CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 42,371,413	$ 116,249,109	$ 158,620,522	$ 12,963,893
Investments	35,289,869	39,150,000	74,439,869	-
Receivables, net of allowance for uncollectibles	168,239,305	87,536,133	255,775,438	6,167,107
Net investment in capital lease	-	-	-	103,518,327
Internal balances	5,833,000	(5,833,000)	-	-
Due from component units	671,559	-	671,559	-
Deferred charges	2,007,940	6,324,536	8,332,476	1,448,266
Inventories	2,444,373	13,138,797	15,583,170	337,065
Prepaid items	9,000	10,555,055	10,564,055	461,946
Other assets	-	3,008,945	3,008,945	-
Restricted assets:				
Cash and cash equivalents	14,234,283	5,457,548	19,691,831	2,268,709
Investments	6,035,289	6,829,663	12,864,952	9,796,793
Endowment investments	3,191,837	-	3,191,837	-
Receivables	37,093	31,810	68,903	234,991
Net pension assets	5,687,114	-	5,687,114	-
Equity interest in joint venture	7,677,999	-	7,677,999	-
Land and other nondepreciable assets	1,064,860,155	67,596,252	1,132,456,407	28,554,452
Other capital assets, net of accumulated depreciation	464,955,515	805,315,299	1,270,270,814	80,937,515
Total assets	1,823,545,744	1,155,360,147	2,978,905,891	246,689,064
LIABILITIES				
Accounts payable and accrued liabilities	23,546,172	123,382,314	146,928,486	6,173,799
Customer deposits	-	21,291,604	21,291,604	-
Deferred revenue	-	-	-	26,280
Due to primary government	-	-	-	671,559
Line of credit	-	-	-	500,000
Contracts payable	389,387	132,459	521,846	749,163
Unearned revenue	133,174,508	-	133,174,508	-
Net pension obligations	-	-	-	222,546
Other liabilities	-	27,297,914	27,297,914	-
Long-term liabilities:				
Due within one year	21,163,825	18,943,066	40,106,891	4,386,289
Due in more than one year	323,097,582	421,481,219	744,578,801	130,496,649
Total liabilities	501,371,474	612,528,576	1,113,900,050	143,226,285
NET ASSETS				
Invested in capital assets, net of related debt	1,231,353,280	568,185,846	1,799,539,126	102,864,419
Restricted for:				
Capital projects	23,431,548	-	23,431,548	-
Debt service	-	-	-	9,194,411
Renewal and replacement	-	18,097,653	18,097,653	474,662
Permanent endowments:				
Expendable	3,725,007	-	3,725,007	-
Nonexpendable	10,900	-	10,900	-
Unrestricted	63,653,535	(43,451,928)	20,201,607	(9,069,053)
Total net assets	$ 1,322,174,270	$ 542,831,571	$ 1,865,005,841	$103,464,439

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 63,957,991	$ 10,434,649	$ 8,876,414	$ 573,157
Public safety	84,765,514	880,936	2,797,017	84,453
Public works	66,493,039	2,652,857	10,850,746	6,018,864
Parks, recreation, education, arts & culture	24,010,501	3,815,671	3,491,428	1,183,707
Social services	20,924,562	646,768	19,512,464	-
Interest on long-term debt	7,126,810	-	-	-
Total governmental activities	267,278,417	18,430,881	45,528,069	7,860,181
Business-type activities:				
Electric utility, including fiber optics	633,506,721	589,475,000	19,600,000	41,067,000
Sewer	47,790,192	48,702,486	-	-
Solid waste	5,037,895	6,597,533	206,864	-
Water quality management	10,003,657	14,292,397	176,449	-
Housing management	1,105,718	839,126	-	50,000
Total business-type activities	697,444,183	659,906,542	19,983,313	41,117,000
TOTAL PRIMARY GOVERNMENT	$ 964,722,600	$ 678,337,423	$ 65,511,382	$ 48,977,181
COMPONENT UNITS				
Airport authority	$ 8,969,567	$ 7,822,460	$ -	$ 9,063,696
Transportation authority	21,682,321	6,374,160	7,032,550	6,859,779
Downtown redevelopment	32,386,847	17,417,566	-	-
TOTAL COMPONENT UNITS	$ 63,038,735	$ 31,614,186	$ 7,032,550	$ 15,923,475

