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and blended component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	1.47	$ 50,549,179
Primary Government – Business-Type Activities:		
Certificates of deposits classified as investments	2.72	$ 62,820,619

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio for the primary government. 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. The City's investment policy includes specific policies involving credit risk. At June 30, 2015, the primary government's investments in U.S. Government agency securities consisted of Federal Home Loan Bank bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) and Moody's Investor Service (Moody's).

Permanent Fund, Pension Trust Fund and Other Postemployment Benefit Trust Fund Investments

The Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5% or more of plan net position.

The Public Library has an endowment consisting of nine separate endowments established by various individuals and estates. The endowment corpus is nonspendable and the earnings are used to support the library. Realized and unrealized gains are added to the corpus, in accordance with state law. The endowments are tracked by benefactor in order to track compliance with restrictions set forth by the benefactor at the time of the gift or settlement of the benefactor's estate. The library has an investment committee charged with fiduciary responsibility to manage the assets with the assistance of an investment consultant. The committee establishes the general investment guidelines to include the types of acceptable and unacceptable investments, diversification, and asset allocation. The committee is also responsible for monitoring the performance of each investment.

The credit risk of investments of the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds is summarized as follows:

	S & P or Moody's Rating	Fair Value
Permanent Fund		
Mutual funds – equity	Not rated	$ 2,890,947
Mutual funds – fixed income	Not rated	1,494,087
Temporary investments	Not rated	267,467
		$ 4,652,501
City of Chattanooga General Pension Plan		
Domestic corporate bonds	BBB	$ 189,455
Domestic corporate bonds	BBB-	599,637
Domestic corporate bonds	BB+	751,483
Domestic corporate bonds	BB-	1,850,021
Domestic corporate bonds	BB	1,493,187
Domestic corporate bonds	B+	204,125
Domestic corporate bonds	Not rated	622,436
Corporate stocks	Not rated	90,280,573
Mutual funds – equity	Not rated	26,770,752
Mutual funds – fixed income	Not rated	41,016,429
Hedge funds	Not rated	48,487,922
Private equity funds	Not rated	54,714,749
Other investments	Not rated	3,000,000
Temporary investments	Not rated	3,800,266
		$ 273,781,035
Fire and Police Pension Fund		
Corporate bonds and notes	Not rated	$ 14,222,478
Preferred securities	Not rated	3,288,057
Corporate stocks	Not rated	30,281,595
Mutual funds – equity	Not rated	49,327,460
Mutual funds – fixed income	Not rated	24,309,315
Mutual funds – preferred securities	Not rated	3,345,454
Private equity funds	Not rated	10,632,041
Foreign equity	Not rated	6,605,821
Real estate	Not rated	13,092,880
Hedge funds	Not rated	71,359,385
Temporary investments	Not rated	2,168,407
		$ 228,632,893
Other Postemployment Benefit Trust Fund		
Corporate bonds and notes	Not rated	$ 7,349,375
Mutual funds – equity	Not rated	15,268,503
Mutual funds – fixed income	Not rated	9,828,856
Hedge funds	Not rated	2,578,128
Temporary investments	Not rated	4,468,736
		$ 39,493,598

At June 30, 2015, the fair values of the City's investments in Hedge Funds totaling $122,425,435 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 4. RECEIVABLES

Amounts in the financial statements are shown net of allowance for uncollectible. Below is the detail of receivables including the applicable allowances for uncollectible accounts:

	Governmental Activities Funds					
	General	Capital Projects	Other Governmental	Internal Service	Business-Type Activities	Total
Primary Government						
Receivables:						
Taxes	$ 125,296,160	$ -	$ -	$ -	$ -	$ 125,296,160
Accounts	11,460,772	-	1,221,969	-	-	12,682,741
Notes	1,040,491	958,413	14,672,371	-	-	16,671,275
Customer service	-	-	-	905,131	79,911,692	80,816,823
Other	1,212,013	-	243,641	-	1,310,913	2,766,567
Restricted	80,823	10,438	-	-	-	91,261
Intergovernmental	19,326,138	910,101	2,802,659	51,817	15,191,481	38,282,196
Gross receivables	158,416,397	1,878,952	18,940,640	956,948	96,414,086	276,607,023
Less:						
Allowance for uncollectibles	(3,929,975)	-	(910,150)	-	(5,086,671)	(9,926,796)
Net receivables	$ 154,486,422	$ 1,878,952	$ 18,030,490	$ 956,948	$ 91,327,415	$ 266,680,227

<u>Taxes Receivable</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 of $3,929,975 is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2015.

<u>Note from Friends of the Zoo</u>

During 2008, the City entered into a loan agreement with Friends of the Zoo, Inc. (FOZ) for improvements to the Chattanooga Zoo at Warner Park. The City advanced $2,000,000 to FOZ to pay for construction improvements, which the City retained right, title, and interest. In 2010, the loan agreement was amended. Under the new loan agreement, FOZ agreed to repay the outstanding balance of $1,700,000 with scheduled payments of $150,000 per year. As an early payoff incentive, the City agreed to appropriate to FOZ an amount equal to one dollar for every two dollars raised by FOZ through donations for capital improvements, up to a maximum of $250,000 per year subject to annual appropriation. The amount credited for fiscal year 2015 was $191,656. As of June 30, 2015, FOZ was in arrears by $375,000 on the agreed scheduled payments. The current balance is $684,351.

<u>Notes from CARTA</u>

In 2009 CARTA, a component unit of the City, entered into an $854,288 repayment agreement with the City for the costs of a downtown shuttle service and a parking garage on the North Shore. The loan agreements were for $375,000 and $479,288, respectively, to be repaid over 120 months with an interest rate of 4% per annum. The current balances are $148,036 and $190,425, respectively.

In 2012 CARTA entered into a revolving line of credit promissory note with the City as gap financing awaiting receipt of Federal grant money. The $1,500,000 line of credit carries a 2.75% interest per annum. Prior fiscal year amounts must be repaid before additional draws are allowed. The current balance is $400,000.

Community Development Loans

Notes receivable of $14,672,371 represent various loans made from community development funds received from HUD, including CDBG, HOME, and other special grants. These loans are provided to low income recipients for the purchase and repair of homes. Of this amount, $84,952 represents forgivable loans and $4,206,625 represents title transfer loans, which are payable only upon the transfer of title by the current loan recipient. The allowance for uncollectable loans is $941,150.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
PRIMARY GOVERNMENT				
Governmental Activities:				
Non-depreciable assets:				
Land and land improvements	$1,040,673,431	$ 5,074,546	$ 400	$1,045,747,577
Construction in progress	69,219,435	12,458,898	4,591,505	77,086,828
Total non-depreciable assets	1,109,892,866	17,533,444	4,591,905	1,122,834,405
Depreciable assets:				
Buildings and improvements	225,834,637	604,513	-	226,439,150
Vehicles and machinery	143,873,430	3,162,184	1,912,804	145,122,810
Infrastructure	693,826,579	7,076,498	-	700,903,077
Total depreciable assets	1,063,534,646	10,843,195	1,912,804	1,072,465,037
Less accumulated depreciation for:				
Buildings and improvements	111,940,445	7,008,902	-	118,949,347
Vehicles and machinery	114,849,592	6,903,791	1,798,054	119,955,329
Infrastructure	457,505,102	26,593,946	-	484,099,048
Total accumulated depreciation	684,295,139	40,506,639	1,798,054	723,003,724
Depreciable assets, net	379,239,507	(29,663,444)	114,750	349,461,313
Governmental activities capital assets, net	$1,489,132,373	$(12,130,000)	$ 4,706,655	$1,472,295,718
Business-Type Activities:				
Non-depreciable assets:				
Land	$ 20,021,089	$ 495,463	$ -	$ 20,516,552
Construction in progress	46,767,563	19,264,954	14,000	66,018,517
Total non-depreciable assets	66,788,652	19,760,417	14,000	86,535,069
Depreciable assets:				
Buildings and improvements	140,362,800	3,422,796	94,288	143,691,308
Vehicles and machinery	152,884,734	16,266,451	9,052,513	160,098,672
Sewer system	420,490,289	100,078	-	420,590,367
Solid waste system	9,520,509	-	-	9,520,509
Water quality management system	39,510,748	1,521,794	-	41,032,542
Electric system	640,263,000	39,101,000	12,681,000	666,683,000
Communication system	67,448,000	16,094,000	2,748,000	80,794,000
Total depreciable assets	1,470,480,080	76,506,119	24,575,801	1,522,410,398

	Beginning Balance	Additions	Deductions	Ending Balance
PRIMARY GOVERNMENT				
Business-Type Activities:				
Less accumulated depreciation for:				
Buildings and improvements	$ 57,115,210	$ 4,168,829	$ 220,481	$ 61,063,558
Vehicles and machinery	62,692,055	12,261,866	5,247,940	69,705,981
Sewer system	210,931,785	10,525,741	-	221,457,526
Solid waste system	2,044,808	317,350	-	2,362,158
Water quality management system	10,034,687	825,456	-	10,860,143
Electric system	223,279,000	25,300,000	13,347,000	235,232,000
Communication system	35,332,000	15,521,000	6,693,000	44,160,000
Total accumulated depreciation	601,429,545	68,920,242	25,508,421	644,841,366
Depreciable assets, net	869,050,535	7,585,877	(932,620)	877,569,032
Business-type activities capital assets, net	$ 935,839,187	$ 27,346,291	$ (918,621)	$ 964,104,101
DISCRETELY-PRESENTED COMPONENT UNITS				
Non-depreciable assets:				
Land	$ 7,101,608	$ -	$ -	$ 7,101,608
Construction in progress	43,747,642	5,648,069	43,933,056	5,462,655
Total non-depreciable assets	50,849,250	5,648,069	43,933,056	12,564,263
Depreciable assets:				
Buildings and improvements	139,003,753	45,405,568	443,838	184,265,483
Vehicles and equipment	64,174,305	1,017,340	80,982	65,110,663
Total depreciable assets	203,178,058	46,722,908	524,820	249,376,146
Less accumulated depreciation	115,452,789	9,509,107	432,199	124,529,697
Depreciable assets, net	87,725,269	37,213,801	92,621	124,846,449
Component units capital assets, net	$ 138,574,519	$ 42,861,870	$ 44,025,677	$ 137,410,712

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General Government	$ 12,041,081
Public Safety	1,223,383
Economic Development	9,402
Public Works	26,716,221
Youth & Family Development	176,484
Transportation	340,068
Total	$ 40,506,639
Primary Government – Business-Type Activities:	
Electric Utility	$ 51,910,000
Sewer	14,686,610
Solid Waste	509,996
Water Quality Management	1,311,205
Downtown Redevelopment	502,431
Total	$ 68,920,242
Discretely-Presented Component Units:	
CARTA	$ 3,593,500
Airport Authority	5,915,607
Total	$ 9,509,107

NOTE 6. LONG-TERM LIABILITIES

Governmental Activities

Debt related to governmental activities at June 30, 2015, consisted of the following:

General Obligation Bonds

The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 20-year serial bonds.

General obligation bonds are summarized by issue as follows:

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2015
General Obligations Refunding Bonds, Series 1998	$ 7,292,600	5.25% - 5.50%	09/01/17	$ 1,084,900
General Obligations Refunding Bonds, Series 2002	15,390,900	4.38% - 5.38%	09/01/15	890,000
General Obligations Refunding Bonds, Series 2005 A	17,436,520	3.50% - 5.00%	09/01/19	5,291,902
Hotel-Motel Tax Refunding Bonds, Series 2005 A	6,469,987	3.50% - 5.00%	09/01/19	46,836
General Obligations Bonds, Series 2006 A	20,732,796	4.00% - 5.00%	11/01/26	2,073,277
General Obligations Refunding Bonds, Series 2007 A	14,520,000	4.30% - 5.00%	03/01/26	14,520,000
General Obligations Bonds, Series 2009	45,415,000	3.00% - 4.63%	11/01/28	31,780,000
General Obligations Bonds, Series 2010 A	6,725,000	2.00% - 4.00%	02/01/30	5,025,000
General Obligation Refunding Bonds, Series 2010 B	4,707,460	2.00% - 4.00%	02/01/30	3,683,263
Hotel-Motel Tax Refunding Bonds, Series 2010 B	29,557,540	2.00% - 4.00%	02/01/30	23,126,737
General Obligation Bonds, Series 2010 C	6,840,000	2.00% - 4.00%	02/01/30	5,120,000
General Obligation Bonds, Series 2011 A	26,495,000	2.00% - 4.00%	10/01/26	21,185,000
General Obligation Refunding Bonds, Series 2011 B	1,949,250	2.00% - 4.00%	10/01/27	1,949,250
Hotel-Motel Tax Refunding Bonds, Series 2011 B	15,595,750	2.00% - 4.00%	10/01/27	15,595,750
General Obligation Bonds, Series 2013	19,355,000	2.00% - 5.00%	10/01/28	18,395,000
Hotel-Motel Tax Pledge, Series 2013	7,420,000	2.00% - 5.00%	10/01/28	7,055,000
General Obligation Refunding Bonds, Series 2014 A	13,792,100	1.75% - 5.00%	11/01/26	13,792,100
Hotel-Motel Tax Refunding Bonds, Series 2014 A	3,961,340	1.75% - 5.00%	11/01/26	3,961,340
Total payable from Debt Service Fund	$ 263,656,243			$ 174,575,355

Notes and Loans Payable

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The loan is being 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, 2015, is $1,438,000 of which $1,305,601 is due from Governmental Activities and $132,399 is due from Solid Waste Fund (a Business-type Activity).

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2015, is $13,360,868, of which $13,045,072 is due from Governmental Activities and $315,796 is due from Solid Waste Fund (a Business-type Activity).

Hennen Land Note - In December 2007, the City purchased the Narrow Bridge Property from Jenkins Road, LLC. The $546,428 note is being repaid from parking revenue generated by Hennen's Restaurant employees and customers. The balance at June 30, 2015, is $90,516.

HUD Section 108 Loan - On June 12, 2008, the City received a loan from the U.S. Department of Housing and Urban Development for an aggregate principal amount of $4,576,000. A significant portion of the money was authorized to be used for repayment of the 2003 Fannie Mae Loan, with the remaining balance to be used for the Brownfields/Community Development Loan Fund and public infrastructure projects. The note bears an interest rate of 4% and is being amortized over 15 years with an optional redemption after 10 years. The balance at June 30, 2015 is $2,746,000.