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

Transfers

Special item - tornado damage

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (44,073,771)	$ -	$ (44,073,771)	$ -
(81,003,108)	-	(81,003,108)	-
(46,970,572)	-	(46,970,572)	-
(15,519,695)	-	(15,519,695)	-
(765,330)	-	(765,330)	-
(7,126,810)	-	(7,126,810)	-
(195,459,286)	-	(195,459,286)	-
-	16,635,279	16,635,279	-
-	912,294	912,294	-
-	1,766,502	1,766,502	-
-	4,465,189	4,465,189	-
-	(216,592)	(216,592)	-
-	23,562,672	23,562,672	-
(195,459,286)	23,562,672	(171,896,614)	-
7,916,589	-	-	7,916,589
-	(1,415,832)	-	(1,415,832)
-	-	(14,969,281)	(14,969,281)
7,916,589	(1,415,832)	(14,969,281)	(8,468,524)
112,953,898	-	112,953,898	-
7,352,383	-	7,352,383	-
4,746,845	-	4,746,845	-
4,437,883	-	4,437,883	-
2,119,546	-	2,119,546	-
43,520	-	43,520	-
37,115,735	-	37,115,735	-
10,357,166	-	10,357,166	-
2,714,695	-	2,714,695	-
2,883,143	-	2,883,143	-
1,344,715	1,463,002	2,807,717	1,020,145
-	-	-	1,552,342
179,644	-	179,644	-
5,917,771	(5,917,771)	-	-
-	(28,000,000)	(28,000,000)	-
192,166,944	(32,454,769)	159,712,175	2,572,487
(3,292,342)	(8,892,097)	(12,184,439)	(5,896,037)
1,325,466,612	551,723,668	1,877,190,280	109,360,476
$ 1,322,174,270	$ 542,831,571	$ 1,865,005,841	$ 103,464,439

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 4,793,495	$ 16,734,687	$ 15,777,789	$ 37,305,971
Investments	35,286,676	5,585,362	3,644,957	44,516,995
Receivables, net of allowance for uncollectibles:				
Property taxes	115,637,320	-	-	115,637,320
Accounts receivable	5,898,791	62,093	969,359	6,930,243
Notes	3,454,573	1,943,088	15,554,498	20,952,159
Other	572,434	-	-	572,434
Due from other funds	-	482,713	389,171	871,884
Due from component units	294,599	376,960	-	671,559
Due from other governments	19,078,825	1,180,071	3,547,077	23,805,973
Inventories	823,802	-	-	823,802
Prepaid items	8,000	-	1,000	9,000
Total assets	$ 185,848,515	$ 26,364,974	$ 39,883,851	$ 252,097,340
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 8,187,153	$ 2,177,391	$ 1,833,520	$ 12,198,064
Due to other funds	-	389,171	482,713	871,884
Due to other governments	822,759	22,222	-	844,981
Deferred revenue	126,527,627	-	17,023,526	143,551,153
Contracts payable	30,847	344,642	13,898	389,387
Total liabilities	135,568,386	2,933,426	19,353,657	157,855,469
Fund Balances:				
Nonspendable	4,286,374	1,943,088	3,726,007	9,955,469
Restricted	6,658,785	21,488,460	9,401,888	37,549,133
Committed	898,772	-	7,063,311	7,962,083
Assigned	4,572,721	-	338,988	4,911,709
Unassigned	33,863,477	-	-	33,863,477
Total fund balances	50,280,129	23,431,548	20,530,194	94,241,871
Total liabilities and fund balances	$ 185,848,515	$ 26,364,974	$ 39,883,851	$ 252,097,340

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

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2011

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

Fund balances - total governmental funds		$ 94,241,871
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		1,521,332,885
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.		10,376,646
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds		5,833,000
The City's pension plans have been funded in excess of annual required contributions creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.		5,687,114
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.		7,677,999
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 assets.		20,842,370
The City's other post-employment benefit plan has not been funded to meet annual required contributions. This accrued liability and the pollution remediation obligations are considered long-term obligations and are not reported in the funds.		(28,661,987)
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 assets. This item consists of:		
General obligation serial bonds	$ (165,968,711)	
Add net deferred refunding, issue premiums and discounts	(267,182)	
Less deferred issue costs	2,007,940	
Notes payable	(28,547,881)	
Capital leases	(103,678,615)	
Compensated absences	(16,744,940)	
Accrued interest payable	(1,956,239)	
		(315,155,628)
Net assets of governmental activities		$ 1,322,174,270

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, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 128,739,188	$ -	$ 4,746,845	$ 133,486,033
Licenses and permits	4,685,560	-	490,853	5,176,413
Intergovernmental	63,117,881	6,036,562	31,286,576	100,441,019
Charges for services	4,891,144	-	711,289	5,602,433
Fines, forfeitures and penalties	2,657,310	-	48,642	2,705,952
Investment income	655,298	134,691	686,513	1,476,502
Contributions and donations	140,710	813,817	254,286	1,208,813
Sale of property	59,771	114,756	52,475	227,002
Miscellaneous	3,405,068	7,755	1,173,446	4,586,269
Total revenues	208,351,930	7,107,581	39,450,925	254,910,436
EXPENDITURES				
Current:				
General government	38,832,779	-	11,724,562	50,557,341
Finance and administration	3,787,566	-	-	3,787,566
Public safety	82,875,183	-	463,112	83,338,295
Public works	35,035,739	-	4,224,891	39,260,630
Parks and recreation	15,685,436	-	-	15,685,436
Education, arts and culture	2,318,552	-	-	2,318,552
Social services	-	-	20,977,875	20,977,875
Capital outlay/capital assets	-	24,178,417	423,011	24,601,428
Debt service:				
Principal retirement	-	-	13,007,185	13,007,185
Interest and fiscal charges	-	-	7,211,011	7,211,011
Total expenditures	178,535,255	24,178,417	58,031,647	260,745,319
Excess (deficiency) of revenues over (under) expenditures	29,816,675	(17,070,836)	(18,580,722)	(5,834,883)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,898,833	4,155,838	24,841,766	33,896,437
Transfers out	(24,264,872)	(571,104)	(4,608,690)	(29,444,666)
Notes issued	-	130,000	-	130,000
Extraordinary item	-	-	-	-
Total other financing sources (uses)	(19,366,039)	3,714,734	20,233,076	4,581,771
Net change in fund balances	10,450,636	(13,356,102)	1,652,354	(1,253,112)
FUND BALANCES, beginning	39,829,493	36,787,650	18,877,840	95,494,983
FUND BALANCES, ending	$ 50,280,129	$ 23,431,548	$ 20,530,194	$ 94,241,871

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, 2011

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

Net change in fund balances - total governmental funds		$ (1,253,112)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.		24,483,309
Depreciation exense on governmental capital assets are included in the governmental activities.		(42,384,326)
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.		2,995,400
The net effect of various transactions involving capital assets is to decrease net assets.		(2,925,213)
The loss of equity interest in joint venture is reported in the statement of activities. This loss does not use current financial resources and is not reflected in the governmental funds.		(24,878)
Proceeds of long-term debt (e.g., bonds, notes, etc.) provide financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts and deferred amounts on refundings when debt is first issued; these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt.		
Principal paid	$13,007,184	
Payment of capital lease	2,789,754	
Note issued	(130,000)	
Amortization	(130,208)	
Change in accrued interest payable	99,606	15,636,336
Net revenues of the internal service fund are reported with governmental activities.		3,575,101
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	92,091	
Change in pension assets	(3,090,557)	
Change in OPEB and pollution remediation liability	(30,535)	(3,029,001)
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:		
Accrual of EPB PILOT for the next fiscal year	1,466,000	
Change in deferred revenue to earned revenue	(1,831,958)	(365,958)
Change in net assets of governmental activities		$ (3,292,342)

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, 2011

	Budget Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
REVENUES				
Taxes	$ 129,177,700	$ 129,177,700	$ 128,739,188	$ (438,512)
Licenses and permits	4,984,149	4,984,149	4,685,560	(298,589)
Intergovernmental	58,184,528	56,989,755	63,117,881	6,128,126
Charges for services	4,953,180	4,953,180	4,891,144	(62,036)
Fines, forfeitures and penalties	2,767,800	2,767,800	2,657,310	(110,490)
Investment income	493,800	493,800	655,298	161,498
Miscellaneous	3,175,544	3,203,044	3,605,549	402,505
Total revenues	203,736,701	202,569,428	208,351,930	5,782,502
EXPENDITURES				
General government	37,562,870	35,382,398	31,186,718	(4,195,680)
Executive	1,377,748	1,377,748	1,214,574	(163,174)
Finance and administration	4,557,441	4,557,441	3,787,566	(769,875)
General services	3,255,256	3,255,256	2,857,239	(398,017)
Personnel	1,839,769	1,839,769	1,537,560	(302,209)
Neighborhood services	2,096,237	2,096,237	2,036,688	(59,549)
Police	49,490,534	49,490,534	48,991,740	(498,794)
Fire	34,459,215	34,459,215	33,883,443	(575,772)
Public works	38,432,635	38,416,818	35,035,739	(3,381,079)
Parks and recreation	16,095,796	16,097,063	15,685,436	(411,627)
Education, arts and culture	2,374,816	2,374,816	2,318,552	(56,264)
Total expenditures	191,542,317	189,347,295	178,535,255	(10,812,040)
Excess of revenues over expenditures	12,194,384	13,222,133	29,816,675	16,594,542
OTHER FINANCING SOURCES (USES)				
Transfers in	4,821,843	4,984,405	4,898,833	(85,572)
Transfers out	(21,635,457)	(24,211,155)	(24,264,872)	(53,717)
Total other financing sources (uses)	(16,813,614)	(19,096,750)	(19,366,039)	(269,289)
Net change in fund balances	(4,619,230)	(5,874,617)	10,450,636	16,325,253
FUND BALANCES, beginning	39,829,493	39,829,493	39,829,493	-
FUND BALANCES, ending	$ 35,210,263	$ 33,954,876	$ 50,280,129	$ 16,325,253