Hamilton County Department of Education Note Payable - In July 2014, the Chancery Court for Hamilton County approved a joint motion by the Hamilton County Department of Education (HCDE) and the City of Chattanooga for compromise of litigation whereby HCDE filed a declaratory judgment action asking the Court to declare the rights and responsibilities of the parties under T.C.A. § 57-4-306(2) relative to past liquor-by-the drink tax revenues. Under provisions of the Compromise, the City of Chattanooga will pay $11,763,477 to the HCDE in six equal annual payments of $1,960,580 over a five-year period commencing on August 1, 2014 and ending in August 2019. The balance at June 30, 2015 is $9,802,897.

Capital Leases

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a non-cancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over $120 million. Facilities include (1) The Chattanoogan - a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semi-annual 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 (IDB) 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 are funded by the City's share of the 0.5% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanoogan, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of $9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City’s lease payment for the year ended June 30, 2015, was $9,667,424, of which $3,570,878 was a reduction of principal. The debt service reserve fund held by the fiscal agent at June 30, 2015 is $9,668,284. 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.

Per GASB 61, CDRC is reported as a blended component unit presented as a business-type activity. The capital lease payable in governmental activities and the capital lease receivable in business-type activities are eliminated for purposes of government-wide financial statements as a component of internal balances.

Golf Course Capital Lease - In April 2013, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling $301,493. The lease term is five years and provides for monthly payments which began April 1, 2013. The recorded liability under this capital lease at June 30, 2015 is $174,098.

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. All general obligation bonds, notes payable, and capital leases payable are included in the calculation of net investment in capital assets.

Business-type Activities

Debt related to business-type activities at June 30, 2015, consisted of the following:

Revenue and General Obligation Bonds

The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations of each business-type activities and are supported by the operation of the fund. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 30-year serial bonds.

Business-type activities bonds are summarized by issue as follows:

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2015
Electric Power Board				
2006A Electric System Revenue Bonds	$ 40,000,000	4.00% - 5.00%	09/01/31	$ 32,935,000
2006B Electric System Refunding Revenue Bonds	23,430,000	4.00% - 4.25%	09/01/25	18,160,000
2008A Electric System Revenue Bonds	219,830,000	3.00% - 5.00%	09/01/33	212,830,000
Interceptor Sewer System				
General Obligations Refunding Bonds, Series 1998	13,612,700	5.25% - 5.50%	09/01/17	4,240,100
General Obligations Refunding Bonds, Series 2005A	12,545,129	3.50% - 5.00%	09/01/19	6,580,228
General Obligations Refunding Bonds, Series 2014A	2,343,620	1.75% - 5.00%	11/01/26	2,343,620
Solid Waste Fund				
General Obligation Refunding Bonds, Series 2005A	9,877,293	3.50% - 5.00%	09/01/19	4,524,515
General Obligation Bonds, Series 2006A	5,667,204	4.00% - 5.00%	11/01/26	566,723
General Obligation Refunding Bonds, Series 2007A	2,480,000	4.30% - 5.00%	03/01/26	2,480,000
General Obligations Refunding Bonds, Series 2014A	4,674,278	1.75% - 5.00%	11/01/26	4,674,278
Water Quality Fund				
General Obligation Refunding Bonds, Series 2005A	6,046,071	3.50% - 5.00%	09/01/19	2,976,519
General Obligation Refunding Bonds, Series 2007A	750,000	4.30% - 5.00%	03/01/26	750,000
General Obligation Bonds, Series 2013	5,245,000	2.00% - 5.00%	10/01/28	4,985,000
General Obligations Refunding Bonds, Series 2014A	1,153,663	1.75% - 5.00%	11/01/26	1,153,663
Chattanooga Downtown Redevelopment Corporation				
2007 Chatt Lease Rental Rev Ref Bonds	56,110,000	4.00% - 5.00%	10/01/30	48,750,000
2010 Chatt Lease Rental Rev Ref Bonds	66,955,000	3.00% - 5.00%	10/01/24	56,870,000
Total payable from Business-type Activities	$ 470,719,958			$ 404,819,646

Notes, Loans, and Line of Credit Payable

1998 Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga was authorized to incur indebtedness up to $7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The 20 year loan is being repaid at 4% interest through 2019. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $1,727,743.

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 is being repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $22,289,688.

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The loan is being 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, 2015, is $1,438,000 of which $1,305,601 is due from Governmental Activities and $132,399 is due from Solid Waste Fund.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2015, is $13,360,868, of which $13,045,072 is due from Governmental Activities and $315,796 is due from Solid Waste Fund.

State Revolving Loan 2007 - 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 is being repaid in monthly installments through September 2031 at 2.79% interest. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $11,080,423.

State Revolving Loan 2011 - 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 after 90 percent of the loan has been drawn down at 2.00% interest. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $12,958,983.

2013 Secured (Internet) Term Note – In March 2013, EPB obtained a bank loan for $11,500,000 million with monthly principal payments of $319,415 with a maturity of March 2016 for the benefit of the Telecom System, which is guaranteed by the revenue and assets of the Telecom System. The note was fully repaid during fiscal year 2015.

EPB Video and Internet LOC - In August 2012, a revolving line of credit was obtained for $60 million for the benefit of EPB's Video and Internet system. The line of credit was used for repayment of all funds borrowed from the Electric System and retirement of the outstanding principal of a $7.5 million bank loan obtained in October 2011. This loan is secured by the revenue, assets, and other income of the Video and Internet System. The loan matures in December 2017 and incurs monthly interest payments equal to 30-day LIBOR plus 0.95%; subject to a total 1.0% floor. At June 30, 2015, the outstanding balance under the revolving line of credit was $36,700,000.

State Revolving Loan 2012 - 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 after 90 percent of the loan has been drawn down at 1.15% interest. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $7,067,709.

State Revolving Loan 2013 - 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 after 90 percent of the loan has been drawn down at 1.67% interest. The balance at June 30, 2015 to be paid from Interceptor Sewer Fund is $6,169,218.

Capitalized Interest

The following business-type activities capitalized a portion of interest incurred during the construction phase of assets:

	Total Interest	Capitalized Interest	Interest Expense
Interceptor Sewer System	$ 1,830,697	$ 62,890	$ 1,767,807
Water Quality Fund	278,746	27,979	250,767

Component Units

Component Units debt at June 30, 2015, consisted of the following:

Revenue Bonds

Business-type activities bonds are summarized by issue as follows:

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2015
Metropolitan Airport Authority				
Taxable Refunding Revenue Bonds, Series 2009	$ 6,600,000	2.95%	04/01/19	$ 4,426,423
Tax Exempt Revenue Bonds, Series 2014	5,086,077	2.67%	01/10/24	3,068,575
Taxable Revenue Bonds, Series 2014	4,913,923	4.03%	01/10/24	3,895,667
Total payable from Component Units	$ 16,600,000			$ 11,390,665

Notes Payable

Republic Parking System Note – In February 2013, the Authority entered into $770,564 agreement with Republic Parking System, Inc. to secure a loan for the purpose of financing transportation operations. The loan will be repaid in monthly installments through February 2016 at 6.00% interest. The remaining balance at June 30, 2015 of $181,981 will be paid from CARTA operations.

Capital Lease

Fuel Facility Capital Lease – Effective July 1, 2012, the Airport Authority entered into a $186,643 leasing arrangement for a fuel facility which is classified as a capital lease. The lease agreement specified no rental payment for the first twelve months of the lease. The Authority has recorded lease expense on the straight-line method over the life of the lease and has accrued lease expense. The balance on this capital lease at June 30, 2015 to be paid from the Chattanooga Metropolitan Airport Authority is $58,660.

Refunding

During the 2015 fiscal year the City issued $25,925,001 to refinance $26,745,000 resulting in savings of $819,999.

In prior years, the City refunded certain 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, 2015, the remaining liabilities for the bonds refunded were as follows:

Year Refunded	Primary Government
1998	$ 5,390,000
2002	1,000,000
2005	33,395,000
2007	66,280,000
2010	26,030,000
2011	56,870,000
2012	18,360,000
2014	26,745,001

Changes in Long-term Liabilities

Changes in long-term liabilities for the fiscal year ended June 30, 2015, were as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$ 187,631,740	$ 17,753,440	$ 30,809,825	$ 174,575,355	$ 13,050,475
Notes payable	33,678,384	83,132	6,771,430	26,990,086	4,049,232
Capital leases payable	232,290	-	58,192	174,098	60,831
Accrued pollution remediation costs	1,194,495	40,000	1,145	1,233,350	60,000
Accrued postemployment benefits	29,467,895	-	2,926,173	26,541,722	-
Accrued general pension costs	20,096,370	2,382,948	-	22,479,318	-
Accrued fire and police pension costs	129,139,277	-	2,611,474	126,527,803	-
Compensated absences	21,432,803	9,293,097	11,614,744	19,111,156	1,506,471
Total governmental activities	$ 422,873,254	$ 29,552,617	$ 54,792,983	397,632,888	$ 18,727,009
Original issue premiums and discounts				7,760,341	
				$ 405,393,229	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$ 270,965,000	$ -	$ 7,040,000	$ 263,925,000	$ 8,075,000
Notes payable	4,777,000	-	4,777,000	-	-
Line of credit	45,875,000	-	9,150,000	36,725,000	-
Accrued postemployment benefits	9,365,000	-	471,000	8,894,000	-
Accrued pension costs	-	6,134,000	-	6,134,000	-
Compensated absences	776,000	-	170,000	606,000	205,000
	331,758,000	6,134,000	21,608,000	316,284,000	8,280,000

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Primary Government					
BUSINESS-TYPE ACTIVITIES					
Interceptor Sewer System:					
General obligation serial bonds	18,490,095	2,343,620	7,669,767	13,163,948	3,419,459
Notes payable	47,102,988	17,078,318	2,887,542	61,293,764	8,378,949
Capital lease payable	5,562	-	5,562	-	-
Accrued general pension costs	2,292,208	271,801	-	2,564,009	-
Compensated absences	960,970	626,276	709,431	877,815	61,872
	68,851,823	20,320,015	11,272,302	77,899,536	11,860,280
Solid Waste Fund:					
General obligation serial bonds	14,045,159	4,674,278	6,473,921	12,245,516	1,716,798
Notes payable	520,306	-	72,111	448,195	74,316
Accrued landfill closure costs	5,723,565	203,341	183,522	5,743,384	205,803
Accrued general pension costs	290,293	34,423	-	324,716	-
Compensated absences	122,170	76,806	77,530	121,446	8,501
	20,701,493	4,988,847	6,807,084	18,883,257	2,005,418
Water Quality Management Fund:					
General obligation serial bonds	11,063,007	1,153,663	2,351,488	9,865,182	1,303,267
Accrued general pension costs	1,959,914	232,398	-	2,192,312	-
Compensated absences	733,831	663,018	653,144	743,705	52,478
	13,756,752	2,049,079	3,004,632	12,801,199	1,355,745
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	110,140,000	-	4,520,000	105,620,000	4,675,000
Total business-type activities	$ 545,208,068	$ 33,491,941	$ 47,212,018	531,487,992	$ 28,176,443
Original issue premiums and discounts				15,352,394	
				$ 546,840,386	
Discretely-Presented Component Units					
Airport Authority:					
Revenue bonds	$ 14,716,702	$ -	$ 3,326,037	$ 11,390,665	$ 703,009
Capital lease payable	106,081	-	47,421	58,660	50,051
Accrued postemployment benefits	146,811	-	-	146,811	-
Accrued general pension costs	-	890,448	-	890,448	-
	14,969,594	890,448	3,373,458	12,486,584	753,060
CARTA:					
Notes payable	443,782	-	261,801	181,981	181,981
Accrued general pension costs	-	11,358,348	-	11,358,348	-
	443,782	11,358,348	261,801	11,540,329	181,981
Total component units	$ 15,413,376	$12,248,796	$ 3,635,259	$ 24,026,913	$ 935,041

Principal and interest requirements to maturity for bonds and notes payable are as follows:

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2016	$ 17,042,739	$ 7,008,080	$ 27,642,789	$ 20,049,371
2017	15,625,212	6,425,131	29,661,945	19,058,624
2018	16,869,036	5,881,320	28,422,802	17,996,927
2019	17,162,473	5,314,044	24,811,050	16,942,389
2020	13,982,069	4,843,439	23,370,947	15,932,980
2021-2025	70,154,352	17,059,053	121,612,840	64,469,492
2026-2030	46,409,560	5,022,714	124,007,733	36,786,322
2031-2035	4,320,000	172,800	87,031,499	8,149,492
	$ 201,565,441	$ 51,726,581	$ 466,561,605	$ 199,385,597

Year	Component Units Principal	Component Units Interest
2016	$ 884,990	$ 370,098
2017	725,553	342,000
2018	748,838	318,717
2019	3,383,763	281,319
2020	308,916	198,389
2021-2025	5,520,586	619,535
	$ 11,572,646	$ 2,130,058

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

	Primary Government			
	Governmental Activities		Component Units	
Year	Principal	Interest	Principal	Interest
2016	$ 60,831	$ 6,507	$ 50,051	$ 1,945
2017	63,590	3,748	8,609	58
2018	49,677	926	-	-
	$ 174,098	$ 11,181	$ 58,660	$ 2,003

NOTE 7. PENSION TRUST FUND

The City acts as Trustee for the General Pension Plan and the Fire and Police Pension Plan, which are included in the accompanying financial statements as a pension trust fund.

General Pension Plan

The City of Chattanooga General Pension Plan (GPP) is a single-employer defined benefit pension plan that covers all permanent, full-time general City employees and employees of the Chattanooga Metropolitan Airport Authority.

Plan Description

Plan administration - Management of the GPP is vested in the GPP Board of Trustees, which consists of seven members. The Mayor is an ex-officio member with the other six appointed by the Mayor with the approval of a majority vote of the City Council.

Plan membership - Pension plan membership as of January 1, 2015, the valuation date, consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	1,030
Inactive plan members entitled to but not yet receiving benefits	102
Active plan members	1,400
Total	2,532

Benefits - The GPP provides retirement and disability benefits. The normal retirement benefit is two percent of average compensation 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 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 two and one-half 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. Benefit terms provide for annual cost-of-living adjustments to each member’s retirement allowance subsequent to the member’s retirement date. The annual adjustment is up to 3.0 percent.