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
ASSETS	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
CURRENT ASSETS							
Cash and cash equivalents	$ 99,294,000	$ 2,941,448	$ 3,053,611	$ 10,877,326	$ 82,724	$ 116,249,109	$ 19,299,725
Investments	5,105,000	34,045,000	-	-	-	39,150,000	-
Receivables							
Customer service	52,097,000	5,094,834	45,743	2,007,759	-	59,245,336	321,504
Other	-	56,581	-	-	6,688	63,269	-
Less allowance for doubtful accounts	(1,501,000)	(500)	(100)	(1,051,879)	-	(2,553,479)	-
Inventories	12,523,000	615,797	-	-	-	13,138,797	1,620,571
Prepaid items	10,555,055	-	-	-	-	10,555,055	-
Due from other governments	28,798,000	1,703,507	104,051	175,449	-	30,781,007	56,766
Other current assets	2,216,945	-	-	-	-	2,216,945	-
Total current assets	209,088,000	44,456,667	3,203,305	12,008,655	89,412	268,846,039	21,298,566
NONCURRENT ASSETS							
Restricted assets:							
Cash and cash equivalents	-	-	5,421,399	-	36,149	5,457,548	-
Investments	-	1,626,691	5,202,972	-	-	6,829,663	-
Accounts receivable	-	6,360	25,450	-	-	31,810	-
Total restricted assets	-	1,633,051	10,649,821	-	36,149	12,319,021	-
Capital assets:							
Land	5,647,000	8,089,399	1,517,514	1,865,986	27,000	17,146,899	-
Construction in progress	41,971,000	7,044,566	-	1,433,787	-	50,449,353	-
Buildings	56,490,000	54,222,398	1,850,258	10,601,459	6,804,461	129,968,576	627,799
Equipment	154,687,000	30,962,063	3,798,861	1,140,836	9,420	190,598,180	1,658,078
Vehicles	-	3,201,221	1,336,311	1,765,917	-	6,303,449	14,666,205
Infrastructure	510,038,000	415,978,366	9,520,509	36,600,744	-	972,137,619	-
	768,833,000	519,498,013	18,023,453	53,408,729	6,840,881	1,366,604,076	16,952,082
Less accumulated depreciation	(246,676,000)	(224,107,618)	(7,283,897)	(13,319,594)	(2,305,416)	(493,692,525)	(8,469,298)
Net capital assets	522,157,000	295,390,395	10,739,556	40,089,135	4,535,465	872,911,551	8,482,784
Other assets:							
Deferred charges	5,382,000	605,829	237,910	98,797	-	6,324,536	-
Discounted energy units	792,000	-	-	-	-	792,000	-
Total other assets	6,174,000	605,829	237,910	98,797	-	7,116,536	-
Total noncurrent assets	528,331,000	297,629,275	21,627,287	40,187,932	4,571,614	892,347,108	8,482,784
Total assets	$ 737,419,000	$ 342,085,942	$ 24,830,592	$ 52,196,587	$ 4,661,026	$ 1,161,193,147	$ 29,781,350

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

(Continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	$ 6,412,000	$ 9,180,869	$ 2,108,992	$ 1,241,206	$ -	$ 18,943,067	$ 144,790
Accounts payable and accrued liabilities	124,736,000	3,364,401	380,669	717,110	17,134	129,215,314	680,856
Accrued claims	-	-	-	-	-	-	7,866,034
Customer deposits	2,601,000	-	-	-	35,604	2,636,604	-
Contracts payable	-	104,498	-	27,961	-	132,459	-
Other current liabilities	13,250,000	-	-	-	110,344	13,360,344	-
Total current liabilities	146,999,000	12,649,768	2,489,661	1,986,277	163,082	164,287,788	8,691,680
LONG-TERM LIABILITIES							
Notes, capital leases and other obligations	15,245,000	43,743,065	658,281	129,208	-	59,775,554	-
Compensated absences	608,000	443,439	35,225	263,615	-	1,350,279	247,300
Customer deposits	18,655,000	-	-	-	-	18,655,000	-
Accrued closure and postclosure care	-	-	8,917,291	-	-	8,917,291	-
Revenue bonds payable	279,930,000	-	-	-	-	279,930,000	-
Original issue premium	7,922,000	-	-	-	-	7,922,000	-
General obligation bonds payable	-	29,633,264	17,180,490	7,528,436	-	54,342,190	-
Original issue premium	-	1,380,522	787,532	430,995	-	2,599,049	-
Deferred refunding	-	(1,361,477)	(512,042)	(311,626)	-	(2,185,145)	-
Other noncurrent liabilities	11,648,000	-	-	-	2,289,570	13,937,570	-
Accrued postemployment benefits	8,830,000	-	-	-	-	8,830,000	-
Total long-term liabilities	342,838,000	73,838,813	27,066,777	8,040,628	2,289,570	454,073,788	247,300
Total liabilities	489,837,000	86,488,581	29,556,438	10,026,905	2,452,652	618,361,576	8,938,980
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	302,327,000	213,768,389	18,521,246	31,433,659	2,135,552	568,185,846	8,482,784
Restricted for renewal and replacement	-	6,319,959	9,904,642	1,873,052	-	18,097,653	-
Unrestricted	(54,745,000)	35,509,013	(33,151,734)	8,862,971	72,822	(43,451,928)	12,359,586
Total net assets (deficit)	$ 247,582,000	$ 255,597,361	$ (4,725,846)	$ 42,169,682	$ 2,208,374	$ 542,831,571	$ 20,842,370

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 ASSETS
PROPRIETARY FUNDS

Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
OPERATING REVENUES							
Charges for sales and services							
Electric sales	$535,582,000	$ -	$ -	$ -	$ -	$535,582,000	$ -
Fiber optic revenues	40,709,000	-	-	-	-	40,709,000	-
Sewer charges	-	48,083,478	-	-	-	48,083,478	-
Waste disposal fees	-	-	6,557,136	-	-	6,557,136	-
Water quality fees	-	-	-	14,291,832	-	14,291,832	-
Property rental	-	-	-	-	817,042	817,042	-
Other services	13,184,000		-	-	22,084	13,206,084	-
Other	-	619,008	247,261	177,014	-	1,043,283	46,030,838
Total operating revenues	589,475,000	48,702,486	6,804,397	14,468,846	839,126	660,289,855	46,030,838
OPERATING EXPENSES							
Power purchases	453,780,000	-	-	-	-	453,780,000	-
Other electric operations	57,147,000	-	-	-	-	57,147,000	-
Fiber optic operations	27,558,000	-	-	-	-	27,558,000	-
Sewer plant operations	-	30,214,431	-	-	-	30,214,431	-
Waste disposal operations	-	-	3,163,008	-	-	3,163,008	-
Closure/postclosure costs	-	-	283,572	-	-	283,572	-
Water quality operations	-	-	-	8,492,623	-	8,492,623	-
Housing operations	-	-	-	-	780,939	780,939	-
Fleet operations	-	-	-	-	-	-	12,044,467
Liability insurance	-	-	-	-	-	-	567,637
Health services	-	-	-	-	-	-	27,699,625
Depreciation	34,249,000	14,360,784	564,339	1,090,771	245,401	50,510,295	2,340,444
Other	9,401,000	-	27,959	-	-	9,428,959	-
Total operating expenses	582,135,000	44,575,215	4,038,878	9,583,394	1,026,340	641,358,827	42,652,174
OPERATING INCOME (LOSS)	7,340,000	4,127,271	2,765,519	4,885,452	(187,214)	18,931,028	3,378,664
NONOPERATING REVENUES (EXPENSES)							
Investment income	1,035,000	363,640	64,362	-	-	1,463,002	-
Interest expense	(10,691,000)	(3,214,977)	(905,632)	(431,513)	(80,412)	(15,323,534)	-
Other income (expense)	(22,546,721)	-	(93,385)	11,250	1,034	(22,627,822)	139,083
Total nonoperating revenues (expenses)	(32,202,721)	(2,851,337)	(934,655)	(420,263)	(79,378)	(36,488,354)	139,083
INCOME (LOSS) BEFORE CONTRIBUTIONS, TRANSFERS AND SPECIAL ITEM	(24,862,721)	1,275,934	1,830,864	4,465,189	(266,592)	(17,557,326)	3,517,747
Capital contributions	41,067,000	-	-	-	50,000	41,117,000	52,000
Transfers in	-	-	215,328	24,180	-	239,508	-
Transfers out	(4,691,279)	-	-	-	-	(4,691,279)	-
Special item - tornado damage	(28,000,000)	-	-	-	-	(28,000,000)	-
CHANGE IN NET ASSETS	(16,487,000)	1,275,934	2,046,192	4,489,369	(216,592)	(8,892,097)	3,569,747
NET ASSETS (DEFICIT), beginning	264,069,000	254,321,427	(6,772,038)	37,680,313	2,424,966	551,723,668	17,272,623
NET ASSETS (DEFICIT), ending	$247,582,000	$255,597,361	$ (4,725,846)	$42,169,682	$ 2,208,374	$542,831,571	$ 20,842,370