Chapter 2, Article III, Division 17 of the City Code provides for the General Pension Plan. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the GPP, upon advice by the Mayor and upon receipt of an actuarial report as to the costs and actuarial soundness of such changes.

Contributions - The GPP Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, the active member contribution rate was 2.0 percent of annual pay, and the City's contribution rate was 13.92 percent of pay.

Plan Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the GPP Board of Trustees. It is the policy of the GPP Board of Trustees to pursue an investment strategy that provides sufficient return to meet its actuarial assumptions without undue investment risk. The following was the adopted asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
US large cap equity	38%
US small cap equity	7
International equity	15
US core fixed income	10
US high yield fixed income	5
International fixed developed	5
Equity hedge funds	7
Diversified hedge funds	7
Private equity	3
Private real estate	3
Total	100%

Rate of return - For the year ended June 30, 2015, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 2.93 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Partial Lump Sum Option

The Partial Lump Sum Option (PLOP) of the GPP offers participants the option of receiving a portion of total pension benefit as a lump-sum cash payment at the time of retirement. When a participant elects the PLOP, monthly benefit payments are reduced.

The PLOP payment can be paid in annual installments up to three years, depending on the participant's total credited service. The participant must have 26 years of credited service to be eligible for a one-year PLOP payment, 27 years for a two-year PLOP payment and at least 28 years for a three-year PLOP payment.

Net Pension Liability

The components of the net pension liability of the City at June 30, 2015 were as follows:

Total pension liability	$ 312,068,083
Plan fiduciary net position	(273,768,908)
Net pension liability	$ 38,299,175
Plan fiduciary net position as a percentage of the total pension liability	87.73%

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2015 using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

Inflation	3.0 percent
Salary increases	4.0 - 5.0 percent
Investment rate of return	7.5 percent, net of investment expenses

Mortality rates for both pre-retirement and post-retirement individuals were based on the RP 2000 combined mortality table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025. Post-disability mortality rates were based on the RP 2000 disabled retiree mortality table set forward eight years for males and set forward nine years for females.

Actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study, dated January 7, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as listed in the last actuarial experience study, dated January 7, 2014 are summarized as follows:

Asset Class	Long-term Expected Real Rate of Return*
US large cap equity	8.5%
US small cap equity	8.2
International equity	8.3
US core fixed income	1.0
US high yield fixed income	4.8
International fixed developed	1.7
Equity hedge funds	7.5
Diversified hedge funds	7.0
Private equity	15.0
Private real estate	8.0

*Arithmetic mean

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan members contribute 2% of pay and that the Board of Trustees adopts the actuarially determined contribution rate for the employer. Projected future benefit payments for all current plan members were projected through 2128.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the sensitivity of the net pension liability of the Plan to changes in the discount rate. Analysis is calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
GPP net pension liability	$ 73,179,998	$ 38,299,175	$ 8,642,591

Fire and Police Pension Plan

The City of Chattanooga Fire and Police Pension Fund (CFPPF) is a single-employer defined benefit pension plan that provides pensions for all permanent full-time police officers and firefighters.

Plan Description

Plan administration - Management of the CFPPF is vested in the CFPPF Board of Directors, which consists of eight members; three active members of the fire department, three active members of the police department, one appointee by the Mayor and one appointee by the City Council. There is a fulltime administrative staff that oversees daily operations.

Plan membership – Pension plan membership as of December 31, 2014, the valuation date, consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	761
Inactive plan members entitled to but not yet receiving benefits	11
Active plan members	850
	1,622

Benefits - The CFPPF provides retirement, disability and death benefits. Pension benefits are as follows:

For participants vested prior to July 1, 2014, the normal retirement benefit is based upon 25 years of credited service and is calculated as 2.75% of final average monthly salary for each year of service up to 25 years plus 1.25% of final average monthly salary for each year of service greater than 25 up to 30 years. For participants hired prior to July 1, 2014 and not vested, the normal retirement benefit is based upon the earlier of 28 years of credited service and age 50 with 25 years of service and is calculated as 2.75% of final average monthly salary for each years of service up to 25 years plus 1.25% of final average monthly salary for each year of service greater than 25 up to 30 years. For participants hired after July 1, 2014, the normal retirement benefit is based upon the earlier of 30 years of credited service and age 55 with 25 years of credited service and is calculated as 2.5% of final average monthly salary for each year of service up to 30 years.

For all participants, benefit is capped at 75% of final average monthly salary. Reduced benefit provisions are available for participants who have attained age 55 and have completed at least 10 years of credited service. Additional benefits are available in the event of death for pre-retirement employees, based on predetermined formulas. Effective July 1, 2014, cost of living adjustments are provided to retirees based on rates contingent on plan funded status percentages and increases in the consumer price index with a maximum increase of 3% per year.

Effective July 1, 2014, cost of living adjustments are provided to retirees based on rates contingent on plan funded status percentages and increases in the consumer price index with a maximum increase of 3% per year.

Chapter 2, Article III, Division 18 of the City Code provides for the Fire and Police Pension Fund. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of the City of Chattanooga Fire and Police Pension Fund, upon advice by the Mayor provided that such an amendment is not inconsistent with sound actuarial principles.

Contributions - The CFPPF Board of Directors establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The contribution rate and amount is determined as of January 1 and projected to July 1, so that the City's contributions are based on their fiscal year. The contribution as determined in the January 1, 2015 valuation is 30.63% of projected payroll. The active member contribution rate was either 9 or 10 percent of payroll, and will continue to increase each July 1st until they reach 11 or 12 percent effective July 1, 2016.

Plan Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the CFPPF Board of Directors. It is the policy of the CFPPF Board of Directors to pursue an investment strategy that provides sufficient return to meet its actuarial assumptions without undue investment risk. The following was the adopted asset allocation policy as of June 30, 2015:

Asset Class	Target Allocation
Domestic equity	16%
International equity	17
Fixed income	21
Real estate	14
Hedge funds	25
Private equity	7
	100%

Rate of return - For the year ended June 30, 2015, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 2.89 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

Two deferred retirement option plans (DROP) are available for participants:

For plan members previously contributing 9% of pay that began contribution 10% as of July 1, 2014 and who had at least 24 years of service as of July 1, 2014, a participant may retire at any time after completing at least 25 years of service and no more than 30 years of service with the option to back-DROP for up to three years but not prior to 25 years of service. The retirement benefit amount is calculated, based upon service at the back-DROP date and final average salary at retirement. Up to 36 months of this benefit amount will be used in determining the DROP lump-sum. The DROP account along with employee contributions made during the back-DROP period is credited with 7% interest annually, compounded monthly from the back-DROP date. Eligibility for this DROP was closed in fiscal year 2009. Participant contributions are 8%.

All other participants are eligible for a modified DROP. A participant may retire at any time after completing at least 25 years of service and no more than 33 years of service with the option to back-DROP for up to three years but not prior to 25 years of service. The retirement benefit amount is calculated based upon service at the back-DROP date and final average salary at the beginning for the DROP period. Up to 36 months of this benefit amount will be used in determining the DROP lump-sum. No COLA or interest will be applied to either the DROP annuity or DROP lump-sum.

Net Pension Liability

The components of the net pension liability of the City at June 30, 2015 were as follows:

Total pension liability	$ 392,251,285
Plan fiduciary net position	228,629,338
Net pension liability	$ 163,621,947
Plan fiduciary net position as a percentage of the total pension liability	58.29%

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015:

Inflation	2.75 percent
Salary increases	2.75 percent plus service based merit increases
Investment rate of return	7.75 percent net of pension plan investment expenses
COLA	1.50 percent

Pre-retirement mortality rates were based on the RP-2014 Blue Collar Employee Mortality Table set forward two years. Healthy annuitant mortality rates are based on the RP-2014 Blue Collar Healthy Mortality Table set forward three years. Disabled annuitant mortality rates are based on the RP-2014 Disabled Retiree Mortality Table set forward three years. All mortality tables are projected generationally with a modified version of scale MP-2014.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an experience study for the period January 1, 2010 through December 31, 2014 and based on changes to the retirement rate and COLA assumptions made in the conjunction with plan changes effective July 1, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return*
Domestic equity	6.70%
International equity	7.40
Fixed income	1.60
Real estate	4.50
Hedge funds	3.60
Private equity	11.80

*Arithmetic mean

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at their applicable contribution rates and that City contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the CFPPF, calculated using the discount rate of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
CFPPF net pension liability	$ 207,695,447	$ 163,621,947	$ 126,700,121

Combining Statements for Pension Trust Fund

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 Pension Trust Net Position:

	General Pension Plan	Fire and Police Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	$ 216,071	$ 57,375	$ 273,446
Total receivables	216,071	57,375	273,446
Investments:			
Corporate bonds and notes	5,710,344	14,222,476	19,932,820
Preferred securities	-	3,288,057	3,288,057
Corporate stocks	90,280,573	30,281,595	120,562,168
Foreign equity	-	6,605,821	6,605,821
Mutual funds – preferred securities	-	3,345,455	3,345,455
Mutual funds – equity	26,770,752	49,327,460	76,098,212
Mutual funds – fixed income	41,016,429	24,309,315	65,325,744
Real estate	3,000,000	13,092,880	16,092,880
Hedge funds	48,487,922	71,359,385	119,847,307
Other investments	54,714,749	10,632,042	65,346,791
Temporary investments	3,800,266	2,168,407	5,968,673
Total investments	273,781,035	228,632,893	502,413,928
Total assets	273,997,106	228,690,268	502,687,374
LIABILITIES			
Accrued expenses	228,198	60,930	289,128
Total liabilities	228,198	60,930	289,128
NET POSITION RESTRICTED FOR PENSIONS	$ 273,768,908	$ 228,629,338	$ 502,398,246

Combining Statement of Changes in Plan Net Position:

	General Pension Plan	Fire and Police Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 7,925,195	$ 11,115,222	$ 19,040,417
Employee	1,140,121	3,528,823	4,668,944
Other	-	185,330	185,330
Total contributions	9,065,316	14,829,375	23,894,691
Investments income:			
Net appreciation in fair value of investments	7,553,571	4,102,010	11,655,581
Interest	370,219	1,909	372,128
Dividends	2,376,613	3,172,297	5,548,910
	10,300,403	7,276,216	17,576,619
Less investment expense	(840,735)	(494,504)	(1,335,239)
Net investment income (loss)	9,459,668	6,781,712	16,241,380
Total additions	18,524,984	21,611,087	40,136,071
DEDUCTIONS			
Benefits paid to participants	17,349,644	28,263,419	45,613,063
Administrative expenses	231,900	770,714	1,002,614
Total deductions	17,581,544	29,034,133	46,615,677
NET CHANGE	943,440	(7,423,046)	(6,479,606)
NET POSITION RESTRICTED FOR PENSIONS			
Beginning of year	272,825,468	236,052,384	508,877,852
End of year	$ 273,768,908	$ 228,629,338	$ 502,398,246

NOTE 8. PENSION AND OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS

The primary government provides retirement benefits through three single-employer defined benefit pension plans: General Pension Plan, Fire and Police Pension Fund, and Electric Power Board of Chattanooga Retirement Plan. All permanent employees are eligible to participate in one of these retirement benefit pension plans. The primary government also provides benefits through two single- employer other postemployment benefit plans (OPEB), one for EPB employees and one for all other city employees.

The information below provides an aggregate view of these plans for both the primary government and its component units:

	Primary Government Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2013	$ 738,754,103	$ 493,130,292	$ 245,623,811
Changes for the year:			
Service cost	14,132,238	-	14,132,238
Interest expense	55,916,720	-	55,916,720
Changes of benefit terms	(65,257,551)	-	(65,257,551)
Experience losses (gains)	13,419,249	-	13,419,249
Changes of assumptions	(5,709,428)	-	(5,709,428)
Contributions – city	-	24,634,772	(24,634,772)
Contributions – members	-	4,294,069	(4,294,069)
Net investment income	-	69,688,361	(69,688,361)
Benefits paid	(48,475,805)	(48,475,805)	-
Plan administrative expenses	-	(881,635)	881,635
Other	-	167,315	(167,315)
Net changes	(35,974,577)	49,427,077	(85,401,654)
Balances at 6/30/2014	$ 702,779,526	$ 542,557,369	$ 160,222,157

	Component Units Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2013	$ 32,754,021	$ 20,834,902	$ 11,919,119
Changes for the year:			
Service cost	830,362	-	830,362
Interest expense	2,478,344	-	2,478,344
Changes of benefit terms	-	-	-
Experience losses (gains)	253,428	-	253,428
Changes of assumptions	(184,466)	-	(184,466)
Contributions – city	-	1,191,309	(1,191,309)
Contributions – members	-	320,503	(320,503)
Net investment income	-	1,649,645	(1,649,645)
Benefits paid	(2,481,606)	(2,481,606)	-
Plan administrative expenses	-	(113,466)	113,466
Other	-	-	-
Net changes	896,062	566,385	329,677
Balances at 6/30/2014	$ 33,650,083	$ 21,401,287	$ 12,248,796

	General Pension Plan	Fire & Police Pension Plan	EPB Pension Plan	CARTA Pension Plans	Totals
Net pension liability	$ 28,450,803	$126,527,803	$ 6,134,000	$ 11,358,348	$ 172,470,954
Pension assets	-	-	-	-	-
Deferred pension outflows					
Contributions	7,682,577	11,115,227	3,700,000	600,023	23,097,827
Difference between expected and actual experience	-	8,409,563	3,397,000	599,063	12,405,626
Net difference between projected and actual earnings on pension plan investments	-	-	-	255,558	255,558
	7,682,577	19,524,790	7,097,000	1,454,644	35,759,011
Deferred pension inflows					
Change in assumptions	4,843,290	-	-	-	4,843,290
Net difference between projected and actual earnings on pension plan investments	9,720,783	13,992,505	2,426,000	330,716	26,470,004
	14,564,073	13,992,505	2,426,000	330,416	31,313,294
Pension expense (income)	4,870,372	(49,785,262)	3,020,366	1,391,522	(40,503,002)

The following is a summary of each of these plans:

City of Chattanooga General Pension Plan

General Information

Plan administration - The City of Chattanooga General Pension Plan (GPP) provides pensions for all permanent, full-time general City employees and employees of the Chattanooga Metropolitan Airport Authority. Chapter 2, Article III, Division 17 of the City Code provides for the General Pension Plan. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the GPP, upon advice by the Mayor and upon receipt of an actuarial report as to the costs and actuarial soundness of such changes.