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, 2011

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$563,708,000	$47,208,150	$ 6,604,070	$14,122,209	$ 839,332	$632,481,761	$ 8,644,154
Receipts from interfund services provided	-	-	-	-	-	-	37,518,442
Receipts from operating grants	18,889,000	-	151,584	-	-	19,040,584	-
Payments to suppliers	(517,922,000)	(22,543,654)	(3,102,964)	(6,081,346)	(784,752)	(550,434,716)	(39,465,193)
Payments to employees	(31,384,000)	(7,586,093)	(809,722)	(5,347,198)	-	(45,127,013)	(3,048,016)
Payments in lieu of taxes	(8,277,721)	-	-	-	-	(8,277,721)	-
Net cash from operating activities	25,013,279	17,078,403	2,842,968	2,693,665	54,580	47,682,895	3,649,387
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transers in	-	-	215,328	24,180	-	239,508	-
Transfers out	(4,691,279)	-	-	-	-	(4,691,279)	-
Net cash flows used in noncapital	(4,691,279)	-	215,328	24,180	-	(4,451,771)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(3,303,000)	(7,972,785)	(2,782,575)	(1,824,499)	(77,794)	(15,960,653)	-
Interest paid on capital debt	(13,703,000)	(3,283,863)	(955,872)	(477,203)	(80,412)	(18,500,350)	-
Proceeds from capital debt	19,500,000	-	-	-	-	19,500,000	-
Capital grants and contributions	41,067,000	-	-	-	51,034	41,118,034	52,000
Additions to capital assts	(140,738,000)	(9,879,064)	(72,574)	(1,505,610)	-	(152,195,248)	(2,795,549)
Proceeds from the sale of capital assets	-	-	-	11,250	-	11,250	-
Net cash flows used in capital and related financing activities	(97,177,000)	(21,135,712)	(3,811,021)	(3,796,062)	(107,172)	(126,026,967)	(2,743,549)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investments	-	(61,641,960)	(2,839,968)	-	-	(64,481,928)	-
Proceeds from sales and maturities of investments	32,051,000	60,381,861	4,585,410	-	-	97,018,271	-
Interest	1,159,000	326,099	48,501	-	-	1,533,600	-
Net cash flows from investing activities	33,210,000	(934,000)	1,793,943	-	-	34,069,943	-
Net increase (decrease) in cash and cash equivalents	(43,645,000)	(4,991,309)	1,041,218	(1,078,217)	(52,592)	(48,725,900)	905,838
Cash and cash equivalents, beginning of year	142,939,000	7,932,757	7,433,792	11,955,543	171,465	170,432,557	18,393,884
Cash and cash equivalents, end of year	$ 99,294,000	$ 2,941,448	$ 8,475,010	$10,877,326	$ 118,873	$121,706,657	$ 19,299,725
CLASSIFIED AS:							
Current assets	$ 99,294,000	$ 2,941,448	$ 3,053,611	$10,877,326	$ 82,724	$116,249,109	$ 19,299,725
Restricted assets	-	-	5,421,399	-	36,149	5,457,548	-
	$ 99,294,000	$ 2,941,448	$ 8,475,010	$10,877,326	$ 118,873	$121,706,657	$ 19,299,725

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended June 30, 2011

(Continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 7,340,000	$ 4,127,271	$ 2,765,519	$ 4,885,452	$ (187,214)	$ 18,931,028	$ 3,378,664
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	34,249,000	14,360,784	564,339	1,090,771	245,401	50,510,295	2,340,444
Miscellaneous nonoperating expenses	-	-	-	-	-	-	139,083
Provision for uncollectible accounts	-	259,727	(7,975)	282,154	-	533,906	-
(Increase) decrease in:							
Accounts receivable	4,098,000	(698,571)	54,909	(492,439)	206	2,962,105	131,280
Due from other funds	-	(1,055,492)	1,745	-	-	(1,053,747)	(47)
Due from other governments	(20,921,000)	-	(55,280)	(175,449)	-	(21,151,729)	-
Inventory	(1,796,000)	(184,631)	-	-	-	(1,980,631)	(249,455)
Prepaid Items	(7,380,055)	-	-	-	-	(7,380,055)	-
Deferred charges	540,000	91,338	-	-	-	631,338	-
Increase (decrease) in:							
Accounts payable	9,554,279	534,160	(34,265)	(2,936,921)	(3,813)	7,113,440	12,685,060
Accrued claims	-	(370,592)	-	-	-	(370,592)	-
Claims liabilities	-	-	-	-	-	-	(14,807,322)
Other assets/liabilities	(670,945)	20,151	(444,324)	-	-	(1,095,118)	-
Compensated absences	-	(5,742)	(1,700)	40,097	-	32,655	31,680
Total adjustments	17,673,279	12,951,132	77,449	(2,191,787)	241,794	28,751,867	270,723
Net cash from operating activities	$ 25,013,279	$ 17,078,403	$ 2,842,968	$ 2,693,665	$ 54,580	$ 47,682,895	$ 3,649,387