Benefits provided **-** The GPP provides retirement and disability benefits. The normal retirement benefit is two percent of average compensation 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 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 two and one-half 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.

Benefit terms provide for annual cost-of-living adjustments to each member’s retirement allowance subsequent to the member’s retirement date. The annual cost-of-living adjustment will be made each January 1 and shall be equal to 3.0 percent.

A Partial Lump Sum Option (PLOP) of the GPP offers participants the option of receiving a portion of total pension benefit as a lump-sum cash payment at the time of retirement. When a participant elects the PLOP, monthly benefit payments are reduced. The PLOP payment can be paid in annual installments up to three years, depending on the participant’s total credited service. The participant must have 26 years of credited service to be eligible for a one-year PLOP payment, 27 years for a two-year PLOP payment and at least 28 years for a three-year PLOP payment.

Employees covered by benefit terms – The following employees were covered by the benefit terms as of January 1, 2014, the valuation date:

Inactive employees or beneficiaries currently receiving benefits	999
Inactive employees entitled to but not yet receiving benefits	101
Active employees	1,381
	2,481

Contributions - The GPP Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2014, the active member contribution rate was 2.0 percent of annual pay, and the City's contribution rate was 13.72 percent of pay.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014, rolled-forward to June 30, 2014.

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.0 percent
Salary increases	4.0 - 5.0 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expenses, including inflation
COLA	3.0 percent

Both pre-retirement and post-retirement mortality rates were based on the RP 2000 combined mortality table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025. Post-disability mortality rates were based on the RP 2000 disabled retiree mortality table set forward eight years for males and set forward nine years for females. The actuarial assumptions used in the January 2014 valuation were based on the results of an actuarial experience study, dated January 7, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US large cap equity	38.0%	8.5%
US small cap equity	7.0	8.2
International equity	15.0	8.3
US core fixed income	10.0	1.0
US high yield fixed income	5.0	4.8
International fixed developed	5.0	1.7
Equity hedge funds	7.0	7.5
Diversified hedge funds	7.0	7.0
Private equity	3.0	15.0
Private real estate	3.0	8.0
	100.0%	

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2013	$ 295,274,117	$ 249,377,705	$ 45,896,412
Changes for the year:			
Service cost	6,069,090	-	6,069,090
Interest expense	22,247,450	-	22,247,450
Changes of assumptions	(5,893,894)	-	(5,893,894)
Contributions – city	-	7,751,909	(7,751,909)
Contributions – members	-	1,130,354	(1,130,354)
Net investment income	-	31,178,197	(31,178,197)
Benefits paid	(16,420,492)	(16,420,492)	-
Plan administrative expenses	-	(192,205)	192,205
Net changes	6,002,154	23,447,763	(17,445,609)
Balances at 6/30/2014	$ 301,276,271	$ 272,825,468	$ 28,450,803

Changes in actuarial assumptions - The following changes in actuarial assumptions and methods were used in the measurement of the total pension liability since the prior measurement date:

Investment rate of return – The assumed investment rate of return was lowered from 7.75% to 7.50%.

Retirement, withdrawal and disability rates – The rates for retirement, withdrawal and disability were changed to more closely reflect recent experience.

Mortality tables – The pre-retirement and post-retirement healthy mortality tables were changed to RP 2000 combined mortality table set forward four years for males and set forward two years for females and using a scale AA projection to 2025. The post-retirement mortality table was changed to the RP 2000 disable mortality table set forward eight years for males and set forward nine years for females for disability retirements.

Salary scale – The salary scale was lowered by 0.50% at all years of service.

Administrative expense – An administrative expense assumption 0.35% was added to the normal rate.

Amortization method – The amortization method was changed from an open to a closed amortization basis.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	$ 62,841,363	$ 28,450,803	$ (720,706)

Pension plan fiduciary net position – The plan does not issue a separate financial report. Detailed information about the pension plan's fiduciary net position is found in Note 7.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2014, the City recognized pension expense of $4,717,940 with an additional $152,432 for the Airport Authority, a component unit of the City.

Deferred outflows of resources totaling $7,682,577 represent contributions made after the plan's valuation date. The City and Airport Authority recognized $7,677,154 and $5,423, respectively.

Deferred inflows of resources related to pensions are as follows:

	Primary Government	Airport Authority	Total
Changes of assumptions	$ 4,691,706	$ 151,584	$ 4,843,290
Net difference between projected and actual earnings on pension plan investments	9,416,543	304,240	9,720,783
Total deferred inflow of resources	$ 14,108,249	$ 455,824	$ 14,564,073

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2015	$ 3,480,801
2016	3,480,801
2017	3,480,801
2018	3,480,801
2019	640,869
	$ 14,564,073

Payable to the Pension Plan

At June 30, 2014, the City reported a payable of $0 for the outstanding amount of contributions to the pension plan.

Fire and Police Pension Fund

General Information

Plan administration - The City of Chattanooga Fire and Police Pension Fund (CFPPF) provides pensions for all sworn members of the City's Fire and Police Departments. Chapter 2, Article III, Division 18 of the City Code provides for the Fire and Police Pension Fund. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of the City of Chattanooga Fire and Police Pension Fund, upon advice by the Mayor provided that such an amendment is not inconsistent with sound actuarial principles.

Benefits provided - The CFPPF provides retirement, disability and death benefits.

For participants vested as of July 1, 2014, the normal retirement benefit is based upon 25 years of credited service and is calculated as 2.75% of final average monthly salary for each year of service up to 25 years plus 1.25% of final average monthly salary for each year of service greater than 25 up to 30 years. For participants hired prior to July 1, 2014 but not vested as of July 1, 2014, the normal retirement benefit is based upon the earlier of 28 years of credited service or age 50 with 25 years of credited service and is calculated as 2.75% of final average monthly salary for each year of service up to 25 years plus 1.25% of final average monthly salary for each year of service greater than 25 up to 30 years.

For participants hired after July 1, 2014, the normal retirement benefit is based the earlier of 30 years of credited service or age 55 with 25 years of credited service and is calculated as 2.50% of final average monthly salary for each year of service up to 30 years.

For all participants, benefit is capped at 75% of final average monthly salary. Reduced benefit provisions are available for participants who have attained age 55 and have completed at least 10 years of credited service. Additional benefits are available in the event of death for pre-retirement employees, based on predetermined formulas.

Benefit terms provide for potential cost-of-living adjustments. Effective July 1, 2014, cost-of-living adjustments are provided to retirees based on rates contingent on plan funded status percentages and increases in the consumer price index with a maximum increase of 3% per year.
Two deferred retirement option plans (DROP) are available for participants:

The original DROP applies to members who previously contributed 9% of pay and began contributing 10% as of July 1, 2014 and who had at least 24 years of service as of July 1, 2014. Those participants may retire at any time after completing at least 25 years of service and no more than 30 years of service with the option to back-DROP for up to three years but not prior to 25 years of service. The retirement benefit amount is calculated, based upon service at the back-DROP date and final average salary at retirement. Up to 36 months of this benefit amount will be used in determining the DROP lump-sum. The DROP account along with employee contributions made during the back-DROP period is credited with 7% interest annually, compounded monthly from the back-DROP date.

All other participants are eligible for a modified DROP. A participant may retire at any time after completing at least 25 years of service and no more than 33 years of service with the option to back-DROP for up to three years but not prior to 25 years of service. The retirement benefit amount is calculated based upon service at the back-DROP date and final average salary at the beginning for the DROP period. Up to 36 months of this benefit amount will be used in determining the DROP lump-sum. No COLA or interest will be applied to either the DROP annuity or DROP lump-sum.

Employees covered by benefit terms – The following employees were covered by the benefit terms as of December 31, 2014, the valuation date:

Inactive plan members or beneficiaries currently receiving benefits	761
Inactive plan members entitled to but not yet receiving benefits	11
Active plan members	850
	1,622

Contributions - The CFPPF Board of Directors establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2014, the active member contribution rate was either 9 or 10 percent of payroll, and will continue to increase each July 1st until they reach 11 or 12 percent effective July 1, 2016. The City's contribution rate was 26.19% of pay.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, rolled-forward to June 30, 2014.

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.75 percent
Salary increases	2.75 percent plus service based merit increases
Investment rate of return	7.75 percent
COLA	1.50 percent

Pre-retirement mortality rates were based on the RP-2014 Blue Collar Employee Mortality Table set forward two years. Healthy annuitant mortality rates are based on the RP-2014 Blue Collar Healthy Mortality Table set forward three years. Disabled annuitant mortality rates are based on the RP-2014 Disabled Retiree Mortality Table set forward three years. All mortality tables are projected generationally with a modified version of scale MP-2014.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an experience study for the period January 1, 2010 through December 31, 2014 and based on changes to the retirement rate and COLA assumptions made in the conjunction with plan changes effective July 1, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	16%	6.70%
International equity	17	7.40
Fixed income	21	1.60
Real estate	14	4.50
Hedge funds	25	3.60
Private equity	7	11.80
	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at their applicable rates and that City contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2013	$ 411,554,212	$ 216,162,772	$ 195,391,440
Changes for the year:			
Service cost	5,858,028	-	5,858,028
Interest expense	30,728,527	-	30,728,527
Change of benefit terms	(65,257,551)	-	(65,257,551)
Difference between expected and actual experience	9,811,157	-	9,811,157
Contributions – city	-	13,495,433	(13,495,433)
Contributions – members	-	3,199,093	(3,199,093)
Net investment income	-	33,750,882	(33,750,882)
Benefits paid	(30,114,186)	(30,114,186)	-
Plan administrative expenses	-	(608,924)	608,924
Other	-	167,314	(167,314)
Net changes	(48,974,025)	19,889,612	(68,863,637)
Balances at 6/30/2014	$ 362,580,187	$ 236,052,384	$ 126,527,803

Changes in actuarial assumptions – A detailed study of experience for the five-year period ending December 31, 2014 was performed and the recommendations of the study were adopted by the Board on April 16, 2015. The following changes in assumptions have been made:

Mortality tables – The pre-retirement mortality assumption was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward two years to the RP-2014 Blue Collar Employee Mortality Table, set forward two years for both males and females. The post-retirement mortality assumption for healthy annuitants was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward two years to the RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward three years for both males and females.

The disabled retiree mortality assumption was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward eight years to the RP-2014 Disabled Retiree Mortality Table, set forward three years for both males and females. All assumptions were projected generationally with a modified version of Scale MP-2014.

Turnover – The turnover assumption was modified from a five-year select-and-ultimate assumption based on age to an assumption based on years of service. Group-specific rates were maintained but restructured to reflect lower rates for all participants. The ultimate rate was set to zero for employees with twenty or more years of service.
Salary scale – The salary scale assumption was changed to remove the group specific rates. The individual rates, based on years of service, were modified to reflect lower increases for participants with lesser service. After twenty years, the ultimate rate was set to a flat rate of 2.75% to match the payroll growth assumption.

Payroll growth rate – The payroll growth rate assumption, used for determining the amortization of the unfunded actuarial accrued liability, was lowered from 3.25% to 2.75%.

Administrative expense – The administrative expense assumption of $500,000 was increased to $600,000.

Lump sum death benefits – Apart from the experience study changes, a change was made in the treatment of lump sum death benefits. Since a third party is responsible for paying these claims, the liabilities were removed from the fund's liabilities and the premiums paid each year will be considered an administrative expense. These premiums were previously classified as a benefit payment.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	$ 164,168,922	$ 126,527,803	$ 94,572,358

Pension plan fiduciary net position – The plan does not issue a separate financial report. Detailed information about the pension plan's fiduciary net position is found in Note 7.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2014, the City recognized $(49,785,262) in pension expense. Deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 8,409,563	$ -
Deferred contributions	11,115,227	-
Net difference between projected and actual earnings on pension plan investments	-	13,992,505
Total	$ 19,524,790	$ 13,992,505

Deferred outflows of resources totaling $11,115,227 represent contributions made after the plan's valuation date. Amounts reported as deferred outflows of resources and deferred inflows of resources, excluding deferred contributions, related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2015	$ 2,096,532
2016	2,096,532
2017	2,096,532
2018	2,096,532
2019	(2,803,186)
	$ 5,582,942

Payable to the Pension Plan

At June 30, 2014, the City reported a payable of $0 for the outstanding amount of contributions to the pension plan.

Electric Power Board of Chattanooga Retirement Plan

General Information

Plan administration - The Electric Power Board of Chattanooga Retirement Plan (Plan) provides retirement benefits to all employees who have completed six months of employment. The Plan assigns the authority to establish and amend benefit provisions to EPB. A stand-alone financial report is not issued for this plan.

Benefits provided – The Plan provides retirement and death benefits. The normal monthly retirement benefit formula provides that each participant will receive a monthly payment in the form of a single life annuity with sixty monthly guaranteed payments. The monthly payments are computed at the rate of 2% of final monthly salary for the first twenty years of service; 1.25% for the next ten years of service; 0.5% for the next five years of service. Computation is capped at 35 years.

Final monthly salary is the three-year average of base salary on the actual retirement date and the two previous August 1sts. The normal retirement date is the first day of the month coincident with the participant's 65th birthday or having five years of participation in the plan.
A participant who has completed five or more years of credited service and who has attained age fifty-five may be entitled to receive an early retirement benefit. The early retirement benefit is equal to the amount of the accrued benefit reduced by 0.4% for each month by which the early retirement date precedes the normal retirement date.

The death benefit is a survivor annuity benefit if the participant was vested and married under prescribed conditions.

Employees covered by benefit terms – The following employees were covered by the benefit terms as of June 30, 2015:

Inactive plan members or beneficiaries currently receiving benefits	15
Inactive plan members entitled to but not yet receiving benefits	125
Active plan members	524
	664

Contributions – Plan members are not required to contribute to the Plan. EPB's contributions are calculated based on an actuarially determined rate, which is currently 10.33% of annual covered payroll.

Net Pension Liability

EPB's net pension liability was measured as of August 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of August 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	1.5 percent
Salary increases	3.0 percent
Investment rate of return	7.5 percent

Mortality rates were based on the UP-1984 Mortality Table for males and females.