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2011

	Other Postemployment Benefits Trust Fund	Pension Trust Fund	Agency Fund
ASSETS			
Cash	$ -	$ -	$ (7,842,433)
Investments:			
U.S. Government securities	-	432,110	-
Corporate bonds and notes	-	9,694,918	-
Preferred/convertible securities		5,116,714	-
Pooled, common & collective funds	-	21,840,000	-
Corporate stocks	2,788,316	131,440,819	-
Mutual funds - equity	3,792,369	104,698,148	-
Mutual funds - fixed income	5,166,938	52,647,474	-
Mutual funds - international equity	2,188,552	-	-
Temporary investments	3,265,126	8,665,492	-
Limited partnerships	-	83,278,617	-
Other investments	-	15,900,318	-
Receivables:			
Accrued income	1,447	-	-
Due from plan custodian	94,522	378,016	7,842,433
Total assets	17,297,270	434,092,626	-
LIABILITIES			
Due to plan custodian	-	20,188	-
Total liabilities	-	20,188	-
NET ASSETS			
Held in trust for pension and other postemployment benefits	$ 17,297,270	$ 434,072,438	$ -

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year Ended June 30, 2011

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 8,064,522	$ 14,044,708
Employee	-	4,277,012
Total Contributions	8,064,522	18,321,720
Investment income:		
Net appreciation (depreciation) in fair market value of investments	1,498,590	69,677,820
Interest	30,435	3,760,932
Dividends	-	4,824,426
	1,529,025	78,263,178
Less investment expense	(41,568)	(1,105,447)
Net investment income (loss)	1,487,457	77,157,731
Total additions	9,551,979	95,479,451
DEDUCTIONS		
Benefits paid to participants	-	35,372,643
Administrative expenses	-	853,771
Total deductions	-	36,226,414
CHANGE IN NET ASSETS	9,551,979	59,253,037
Net assets, beginning	7,745,291	374,819,401
Net assets, ending	$ 17,297,270	$ 434,072,438

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2011

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	$ 8,274,749	$ 1,216,550	$ 3,472,594	$ 12,963,893
Accounts receivable	3,220,184	1,525,649	1,421,274	6,167,107
Net investment in capital lease	-	-	103,518,327	103,518,327
Deferred charges	23,401	-	1,424,865	1,448,266
Inventories	-	193,496	143,569	337,065
Prepaid items	104,895	214,098	142,953	461,946
Restricted assets:				
Cash and cash equivalents	2,268,709	-	-	2,268,709
Investments	-	-	9,796,793	9,796,793
Receivables	234,991	-	-	234,991
Land and other nondepreciable assets	25,221,732	3,258,047	-	28,479,779
Other capital assets, net of accumlated depreciation	54,613,152	24,017,858	2,381,178	81,012,188
Total assets	93,961,813	30,425,698	122,301,553	246,689,064
LIABILITIES				
Accounts payable and accrued liabilities	1,141,345	2,061,227	2,971,227	6,173,799
Deferred revenue	26,280	-	-	26,280
Contracts payable	749,163	-	-	749,163
Due to primary government	-	671,559	-	671,559
Line of credit	-	500,000	-	500,000
Net pension obligations	-	222,546	-	222,546
Revenue bonds payable	5,955,989	-	122,835,000	128,790,989
Original issue premium (discount)	-	-	9,186,569	9,186,569
Deferred refunding	-	-	(3,094,620)	(3,094,620)
Total liabilities	7,872,777	3,455,332	131,898,176	143,226,285
NET ASSETS				
Invested in capital assets (net of related debt)	73,878,895	26,604,346	2,381,178	102,864,419
Restricted for:				
Debt service	2,503,700	-	6,690,711	9,194,411
Renewal and replacement	-	-	474,662	474,662
Unrestricted	9,706,441	367,680	(19,143,174)	(9,069,053)
Total net assets	$ 86,089,036	$ 26,972,026	$ (9,596,623)	$ 103,464,439

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2011

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY								
Airport operations	$ 8,969,567	$ 7,822,460	$ -	$ 9,063,696	$ 7,916,589	$ -	$ -	$ 7,916,589
CARTA								
CARTA operations	21,682,321	6,374,160	7,032,550	6,859,779	-	(1,415,832)	-	(1,415,832)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	32,386,847	17,417,566	-	-	-	-	(14,969,281)	(14,969,281)
Total component units	$ 63,038,735	$ 31,614,186	$ 7,032,550	$ 15,923,475	7,916,589	(1,415,832)	(14,969,281)	(8,468,524)
			General revenues:					
			Investment income		7,172	1,664	1,011,309	1,020,145
			Miscellaneous		1,311,652	240,690	-	1,552,342
			Total general revenues		1,318,824	242,354	1,011,309	2,572,487
			CHANGE IN NET ASSETS		9,235,413	(1,173,478)	(13,957,972)	(5,896,037)
			Net assets, beginning		76,853,623	28,145,504	4,361,349	109,360,476
			Net assets, ending		$ 86,089,036	$ 26,972,026	$ (9,596,623)	$ 103,464,439

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(A) Reporting Entity

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

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2011. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

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

Discretely Presented Component Units

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

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

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

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

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

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

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

(B) Joint Ventures and Related Organizations

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

Carter Street Corporation - The Carter Street Corporation, a nonprofit organization, owns a convention center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The Carter Street Corporation is managing the convention center and parking garage under a management agreement. Additional information regarding the City's participation in this joint venture is disclosed in Note 14.