The actuarial assumptions used in the August 1, 2014 valuation were based on the results of an experience study for the period August 1, 2011 through July 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	40-50%	6.2%
International equity	20-30	5.9
Fixed income	20-30	1.9
Real estate	0-10	5.1
Cash	0-10	0.0

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that EPB contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2014	$ 41,167,212	$ 35,394,795	$ 5,772,417
Changes for the year:			
Service cost	2,395,069	-	2,395,069
Interest expense	3,637,040	-	3,637,040
Difference between expected and actual experience	3,608,092	-	3,608,092
Contributions – EPB	-	3,630,048	(3,630,048)
Net investment income	-	5,735,092	(5,735,092)
Benefits paid	(2,455,053)	(2,455,053)	-
Plan administrative expenses	-	(86,522)	86,522
Net changes	7,185,148	6,823,565	361,583
Balances at 6/30/2015	$ 48,352,360	$ 42,218,360	$ 6,134,000

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	$ 14,910,625	$ 6,134,000	$ (4,643,904)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, EPB recognized $3,020,366 in pension expense. Deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,397,000	$ -
Deferred contributions	3,700,000	-
Net difference between projected and actual earnings on pension plan investments	-	2,426,000
Total	$ 7,097,000	$ 2,426,000

Deferred outflows of resources totaling $3,700,000 represent contributions made after the plan's valuation date. Amounts reported as deferred outflows of resources and deferred inflows of resources, excluding deferred contributions, related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	$ 395,303
2017	395,303
2018	395,303
2019	395,303
2020	(211,123)
Thereafter	(2,341,089)
	$ (971,000)

Payable to the Pension Plan

At June 30, 2015, the City reported a payable of $0 for the outstanding amount of contributions to the pension plan.

Other Postemployment Benefits (City)

Plan Description

The City maintains a postemployment healthcare plan for retirees and their dependents. Substantially all of the City's employees may become eligible for benefits if they reach normal retirement age or certain service requirements while working for the City; those requirements are different for general employees and sworn safety employees. Those members meeting the eligibility conditions as of July 1, 2010 receive health benefits for life. Those not meeting the eligibility conditions as of July 1, 2010 receive health benefits until eligible for Medicare. A stand-alone financial report is not issued for the plan.

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.

Funding Policy

The City contributes to the plan at an actuarially determined rate. Retired plan members and beneficiaries are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees who retired prior to 2002 contribute an amount equal to the amount paid by active employees.
Employees who retire after 2002 with 25 years of service or a job-related disability contribute an amount equal to 1.5 times that paid by active employees. Employees who retire after 2002 with less than 25 years of service or a non-job-related disability contribute an amount increased on a pro rata year's basis. The City pays the remainder of the costs of medical coverage.

The City established an Other Postemployment Benefits Trust (the Trust) in 2008 to partially pre-fund benefits. Beginning in 2011, the City began funding the Trust based on an actuarial calculation in which all unfunded prior service costs as well as normal costs are allocated to various funds based on applicable payroll. The City is currently contributing 13.38 percent of the total covered payroll of participants. All obligations are liquidated from the OPEB trust.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost and net OPEB obligation for the current year were as follows:

Annual required contribution	$ 12,759,200
Interest on net OPEB obligation	2,210,092
Adjustment to annual required contribution	(2,321,008)
Annual OPEB cost	12,648,284
Contributions made	(15,574,457)
Increase in net OPEB obligation	(2,926,173)
Net OPEB obligation:	
Beginning of year	29,467,895
End of year	$ 26,541,722

The City's Annual OPEB Cost, percentage of OPEB Cost contributed, and Net OPEB Obligation for the current year and each of the two preceding years were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Other Postemployment	6/30/15	$12,648,284	123.1%	$ 26,541,722
Benefits	6/30/14	13,157,560	114.5%	29,467,895
	6/30/13	12,739,235	100.9%	31,381,724

Funded Status and Funding Progress

As of the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial valuation date	January 1, 2014
Actuarial accrued liability (AAL)	$ 163,843,121
Actuarial value of plan assets	32,970,171
Unfunded actuarial accrued liability (UAAL)	$ 130,872,950
Funded ratio (actuarial value of plan assets/AAL)	20.1%
Covered payroll (annual payroll of active employees covered by the plan)	$ 95,390,933
UAAL as a percentage of covered payroll	137.2%

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as supplementary information, provides multi-year trend information about whether the actuarial value of plan assets in increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Complete schedule funding progress may be found on page B-13.

Actuarial Methods and Assumptions

The annual required contribution for the plan is as follows:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	30 Years
Asset valuation method	Market Value
Investment rate of return*	7.50%
Healthcare trend:	
Pre-Medicare	7.75-5.00%
Medicare	5.75-5.00%

*Includes inflation at 3.00%.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Other Postemployment Benefits (EPB)

Plan Description

The Electric Power Board of Chattanooga Post Employment Health and Welfare Benefit Plan (the Plan) provides health and life insurance benefits to plan members and is administered by an individual designated by EPB. Eligible retirees and their dependents may continue healthcare coverage through EPB, and retirees after July 1, 1994 received a lump sum death benefit from the Plan. The Plan assigns the authority to establish and amend benefit provisions to EPB. A stand-alone financial report is not issued for this plan.

Funding Policy

The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2015, EPB contributed approximately $2.0 million (approximately 87 percent of total claims). Presently, EPB has the option of prefunding a “Voluntary Employees’ Beneficiary Association Trust” (VEBA) to pay post-employment benefit claims. During fiscal year 2015, EPB had no additional funding to the VEBA for post-employment benefit claims.

The EPB's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years.

Annual OPEB Cost and Net OPEB Obligation

EPB’s annual OPEB cost and net OPEB obligation for the current year was as follows:

Annual required contribution	$ 1,754,666
Interest on net OPEB obligation	608,753
Adjustment to annual required contribution	(798,097)
Annual OPEB cost	1,565,322
Contributions made	(2,035,989)
Change in net OPEB obligation	(470,667)
Net OPEB obligation:	
Beginning of year	9,365,436
End of year	$ 8,894,769

EPB's Annual OPEB Cost, percentage of OPEB Cost contributed, and Net OPEB Obligation for the current year and each of the two preceding years were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Other Postemployment	6/30/15	$ 1,565,222	130.00%	$ 8,894,769
Benefits	6/30/14	2,039,255	85.00%	9,365,436
	6/30/13	1,999,130	95.00%	9,055,062

Funded Status and Funding Progress

As of the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial valuation date	July 1, 2014
Actuarial accrued liability (AAL)	$ 24,688,061
Actuarial value of plan assets	19,213,362
Unfunded actuarial accrued liability (UAAL)	$ 5,474,699
Funded ratio (actuarial value of plan assets/AAL)	77.82%
Covered payroll (annual payroll of active employees covered by the plan)	$ 36,556,164
UAAL as a percentage of covered payroll	14.98%

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of EPB are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as supplementary information, provides multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Complete schedule funding progress may be found on page B-13.

Actuarial Methods and Assumptions

The annual required contribution for each plan is as follows:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	20 Years
Asset valuation method	3-year Smoothed Market
Investment rate of return	6.50%
Healthcare trend	7.5% initial, 5.5% ultimate

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each evaluation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

City 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, 2014	$ 25,755,976
Deferrals of compensation	1,968,217
Earnings (losses)	1,071,690
Withdrawals	(1,395,089)
Administrative expenses	(17,278)
Asset balance at June 30, 2015	$ 27,383,516

EPB 401(k) Plan

Effective August 1, 1984, EPB implemented a 401(k) defined contribution plan, the EPB Retirement Savings Plan, which allows employees to invest up to 100% of their salary in a tax-deferred savings plan. EPB contributes 100% matching contribution up to 4.0% of an employee's salary after one year of employment. All employees who have completed three months of employment and have attained age 18 are eligible to participate in the 401(k) defined contribution plan. Participating employees are immediately fully vested in EPB contributions, which amounted to approximately $1.2 million in fiscal year 2015. Employee contributions were approximately $2.8 million in fiscal year 2015. The EPB Retirement Savings Plan is administered by an individual designated by EPB; the EPB Retirement Savings Plan assigns the authority to establish and amend the plan to EPB.

Pension Plans of Component Units

Chattanooga Area Regional Transportation Authority (CARTA or Authority) is the only component unit with separate defined benefit pension plans. As of June 30, 2015, CARTA has two plans, The Disability and Retirement Plan and The Defined Benefit Plan. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

General Information

Plan administration – The Disability and Retirement Plan of the Chattanooga Area Regional Transportation Authority and Local 1212 of the Amalgamated Transit Union (Plan) is administered by a committee of four persons, two appointed by Union and two appointed by CARTA. The Plan issues a stand-alone financial report which may be obtained by writing to CARTA, 1617 Wilcox Boulevard, Chattanooga, Tennessee, 37406. The Chattanooga Area Regional Transportation Authority Defined Benefit Plan covers only one retiree. Complete pension disclosures are in CARTA's separately-issued financial statements.

Benefits provided – All full-time, permanent employees who have completed at least 60 days of employment are eligible to participate in the Plan. Participants who retire at or after age 65 with 5 years of continuous service, or when the sum of the employee's age and number of completed continuous years of service equals or exceeds 85, are entitled to a monthly benefit.

Employees covered by benefit terms – The following employees were covered by the benefit terms as of December 31, 2014, the valuation date, inclusive of both plans:

Inactive employees or beneficiaries currently receiving benefits	87
Inactive employees entitled to but not yet receiving benefits	10
Active employees	166
	263

Contributions – All participants are required to make a contribution equal to 4.0 percent of their earnings, with CARTA contributing 12.6 percent. There are no contributions associated with the single member plan.

Net Pension Liability

The Authority's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent and 5.5 percent (single member plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and member rates.

Changes in Net Pension Liability

The following is the combined net pension liability combined for both defined benefit plans.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 1/1/14	$ 23,512,583	$ 13,029,922	$ 10,482,661
Changes for the year:			
Service cost	640,413	-	640,413
Interest expense	1,782,047	-	1,782,047
Difference between expected and actual experience	253,428	-	253,428
Contributions – CARTA	-	948,691	(948,691)
Contributions – members	-	285,125	(285,125)
Net investment income	-	673,835	(673,835)
Benefits paid	(1,967,680)	(1,967,680)	-
Plan administrative expenses	-	(107,450)	107,450
Net changes	708,208	(167,479)	875,687
Balances at 1/1/15	$ 24,220,791	$ 12,862,443	$ 11,358,348

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the Authority, calculated using the discount rate of 7.5 percent for the Disability and Retirement Plan and 5.5 percent for the Defined Benefit Plan, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.5% & 4.5%)	Current Discount Rate (7.5% & 5.5%)	1% Increase (8.5% & 6.5%)
Authority's net pension liability:			
Disability and Retirement Plan	$ 13,720,779	$ 11,083,989	$ 8,868,001
Defined Benefit Plan	380,512	274,359	183,811

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Authority recognized pension expense of $1,391,522. Deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 559,125	$ -
Deferred contributions	696,537	-
Net difference between projected and actual earnings on pension plan investments	198,982	-
Total	$ 1,454,644	$ -

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2015	$ 89,683
2016	89,683
2017	89,683
2018	89,683
2019	89,683
Thereafter	309,692
	$ 758,107

<u>Other Postemployment Benefits of Component Units</u>

Plan Description

CARTA provides health care, life insurance, and supplemental retirement benefits for certain members of management and their spouses. The plan is a single-employer defined benefit plan; participants of this plan who retire are entitled to a monthly benefit.

Funding Policy

CARTA pays for all of the costs of the health care, life insurance, and supplemental retirement benefits. The contribution requirements are established and may be amended by CARTA's Board of Directors. Plan members are currently not required to contribute.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2015, the annual OPEB cost is equal to the annual required contribution of $38,529, as determined by actuarial valuations performed as of July 1, 2014, respectively.

The Authority's Annual OPEB Cost, percentage of OPEB Cost contributed, and Net OPEB Obligation for the current year and each of the two preceding years were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
Other Postemployment	6/30/15	$ 38,529	114.4%	$ (97,643)
Benefits	6/30/14	47,385	308.4%	(94,017)
	6/30/13	45,526	89.4%	4,843

Actuarial Methods and Assumptions

The annual required contribution for the plan is as follows:

Actuarial cost method	Projected Unit Credit
Remaining amortization period	15 Years
Inflation rate	2.00%
Projected salary increases	3.50%
Interest rate	3.00%
Healthcare cost trend rate	7.25%

NOTE 9. FUND BALANCE

The City Council has adopted a policy to maintain a minimum level of unrestricted fund balance (the total of committed, assigned and unassigned components of fund balance) in the General Fund. The target level is a balance equal to a minimum of 15% of General Fund revenues and transfers in. This amount is intended to provide for one-time capital needs or for emergency expenditures which meet specific guidelines. If fund balance falls below the minimum target level, the policy provides for actions to replenish the amount to the minimum target level within a three-year period. For the year ended June 30, 2015, the minimum fund balance per policy is $36.9 million. The current unrestricted fund balance is $62.2 million.

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable				
Endowments	$ -	$ -	$ 4,652,501	$ 4,652,501
Inventory	887,113	-	-	887,113
Long-term notes receivable	888,401	958,413	-	1,846,814
Prepaid expenses	8,000	-	12,268	20,268
Restricted				
Law enforcement	67,393	-	1,422,324	1,489,717
Economic development	5,018,226	-	11,780	5,030,006
African-American Museum	64,717	-	-	64,717
Special programs	299,259	-	-	299,259
Capital projects	-	42,084,052	-	42,084,052
Library Endowment	-	-	84,395	84,395
Human services program	-	-	761,688	761,688
State street aid	-	-	2,273,649	2,273,649
Community development	-	-	1,374,753	1,374,753
Hotel-Motel tax revenue pledge	-	-	3,525,307	3,525,307
Regional Planning Agency	-	-	223,958	223,958
Air Pollution Control Bureau	-	-	348,828	348,828
Committed				
Law enforcement	263,093	-	-	263,093
Economic development	350,873	-	-	350,873
Free Public Library	117,008	-	-	117,008
African-American Museum	64,718	-	-	64,718
Regional Planning Agency	-	-	3,655,502	3,655,502
Air Pollution Control Bureau	-	-	523,242	523,242
Scenic Cities Beautiful Commission	-	-	133,159	133,159
Tennessee Valley Regional Communications	-	-	898,605	898,605
Debt service	-	-	3,446,011	3,446,011
Assigned				
Public Library	1,410,691	-	-	1,410,691
Special programs	3,704,185	-	-	3,704,185
River Pier garage	-	-	1,107,806	1,107,806
Other purposes	1,178,791	-	-	1,178,791
Unassigned	55,113,696	-	-	55,113,696
Total fund balances	$ 69,436,164	$43,042,465	$24,455,776	$ 136,934,405
Summary for Governmental Funds Balance Sheet:				
Nonspendable	$ 1,783,514	$ 958,413	$ 4,664,769	$ 7,406,696
Restricted	5,449,595	42,084,052	10,026,682	57,560,329
Committed	795,692	-	8,656,519	9,452,211
Assigned	6,293,667	-	1,107,806	7,401,473
Unassigned	55,113,696	-	-	55,113,696
Total fund balances	$ 69,436,164	$43,042,465	$24,455,776	$ 136,934,405

NOTE 10. INTERFUND RECEIVABLES AND PAYABLES

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	$ 90,515
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	204,418
Internal Service Fund	Capital Project Fund	1,400,000
		$ 1,694,933

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.

NOTE 11. INTERFUND TRANSFERS

	Transfers In:				
	General Fund	Capital Projects	Nonmajor Governmental	Internal Service Fund	Total
Transfers out:					
General Fund	$ -	$ 30,623,807	$21,469,723	$ -	$ 52,093,530
Capital Projects Fund	30,055	-	-	1,400,000	1,433,055
Nonmajor Governmental Funds:					
Narcotics Program	-	452,000	-	-	452,000
Community Development	-	326,720	443,095	-	769,815
Hotel/Motel Tax	-	1,550,000	4,734,371	-	6,284,371
Total	$ 30,055	$ 32,952,527	$26,647,189	$ 1,400,000	$ 61,032,771

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

NOTE 12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; certain retiree medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City maintains property and casualty insurance coverage against property loss above the deductible amount which is ranging from $25,000 to $50,000 depending on the type of damage. As of June 30, 2015, 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.

The Internal Service Fund accounts for all exposures, except on-the-job-injury claims. 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 City has a self-funded medical benefits plan that is administered by Blue Cross/Blue Shield of Tennessee with the City's exposure limited by a stop-loss policy. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The liability does not include nonincremental claims adjustment expenses. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

Interfund premiums in the Internal Service Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. At June 30, 2015, the Internal Service Fund liability consists of $4,339,500 related to torts and $3,689,705 related to medical benefits. Assets are sufficient in the fund to cover unpaid claims.

Changes in the balances of claims liabilities during the year are as follows:

	General Fund	Internal Service Fund
Unpaid claims, June 30, 2013	$ 249,426	$ 7,338,379
Incurred claims, including IBNRs/reduction in estimated liabilities	1,632,318	29,501,425
Claim payments	(1,616,087)	(28,413,865)
Unpaid claims, June 30, 2014	265,657	8,425,939
Incurred claims, including IBNRs/reduction in estimated liabilities	1,860,462	24,020,609
Claim payments	(1,827,512)	(24,417,343)
Unpaid claims, June 30, 2015	$ 298,607	$ 8,029,205

All unpaid claims are estimated to be paid within one year.

NOTE 13. TAX ABATEMENTS

The City of Chattanooga currently offers three types of tax abatement programs -- 1) Commercial and Industrial Development; 2) Tax Increment Financing; and (3) Downtown Housing Development. Pursuant to Tennessee Code Annotated (TCA) 7-53-305, the Industrial Development Board (IDB) of the City of Chattanooga and the Health and Education Board (HEB) are allowed to own property within the city. The city may delegate the authority to the IDB and the HEB to negotiate and accept payments in lieu of ad valorem taxes from the corporation's lessees, provided that such payments are deemed to be in furtherance of the corporation's public purposes. Every PILOT has to be for business operations, which are defined as a project under TCA 7-53-101 (13). The IDB is allowed by state law to be exempt from taxation and to lease property as a method of security so that PILOT payments may be accepted by cities and counties.

Downtown Housing Development

This program was renewed via Resolution No. 27968 on August 5, 2015 to encourage the development of single family rental housing in the downtown Chattanooga area. The program is effective for ten years expiring in August 2025. The City has delegated to the Health and Education Housing Facility Board (HEB) the authority to negotiate and accept PILOTs from lessees of the HEB upon findings by the City that such payments are deemed to be in furtherance HEB's public purposes. Applications must be made to and in a form prescribed by River City Company and accompanied by a $500 fee for administration and processing. Criteria are as follows:

1. Housing development must be located within the Downtown area, must be occupied by persons of low and/or moderate income, and/or elderly, and/or handicapped persons, and must qualify as a "project" under the state legislation, for which, the HEB was incorporated. Both existing housing that is to be rehabilitated and new housing construction are eligible for the program.

2. The value of all new construction, building renovations and site improvements must be equal to at least 60% of the value of the property prior to the making of any improvements.

3. The PILOT is effectively a freeze on the amount of property taxes paid for a period of ten years, plus two additional years if the project involves the rehabilitation of an existing building and two more years if the rehabilitation is a Certified Historic Rehabilitation. Additionally, after the PILOT freeze period, qualifying projects shall have the benefit of a PILOT phase-in period of four years in which taxes on the new construction and/or rehabilitation are paid at the rates 20%, 40%, 60% and 80%.

4. Projects must be approved by resolutions of the City Council and Hamilton County Commission. There are currently no recapture provisions when terms are not met and no other commitments are made by the city.

Economic Development

The City utilizes two programs to promote economic development and growth, in particular, commercial and industrial projects that involve a significant capital investment and the generation of new jobs with wages in excess of the annual average wage in the City of Chattanooga.

- **Commercial and Industrial Development**
  This program offers tax abatements for a specified period in exchange for benefits received by the city due to an increase in real and personal property investments, as well as the creation of jobs. Application is made to the Chamber of Commerce, with approval by the Industrial Development Board (IDB) and City Council. To be eligible for a tax reduction, you must either relocate into the city or expand business within the city. Qualified businesses will be eligible for abatement of all or a portion of property taxes dependent on the dollar amount of the investment and the number and average wage of jobs created. There are provisions for recapturing abated taxes if certain terms of the agreement are not met. Other commitments made by the city include roadway improvements, rail services, and sewer improvements, just to name a few.

  In 2015, an economic development fee was added to a few of these PILOTs which equates to approximately 15% of the total taxes that would be required if the taxpayer were to pay 100% of the total tax levy. This fee shall be collected by the City Treasurer and distributed to the City of Chattanooga's IDB to be used for economic development purposes, as directed by the Mayor. In the coming years, more PILOTs will be required to pay such a fee.

- **Tax Increment Financing (TIF)**
  The City of Chattanooga has adopted the Tax Increment Financing Program established by the Industrial Development Board (IDB) of the City of Chattanooga. TIF is an economic development tool that allocates all or a portion of the new, additional taxes generated by a development over a limited period of time to pay for public infrastructure such as utilities and road and traffic improvements, related to that development. Tax increment is the difference in tax revenues generated by the property in the development area after a project has been completed compared with the tax revenues generated by a property before the development plan was adopted. The difference in tax revenues pays towards the cost of improvements to the public infrastructure serving the development area. This enables the City to complete public infrastructure that it otherwise could not afford.

  The TIF Program is primarily for the economic development projects that provide improvements in blighted and under-utilize areas in the City of Chattanooga and in other properties designated by City Council and the Hamilton County Commission. This program applies only to projects initiated by a private developer and supported by tax increment property tax revenues. It is a discretionary program and does not create or vest any rights in any person or entity.

  As of June, 30, 2015 the City has entered into only one Tax Incremental Financing (TIF) agreement.

Information relevant to disclosure of these programs includes the following:

	Number of New Abatements During he Fiscal Year	Number of Abatements as of End of the Fiscal Year	Number of Future Abatements Approved by Council	Amounts of Abatements During the Fiscal Year
Economic Development				
Commercial and Industrial Development	3	40	5	$ 9,760,866
Infrastructure (TIF)	-	1	-	57,366
Downtown Housing Development	-	8	4	152,141
Total	3	49	9	$ 9,970,373

NOTE 14. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and water quality systems, and acquisition and construction contracts related to general government capital projects. At year end the City's commitment with contractors was approximately $66,569,426.

Airport Debt

In May 2009, the City guaranteed the 10-year, $6.6 million Taxable Revenue Refunding Bonds of the Chattanooga Metropolitan Airport Authority, a legally separate component unit of the City of Chattanooga, through an Airport Operation Service Contract. The bonds mature annually through April 1, 2019, with semiannual interest payments. In the event the Airport is unable to make payment, the City will be required to make that payment. The balance at June 30, 2015 is $4,426,424. The Airport issued an additional $10,000,000 in Taxable and Tax-Exempt bonds in 2014 which are not guaranteed by the City.

Landfill Closure and Postclosure Care Costs

The Solid Waste Fund accounts for all aspects of solid waste disposal, including the city's municipal landfill; operations include a current landfill as well as closure and postclosure care costs of landfills closed in prior years. State and federal regulations require the City to place a final cover on all landfills after closure and 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 is based on 13.6 percent of the City Landfill Area III capacity and 100 percent usage of the Summit Landfill and the City Landfill Area II. At the current yield of utilization rate, we expect the landfill to have a remaining life of 46 years.

Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2015, are as follows:

Estimated liability, June 30, 2014	$ 5,723,565
Expenses recognized	203,341
Costs incurred	(183,522)
Estimated liability, June 30, 2015	$ 5,743,384
Due within one year	$ 205,803

The estimated costs of closure and postclosure care 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 year-end. However, the actual costs 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.

Consent Decree

The Interceptor Sewer System was established in 1952 to provide sewers for the City in a planned and orderly manner. The system encompasses approximately 1,263 miles of sewer lines, 8 sewage pumping stations, 9 storm stations, 63 underground, submersible sewage pump stations, approximately 195 residential/grinder stations, 9 combined sewer overflow treatment facilities and 1 regional wastewater treatment plant.

On April 24, 2013, a Consent Decree negotiated between the City, Environmental Protection Agency, Tennessee Department of Environment and Conservation, and the Tennessee Clean Water Network became effective. The City agreed to begin a program of rehabilitation of the sewer system for the purpose of reducing sanitary sewer overflows. This comprehensive, two-phase plan is expected to cost $250 million over a 16-year period. The first phase is a 5-year program of specific projects identified by the City; the second phase consists of additional projects determined necessary by the City to meet the intent of the Consent Decree based on the success of the Phase 1 projects. The projects will be paid through user fees.

Pollution Remediation

GASB Statement No. 49 provides guidance for estimating and reporting the potential costs of pollution remediation when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the City is compelled to take action;
- The City is in violation of a pollution related permit or license;
- The City is named or has evidence that it will be named a responsible part by a regulator;
- The City is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The City commences or legally obligates itself to conduct remediation activities.

The standard requires the City to calculate pollution remediation liabilities using the expected cash flow technique. The remediation obligation estimate that appears in this report is subject to change over time due to price fluctuations, changes in technology, environmental studies, changes in regulations and other factors. Where the costs cannot reasonably be estimated, the City does not report a liability.

During the fiscal year, the City spent $1,145 in pollution remediation obligation related activities. At June 30, 2015, the City had an outstanding pollution remediation liability of $3,235,424 with an estimated $2,002,073 in grant revenue and donated services to offset these costs leaving a net pollution remediation obligation of $1,233,351.

Site investigation, planning, cleanup and site monitoring are typical remediation activities underway across the City. Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) site list, is an old landfill site. The park was closed in 2003 when methane gas leaks were found. The City is in the process of re-capping a small area in compliance with TDEC; work is being done by volunteer contractors leaving City resources to pay for cover topsoil and erosion control. Eventually the entire area will be remediated for use as athletic fields and a sculpture garden. Total costs are estimated at $4,000,000 for the entire project but are not currently divided into remediation and construction costs. The reasonable range of potential outlays was estimated and multiplied by the probability off occurrence. This estimate was reduced by anticipated volunteer participation for a total estimate of $1,193,351 at the end of fiscal year 2015.

In November 2014, State of Tennessee Department of Environment and Conservation notified the City and the Hamilton County to remediate, prevent or reduce pollutant, lead, from the firing range which is jointly owned, to leak into the storm water drainage channels and possibly get into the Tennessee River. In response, the City developed a Storm Water Pollution Prevention Plan to remove the contaminated soils, to install structural controls, and to maintain a schedule to inspect and repair the measures. The cost is estimated at $40,000. The remediation will begin after September 30, 2015 and complete before June 30, 2015.

Contingencies

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

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

Conduit Debt Obligations

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

The Industrial Development Board currently has eighteen (18) outstanding bond issues, the original amounts of which were $293,250,000. The Health, Educational and Housing Facility Board currently has thirty-seven (37) bond issues, the original amount of which were $704,955,727. The Boards have no means of determining the outstanding amount of these bonds.

NOTE 15. SEGMENT INFORMATION

EPB, the electric utility of the City of Chattanooga, issued revenue bonds to finance a portion of its electric system. In addition to providing electricity, EPB offers a range of fiber optic services. Both the electric and fiber optic divisions are accounted for in a single fund. Because investors in the revenue bonds rely on the revenue generated by electric activities for repayment, summary financial information for the electric and fiber divisions is presented below.

CONDENSED STATEMENT OF NET POSITION

	Electric Division	Fiber Optics Division	Eliminations	Total
Assets and deferred outflows of resources:				
Current assets	$ 161,137,000	$ 9,089,000	$ (336,000)	$ 169,890,000
Capital assets	535,837,000	77,256,000	-	613,093,000
Deferred outflows of resources	6,206,000	891,000	-	7,097,000
Total assets and deferred outflows of resources	703,180,000	87,236,000	(336,000)	790,080,000
Liabilities and deferred inflows of resources:				
Current liabilities	128,733,000	11,772,000	(336,000)	140,169,000
Noncurrent liabilities	301,534,000	43,795,000	-	345,329,000
Deferred inflows of resources	2,123,000	303,000	-	2,426,000
Total liabilities and deferred Inflows of resources	432,390,000	55,870,000	(336,000)	487,924,000
Net position:				
Net investment in capital assets	265,444,000	77,256,000	-	342,700,000
Unrestricted	5,346,000	(45,890,000)	-	(40,544,000)
Total net position	$ 270,790,000	$31,366,000	$ -	$ 302,156,000

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Electric Division	Fiber Optics Division	Eliminations	Total
Customer charges	$ 567,121,000	$118,225,000	$(14,305,000)	$ 671,041,000
Depreciation expense	(36,389,000)	(15,521,000)	-	(51,910,000)
Other operating expense	(511,670,000)	(84,170,000)	14,305,000	(581,535,000)
Operating income	19,062,000	18,534,000	-	37,596,000
Nonoperating revenues (expenses):				
Investment earnings	197,000	-	-	197,000
Interest expense	(12,980,000)	(981,000)	-	(13,961,000)
Other nonoperating	210,000	-	-	210,000
Tax equivalent	(6,326,000)	(583,000)	-	(6,909,000)
Change in net position	163,000	16,970,000	-	17,133,000
Net position, beginning, as previously reported	273,525,000	14,664,000	-	288,189,000
Change in accounting principal (GASB 68)	(2,898,000)	(268,000)	-	(3,166,000)
Net position, beginning, as restated	270,627,000	14,396,000	-	285,023,000
Net position, end of year	$ 270,790,000	$31,366,000	$ -	$ 302,156,000

CONDENSED STATEMENT OF CASH FLOWS

	Electric Division	Fiber Optics Division	Eliminations	Total
Net cash provided (used) by:				
Operating activities	$ 51,539,000	$34,081,000	$ -	$ 85,620,000
Capital and related financing activities	(73,385,000)	(32,971,000)	-	(106,356,000)
Investing activities	197,000	-	-	197,000
Net increase (decrease)	(21,649,000)	1,110,000	-	(20,539,000)
Beginning cash and cash equivalents	99,120,000	337,000	-	99,457,000
Ending cash and cash equivalents	$ 77,471,000	$ 1,447,000	$ -	$ 78,918,000

NOTE 16. JOINT VENTURE

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

Carter Street Corporation owns and manages a convention center and a parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee funded the repayment of the bonds through lease payments to Carter Street Corporation. Pursuant to the lease agreement, the City has a two-thirds equity interest in Carter Street Corporation upon the repayment of the bonds during prior years.

The City's two-thirds equity interest in Carter Street Corporation is computed as follows:

Total net position	$ 11,261,379
Multiplied by two-thirds	x 2/3
City’s equity interest	$ 7,507,586

Condensed financial information for Carter Street Corporation as of June 30, 2015, is as follows:

STATEMENT OF NET POSITION

Assets:	
Cash	$ 1,925,968
Accounts receivable, net	402,021
Prepaid expenses	30,428
Inventories	54,300
Capital assets, net	9,126,647
Total assets	$ 11,539,364
Liabilities:	
Accounts payable	$ 53,263
Accrued expenses	151,881
Deferred revenue	-
Advanced deposits	72,841
Total liabilities	277,985
Net Position:	
Net investment in capital assets	9,126,647
Restricted	-
Unrestricted	2,134,732
Total net position	11,261,379
Total liabilities and net position	$ 11,539,364

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues	$ 3,788,620
Total operating expenses	4,168,548
Loss from operations	(379,928)
Nonoperating revenues	250,000
Loss on disposal of capital assets	(9,546)
Capital contributions	175,000
Net increase	35,526
Net position, beginning of year	11,225,853
Net position, end of year	$ 11,261,379

Complete financial statements can be obtained from:

Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

NOTE 17. CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2015, the City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* for the EPB Pension Plan and the portion of the General Pension Plan attributable to the Airport Authority and CARTA. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This resulted in a direct decrease to net position of $3,166,000 for business-type activities and $10,269,465 for component units. The City early implemented in fiscal year 2014 for the General Pension (primary government) and the Fire and Police Pension.

	EPB Business-type Activity	CARTA	Airport Authority
Remove prepayment	$ (1,023,000)	$ -	$ -
Record beginning net pension liability	(5,773,000)	(10,482,661)	(1,436,458)
Record beginning deferred outflow	3,630,000	1,407,036	242,618
Change in net position	$ (3,166,000)	$ (9,075,625)	$ (1,193,840)

The aggregate impact of these adjustments is shown on the face of the financial statements.

NOTE 18. SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has identified the following requiring disclosure:

In August 2015, EPB issued Series 2015 A bonds for $218.9 million, Series 2015 B bonds for $15.4 million and Series 2015 C bonds for $25.9 million. The Series C bonds will pay for substations, transformers, and other system improvements. The Series A and B issues will be used to pay off most of the outstanding debt from similar 2006 and 2008 bond issues, saving EPB an estimated $19.8 million in present day interest expenses.

In November 2015, the City issued $36.3 million Series 2015 A general obligation bonds to finance capital projects and $18.9 million Series 2015 B general obligation refunding bonds. The Series B will refund portions of 2009 A and 2010 B bonds for an estimated $1.6 million in present value interest savings.

Required Supplementary Information

Pension Trust Fund

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
PENSION TRUST FUND - GENERAL
Last 10 Fiscal Years

	2015	2014
Total pension liability		
Service cost	$ 6,381,168	$ 6,069,090
Interest	21,950,480	22,247,450
Differences between expected and actual experience	(333,439)	-
Changes of assumptions	-	(5,893,894)
Benefit payments, including refund of member contributions	(17,206,397)	(16,420,492)
Net change in total pension liability	10,791,812	6,002,154
Total pension liability - beginning	301,276,271	295,274,117
Total pension liability - ending (a)	$ 312,068,083	$ 301,276,271
Plan fiduciary net position		
Contributions - employer	$ 7,925,195	$ 7,751,909
Contributions - member	1,140,121	1,130,354
Net investment income	9,290,101	31,178,197
Benefit payments, including refund of member contributions	(17,206,397)	(16,420,492)
Administrative expense	(205,580)	(192,205)
Net change in plan fiduciary net position	943,440	23,447,763
Plan fiduciary net position - beginning	272,825,468	249,377,705
Plan fiduciary net position - ending (b)	$ 273,768,908	$ 272,825,468
Net pension liability - ending (a) - (b)	$ 38,299,175	$ 28,450,803
Plan fiduciary net position as a percentage of the total pension liability	87.73%	90.56%
Covered employee payroll	$ 57,555,196	$ 55,815,216
Net pension liability as a percentage of covered employee payroll	66.54%	50.97%

Notes to Schedule:

Benefit changes. None

Changes in actuarial assumptions and methods: The following changes to the actuarial assumptions were made as identified:

2014:

* The assumed investment rate of return was lowered from 7.75% to 7.50%.
* Retirement, withdrawal, and disability rates were changed to more closely reflect recent experience.
* The pre-retirement and post-retirement healthy mortality tables were changed to the RP-2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025.
* The post-retirement mortality table was changed to the RP-2000 Disabled Mortality Table set forward eight years for males and set forward nine years for females for disability retirements.
* The salary scale was lowered by 0.50% at all years of service.
* An administrative expense assumption of 0.35% was added to the normal rate.
* The amortization method was changed from an open to a closed amortization basis.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
PENSION TRUST FUND - FIRE AND POLICE
Last 10 Fiscal Years

	2015	2014
Total pension liability		
Service cost	$ 5,754,036	$ 5,858,028
Interest	27,011,054	30,728,527
Changes of benefit terms	-	(65,257,551)
Differences between expected and actual experience	1,007,292	9,811,157
Changes of assumptions	23,999,640	-
Benefit payments, including refund of member contributions	(28,100,924)	(30,114,186)
Net change in total pension liability	29,671,098	(48,974,025)
Total pension liability - beginning	362,580,187	411,554,212
Total pension liability - ending (a)	$ 392,251,285	$ 362,580,187
Plan fiduciary net position		
Contributions - employer	$ 11,115,222	$ 13,495,433
Contributions - member	3,528,823	3,199,093
Net investment income	6,760,919	33,750,882
Benefit payments, including refund of member contributions	(28,100,924)	(30,114,186)
Administrative expense	(889,162)	(608,924)
Other	162,076	167,314
Net change in plan fiduciary net position	(7,423,046)	19,889,612
Plan fiduciary net position - beginning	236,052,384	216,162,772
Plan fiduciary net position - ending (b)	$ 228,629,338	$ 236,052,384
Net pension liability - ending (a) - (b)	$ 163,621,947	$ 126,527,803
Plan fiduciary net position as a percentage of the total pension liability	58.29%	65.10%
Covered employee payroll	$ 39,282,422	$ 36,187,624
Net pension liability as a percentage of covered employee payroll	416.53%	349.64%

Notes to Schedule:

Benefit changes. None.

Changes in assumptions. A detailed study of experience for the five-year period ending December 21, 2014 was performed and the recommendations of the experience study were adopted by the CFPPF Board of Directors at their April 16, 2015 board meeting. The following assumption changes are included in this disclosure:

* The pre-retirement mortality assumption was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward two years to the RP-2014 Blue Collar Employee Mortality Table, set forward two years for both males and females, projected generationally with a modified version of Scale MP-2014.

* The post-retirement mortality assumption for healthy annuitants was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward two years to the RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward three years for both males and females, project generationally with a modified version of Scale MP-2014.

* Coordinating with the mortality assumption for healthy lives, the mortality assumption for disables retirees was changed from the RP-2000 Blue Collar Healthy Mortality Table, set forward eight years to the RP-2014 Disabled Retiree Mortality Table, set forward three years for both males and females, projected generationally with a modified version of Scale MP-2014.

* The turnover assumption was modified from a five-year select-and-ultimate assumption based on age to an assumption based on years of service. Group-specific rates were maintained but restructured to reflect lower rates for all participants. Rates of turnover are higher during earlier periods of employment and decrease over time. The ultimate rate was set to zero for employees with twenty or more years of service.

* The salary scale assumption was changed to remove the group specific rates. The individual rates, based on years of service, were modified to reflect lower increases for participants with lesser service. After twenty years, the ultimate rate was set to a flat rate of 2.75% to match the payroll growth assumption.

* The payroll growth rate assumption (used for determining the amortization of the unfunded actuarial accrued liability) was lowered from 3.25% to 2.75%.

* The administrative expense assumption of $500,000 was

* Apart from the experience study changes, a change was made in the treatment of lump sum death benefits. Since a third party is responsible for paying these claims, the liabilities were removed from the Fund's liabilities and the premiums paid each year will be considered administrative expense. These premiums were previously classified as a benefit payment.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CITY CONTRIBUTIONS
PENSION TRUST FUND - GENERAL
Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 7,771,920	$ 7,717,400	$ 7,806,000	$ 7,203,000	$ 6,302,882	$ 3,779,597	$ 3,600,000	$ 3,502,000	$ 3,786,128	$ 3,518,054
Contributions in relation to the actuarially determined contribution	7,925,195	7,751,909	7,599,939	6,682,722	4,376,484	3,779,597	3,600,000	3,502,000	3,786,128	3,470,815
Contribution deficiency (excess)	$ (153,275)	$ (34,509)	$ 206,061	$ 520,278	$ 1,926,398	$ -	$ -	$ -	$ -	$ 47,239
Covered employee payroll	$ 57,555,196	$ 55,815,216	$ 56,270,053	$ 57,976,515	$ 57,061,358	$ 58,140,286	$ 59,645,747	$ 56,581,858	$ 54,545,300	$ 54,636,392
Contributions as a percentage of covered-employee payroll	13.77%	13.89%	13.51%	11.53%	7.67%	6.50%	6.04%	6.19%	6.94%	6.35%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, eighteen months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	29 years
Asset valuation method	10-year smoothed market with a 20% corridor
Inflation	3.0%
Salary increases	4.0-5.0%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Cost of living adjustments	3.0%
Mortality	Pre-retirement and post-retirement: RP2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025. Post-retirement mortality: RP-2000 Disabled Mortality Table set forward eight years for males and set forward nine years for females.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CITY CONTRIBUTIONS
PENSION TRUST FUND - FIRE AND POLICE
Last 10 Calendar Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 9,478,900	$ 13,346,490	$ 11,859,505	$ 9,692,292	$ 8,613,696	$ 7,903,392	$ 7,686,489	$ 7,504,469	$ 7,540,220	$ 6,454,038
Contributions in relation to the actuarially determined contribution	11,115,222	13,495,433	12,258,360	10,542,423	9,004,655	7,522,018	8,390,161	8,291,088	6,873,733	6,510,992
Contribution deficiency (excess)	$ (1,636,322)	$ (148,943)	$ (398,855)	$ (850,131)	$ (390,959)	$ 381,374	$ (703,672)	$ (786,619)	$ 666,487	$ (56,954)
Covered employee payroll	$ 36,187,624	$ 37,215,933	$ 37,288,914	$ 34,940,022	$ 34,573,261	$ 34,715,838	$ 33,237,063	$ 31,983,375	$ 32,010,229	$ 31,869,770
Contributions as a percentage of covered-employee payroll	30.72%	36.26%	32.87%	30.17%	26.05%	21.67%	25.24%	25.92%	21.47%	20.43%

Notes to Schedule:

Valuation date:
Actuarially determined contribution rates are calculated as of January 1, 2015.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, with level dollar phase-in through 2020; 100% level dollar beginning in 2021.
Remaining amortization period	24 years remaining for level percent of payroll method; separate 30-year bases established annually for level dollar method.
Asset valuation method	10-year smoothed market; the actuarial value of assets is adjusted, if necessary, to be within 20% of the market value
Inflation	2.75%
Salary increases	1.50%-2.75%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Cost of living adjustments	1.5% (starting January 1 after third anniversary of retirement date)
Mortality	Pre-retirement: RP-2014 Blue Collar Employee Mortality Table, set forward two years, projected generationally with a modified versions of Scale MP-2014. Healthy annuitant. RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward three years, projected generationally with a modified version of Scale MP-2014. Disabled annuitant. RP-2014 Disabled Retiree Mortality Table, set forward three years, projected generationally with a modified version of Scale MP-2014.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

PENSION TRUST FUND

	2015	2014
Annual money-weighted rate of return,		
net of investment expense		
General Plan	2.93%	16.11%
Fire & Police Plan	2.89%	16.15%

Notes to Schedule:

This schedule will be 10 years as information is available.

Required Supplementary Information

City Pension and OPEB Plans

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
GENERAL PENSION PLAN
Last 10 Fiscal Years

	2014
Total pension liability	
Service cost	$ 6,069,090
Interest	22,247,450
Changes of assumptions	(5,893,894)
Benefit payments, including refund of member contributions	(16,420,492)
Net change in total pension liability	6,002,154
Total pension liability - beginning	295,274,117
Total pension liability - ending (a)	$ 301,276,271
Plan fiduciary net position	
Contributions - employer	7,751,909
Contributions - member	1,130,354
Net investment income	31,178,197
Benefit payments, including refund of member contributions	(16,420,492)
Administrative expense	(192,205)
Net change in plan fiduciary net position	23,447,763
Plan fiduciary net position - beginning	249,377,705
Plan fiduciary net position - ending (b)	$ 272,825,468
Net pension liability - ending (a) - (b)	$ 28,450,803
Plan fiduciary net position as a percentage of the total pension liability	90.56%
Covered employee payroll	$ 55,815,216
Net pension liability as a percentage of covered employee payroll	50.97%

Notes to Schedule:

Benefit changes. None

Changes in assumptions.

2014:

* The assumed investment rate of return was lowered from 7.75% to 7.50%.
* Retirement, withdrawal, and disability rates were changed to more closely reflect recent experience.

* The pre-retirement and post-retirement healthy mortality tables were changed to the RP-2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025.
* The post-retirement mortality table was changed to the RP-2000 Disabled Mortality Table set forward eight years for males and set forward nine years for females for disability retirements.
* The salary scale was lowered by 0.50% at all years of service.
* An administrative expense assumption of 0.35% was added to the normal rate.
* The amortization method was changed from an open to a closed amortization basis.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
FIRE AND POLICE PENSION FUND
Last 10 Fiscal Years

	2014
Total pension liability	
Service cost	$ 5,858,028
Interest	30,728,527
Changes of benefit terms	(65,257,551)
Differences between expected and actual experience	9,811,157
Benefit payments, including refund of member contributions	(30,114,186)
Net change in total pension liability	(48,974,025)
Total pension liability - beginning	411,554,212
Total pension liability - ending (a)	$ 362,580,187
Plan fiduciary net position	
Contributions - employer	$ 13,495,433
Contributions - member	3,199,093
Net investment income	33,750,882
Benefit payments, including refund of member contributions	(30,114,186)
Administrative expense	(608,924)
Other	167,314
Net change in plan fiduciary net position	19,889,612
Plan fiduciary net position - beginning	216,162,772
Plan fiduciary net position - ending (b)	$ 236,052,384
Net pension liability - ending (a) - (b)	$ 126,527,803
Plan fiduciary net position as a percentage of the total pension liability	65.10%
Covered employee payroll	$ 36,187,624
Net pension liability as a percentage of covered employee payroll	349.64%

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
FIRE AND POLICE PENSION FUND
Last 10 Fiscal Years

(Continued from previous page)

Notes to Schedule:
Benefit changes. None.

Changes in assumptions.

* Retirement age was previously any age with 25 years of service. For active participants not vested, retirement eligibility is now age 50 with 25 years of service or any age with 28 years of service. For participants hired after July 1, 2014, retirement eligibility is age 55 with 25 years of service or any age with 30 years of service.

* Employee contributions for those with at least 24 years of service as of July 1, 2014 and who were previously contributing 9% will change to 10% effective July 1, 2014, 11% effective July 1, 2015, and 12% effective July 1, 2016. All other active participants will begin contributing 9% effective July 1, 2014, 10% effective July 1, 2015, and 11% effective July 1, 2016.

* The benefit multiplier will change from 2.75% for the first 25 years of service plus 1.25% for the next 5 years of service, for a maximum of 75% of final average salary, to 2.50% for each of the first 30 years of service, with a maximum of 75% of final average salary, for participants hired after July 1, 2014.

* DROP eligibility has been extended from 30 to 33 years. For participants previously contributing 9% and who have at least 24 years of service as of July 1, 2014, final average salary will be based on the 30-year final salary if they retire with more than 30 years of service and drop back to 30 years. For all other participants, the DROP will remain the same, with the exception of the removal of the COLA from the DROP annuity and the removal of interest from the DROP lump sum.

* The COLA will change from 3.0% payable January 1 after the first anniversary of retirement to the following:

- For participants in pay status as of July 1, 2014, divided COLA'S will be paid on January 1, 2015 and January 1, 2016. These amounts will not be compounded or included in base pension COLA amounts in subsequent years' calculations.
- For participants retiring on or after July 1, 2014, COLA eligibility will begin on the first January 1 after the third anniversary of retirement. This restriction will remain in place until the fund is 70% funded on a market value basis. Once this threshold is achieved, COLA eligibility will revert to the first January 1 after the first anniversary of retirement. If the fund reaches 70% funded on a market basis and subsequently falls below 70%, the three year requirement will be reinstated until such time as 70% funding on a market value basis is once again achieved.
- Effective January 1, 2015, the total amount paid in COLA's to eligible participants will increase by no more than 1.5% per year, as long as the fund is less than 80% funded on a market value of assets basis. The COLA amount paid to each individual participant will be determined by the Board of Trustees and Plan Administrator. In no event will any participant's COLA increase be greater than 2.0$ or less than 1.0%.
- Once the fund becomes 80% funded on a market value of assets basis, the COLA's payable the following January 1 and each year thereafter will correspond to the Consumer Price Index with a maximum COLA increase of 3.0%.

* The on-the-job death benefit is increasing from 60% to 100% of final average salary.

* The permanent and total disability benefit of 68.75% of final average salary has been reinstated.

* The minimum survivor's benefit has increase from $500/month. The benefit will be $756/month effective July 1, 2014. Any beneficiary whose benefit is less than $756/month will receive an increase effective July 1, 2014. Ongoing, the minimum survivor benefit will increase by 1.5% each year until such time as the COLA switches to a CPI-based COLA and from that point on the minimum benefit will increase by CPI, not to exceed 3.0% per year.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
ELECTRIC POWER BOARD OF CHATTANOOGA RETIREMENT PLAN
Last 10 Fiscal Years

	2014
Total pension liability	
Service cost	$ 2,395,069
Interest	3,637,040
Differences between expected and actual experience	3,608,092
Benefit payments, including refund of member contributions	(2,455,053)
Net change in total pension liability	7,185,148
Total pension liability - beginning	41,167,212
Total pension liability - ending (a)	$ 48,352,360
Plan fiduciary net position	
Contributions - employer	$ 3,630,048
Net investment income	5,735,092
Benefit payments, including refund of member contributions	(2,455,053)
Administrative expense	(86,522)
Net change in plan fiduciary net position	6,823,565
Plan fiduciary net position - beginning	35,394,795
Plan fiduciary net position - ending (b)	$ 42,218,360
Net pension liability - ending (a) - (b)	$ 6,134,000
Plan fiduciary net position as a percentage of the total pension liability	87.31%
Covered employee payroll	$ 32,127,132
Net pensioin liability as a percentage of covered employee payroll	19.09%

Notes to Schedule:

Benefit changes. None.

Changes in assumptions. None.

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CITY CONTRIBUTIONS
GENERAL PENSION FUND
Last 10 Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 7,717,400	$ 7,806,000	$ 7,203,000	$ 6,302,882	$ 3,779,597	$ 3,600,000	$ 3,502,000	$ 3,786,128	$ 3,518,054	$ 2,096,333
Contributions in relation to the actuarially determined contribution	7,751,909	7,599,939	6,682,722	4,376,484	3,779,597	3,600,000	3,502,000	3,786,128	3,470,815	2,532,418
Contribution deficiency (excess)	$ (34,509)	$ 206,061	$ 520,278	$ 1,926,398	$ -	$ -	$ -	$ -	$ 47,239	$ (436,085)
Covered employee payroll	$ 55,815,216	$ 56,270,053	$ 57,976,515	$ 57,061,358	$ 58,140,286	$ 59,645,747	$ 56,581,858	$ 54,545,300	$ 54,636,392	$ 53,531,483
Contributions as a percentage of covered-employee payroll	13.89%	13.51%	11.53%	7.67%	6.50%	6.04%	6.19%	6.94%	6.35%	4.73%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, eighteen months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	30 years
Asset valuation method	10-year smoothed market with a 20% corridor
Inflation	3.0%
Salary increases	4.5-5.5%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CITY CONTRIBUTIONS
FIRE AND POLICE PENSION FUND
Last 10 Calendar Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 9,478,900	$13,346,490	$11,859,505	$ 9,692,292	$ 8,613,696	$ 7,903,392	$ 7,686,489	$ 7,504,469	$ 7,540,220	$ 6,454,038
Contributions in relation to the actuarially determined contribution	11,115,222	13,495,433	12,258,360	10,542,423	9,004,655	7,522,018	8,390,161	8,291,088	6,873,733	6,510,992
Contribution deficiency (excess)	$ (1,636,322)	$ (148,943)	$ (398,855)	$ (850,131)	$ (390,959)	$ 381,374	$ (703,672)	$ (786,619)	$ 666,487	$ (56,954)
Covered employee payroll	$36,187,624	$37,215,933	$37,288,914	$34,940,022	$34,573,261	$34,715,838	$33,237,063	$31,983,375	$32,010,229	$31,869,770
Contributions as a percentage of covered-employee payroll	30.72%	36.26%	32.87%	30.17%	26.05%	21.67%	25.24%	25.92%	21.47%	20.43%

Notes to Schedule:

Valuation date:
Actuarially determined contribution rates are calculated as of January 1, 2014.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10-year smoothed market
Inflation	2.75%
Salary increases	1.50%-2.75%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	Prior to the 2014 actuarial valuation, retirement eligibility was any age with 25 years of service. Effective July 1, 2014, for active participants not vested, retirement.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF CITY CONTRIBUTIONS
ELECTRIC POWER BOARD OF CHATTANOOGA RETIREMENT PLAN
Last 10 Calendar Years

	2015
Actuarially determined contribution	$ 3,646,080
Contributions in relation to the actuarially determined contribution	3,630,048
Contribution deficiency (excess)	$ 16,032
Covered employee payroll	$ 32,127,132
Contributions as a percentage of covered-employee payroll	11.30%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of August 1, 23 months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Asset valuation method	Three year smoothing
Inflation	1.50%
Salary increases	3.00%
Investment rate of return	7.50%

This schedule will be 10 years as information is available.

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEE RETIREMENT SYSTEMS
SCHEDULE OF FUNDING PROGRESS

June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
CITY OF CHATTANOOGA OTHER POST-EMPLOYMENT BENEFITS PLAN						
January 1, 2014	$ 32,970,171	$ 163,843,121	$ 130,872,950	20.12%	$ 95,390,933	137.2%
January 1, 2012	19,853,844	146,748,770	126,894,926	13.53%	95,280,557	133.2%
January 1, 2010	5,045,878	148,187,287	143,141,409	3.41%	89,710,458	159.6%
July 1, 2008	4,539,440	192,053,979	187,514,539	2.36%	78,155,219	239.9%
July 1, 2006	-	228,471,342	228,471,342	0.00%	76,239,946	299.7%
ELECTRIC POWER BOARD OF CHATTANOOGA POST-EMPLOYMENT MEDICAL & DEATH BENEFIT PLAN						
July 1, 2014	$ 19,213,362	$ 24,688,061	$ 5,474,699	77.82%	$ 36,556,164	15.0%
July 1, 2013	16,754,185	27,104,206	10,350,021	61.81%	34,440,516	30.1%
July 1, 2012	15,044,942	25,462,868	10,417,927	59.10%	32,044,908	32.5%
July 1, 2011	14,603,955	24,666,875	10,062,920	59.20%	29,998,416	33.5%
July 1, 2010	13,080,897	23,128,254	10,047,357	56.60%	28,267,080	35.5%

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEE RETIREMENT SYSTEMS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

June 30, 2015

	City of Chattanooga Other Post-employment Benefits		Electric Power Board of Chattanooga Post-employment Medical & Death Benefit	
Year ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2015	$ 12,759,200	122.1%	$ -	0.0%
2014	13,275,679	113.5%	2,039,255	84.7%
2013	12,857,800	100.0%	1,999,130	9.5%
2012	14,288,701	100.0%	1,888,329	93.4%
2011	13,838,396	100.0%	1,763,891	125.1%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial follows.

	City of Chattanooga Other Post-employment Benefits	Electric Power Board of Chattanooga Post-employment Medical & Death Benefit
Valuation date	1/1/2014	7/1/2014
Actuarial cost method	Entry Age Normal	Projected Unit Credit
Amortization method	Level Dollar Open	Level Dollar
Remaining amortization period	30 Years	20 Years
Asset valuation method	Market Value	3-year Smoothed Market
Actuarial assumptions:		
Investment rate of return*	7.50%	6.50%
Health care trend:		7.5% initial, 5.5% ultimate
Pre-Medicare	7.75-5.00%	
Medicare	5.75-5.00%	

* Includes inflation rate of 3%

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These are the operating funds which are restricted as to use by the federal or state governments and special purpose funds established by the City Council.

Downtown Development Fund accounts for revenues and expenditures associated with improvements to the Downtown area.

Social Services Program Fund accounts for revenues and expenditures associated with various grants and donations for specific programs administered by the City.

Narcotics Program Fund accounts for drug fines and grants received and usage of those monies to further drug education and investigations.

State Street Aid Fund accounts for revenues and expenditures of the City's share of state gasoline taxes. State law requires that gasoline taxes be used to maintain streets.

Community Development Fund accounts for Community Development Block Grant funds received from the federal government for the purpose of enhancing the economic condition and meeting various types of housing needs to low-to-moderate income residents of the City.

Hotel/Motel Tax Fund accounts for revenues and expenditures of the City's hotel/motel privilege tax. The City ordinance requires that hotel/motel taxes be used to develop and implement public improvements in the downtown and waterfront areas.

River Pier Garage Fund accounts for revenues and expenditures of the River Pier Garage located near the waterfront area.

Regional Planning Agency Fund accounts for revenues and expenditures of the Chattanooga-Hamilton County Regional Planning Agency.

Air Pollution Control Bureau Fund accounts for the grants, revenues and expenditures of the air Pollution Control Bureau, a jointly funded agency of the City of Chattanooga and Hamilton County.

Scenic Cities Beautiful Commission Fund accounts for revenues and expenditures of Scenic Cities Beautiful Commission, a jointly funded agency of the City of Chattanooga and Hamilton County.

Tennessee Valley Regional Communications Fund accounts for a regional communication system that services a multi-county / multi-state region.

DEBT SERVICE FUND

Debt Service Fund accounts for the accumulation of resources for, and payment of, general long-term obligations.

PERMANENT FUND

Library Endowment Fund accounts for several nonexpendable gifts to The Public Library.