Related Organizations - City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga.

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Interfund services provided and used are not eliminated in the government-wide statement of activities. In addition, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

Water Quality Management Fund - 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.

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

Additionally, the City reports the following fund types:

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

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

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

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

Other Postemployment Benefits Trust Fund - 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. This fund is accounted for in the same manner as business enterprises providing similar services.

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

Agency Fund - The Agency Fund accounts for resources held by the City as an agent for the Industrial Development Board in connection with the state and local incentives related to Volkswagen Group of America. The Agency Fund is custodial in nature and does not involve the measurement of results of operations.

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

(E) Budget Policy and Budgetary Data

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

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

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

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

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

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

The budgets are prepared on a basis consistent with generally accepted accounting principles. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2011, several supplemental appropriations were necessary for capital purposes.

(F) Assets, Liabilities and Fund Equity

(1) Cash and Cash Equivalents

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

(2) Investments

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

(3) Inventories and Prepaid Items

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

(4) Restricted Assets

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

(5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than $5,000 ($25,000 for infrastructure, $15,000 for software) and an estimated useful life of three years or greater.

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

	Useful Life
Buildings	5 - 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
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

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

(6) Bond Discounts and Issuance Costs

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

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

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

(7) Deferred Gain/Loss from Advance Refunding of Debt

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

(8) Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) 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 a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance. Committed amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Assigned Fund Balance - represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund. The City Finance Officer has been granted the ability to assign amounts to a specific purpose as part of the annual budget ordinance. Assigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Unassigned Fund Balance - represents the residual classification for the general fund or deficit balances in other funds. Unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable				
Library endowments	$ -	$ -	$ 3,725,007	$ 3,725,007
Inventory	823,802	-	-	823,802
Long-term notes receivable	3,454,572	1,943,088	1,000	5,398,660
Prepaid expenses	8,000	-	-	8,000
Restricted				
Law enforcement	74,138	-	1,621,477	1,695,615
Economic development	4,343,819	-	11,780	4,355,599
African-American Museum	35,059	-	-	35,059
Special programs	2,205,769	-	-	2,205,769
Capital projects	-	21,488,460	-	21,488,460
Bicentennial Library	-	-	648,819	648,819
Human Services program	-	-	1,358,913	1,358,913
State street aid	-	-	1,570,799	1,570,799
Community development	-	-	1,156,610	1,156,610
Hotel-Motel tax revenue pledge	-	-	1,888,754	1,888,754
Regional Planning Agency	-	-	693,873	693,873
Air Pollution Control Bureau	-	-	311,102	311,102
Scenic Cities Beautiful Commission	-	-	128,861	128,861
Library endowment	-	-	10,900	10,900
Committed				
Law enforcement	553,375	-	-	553,375
Economic development	138,607	-	-	138,607
Bicentennial Library	160,820	-	648,819	809,639
African-American Museum	35,058	-	-	35,058
Regional Planning Agency	-	-	693,872	693,872
Air Pollution Control Bureau	-	-	466,654	466,654
Scenic Cities Beautiful Commission	-	-	128,860	128,860
Nonprofit requests	10,912	-	-	10,912
Tennessee Valley Regional Communications	-	-	170,732	170,732
Debt service	-	-	4,954,374	4,954,374
Assigned				
Special programs	1,712,482	-	-	1,712,482
Human services program	-	-	24,564	24,564
River Pier garage	-	-	314,424	314,424
Other purposes	2,860,239	-	-	2,860,239
Unassigned	33,863,477	-	-	33,863,477
Total fund balances	$ 50,280,129	$ 23,431,548	$ 20,530,194	$ 94,241,871

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Summary for Governmental Funds Balance Sheet (page A - 4):				
Nonspendable	$ 4,286,374	$ 1,943,088	$ 3,726,007	$ 9,955,469
Restricted	6,658,785	21,488,460	9,401,888	37,549,133
Committed	898,772	-	7,063,311	7,962,083
Assigned	4,572,721	-	338,988	4,911,709
Unassigned	33,863,477	-	-	33,863,477
Total fund balances	$ 50,280,129	$ 23,431,548	$ 20,530,194	$ 94,241,871

(G) Revenues, Expenditures and Expenses

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

- General obligation long-term debt principal and interest are reported only when due,
- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

(1) Property Taxes

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

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

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2010 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2010, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2011.

(2) Grant Revenue

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

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

(3) Investment Income

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

(4) Compensated Absences

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

(5) Interfund Transactions

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

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

(6) Payments Between the City and Component Units

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

(7) Indirect Costs

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

(8) Estimates

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

(H) <u>Net Assets</u>

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

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

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

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

(I) Library Endowments

The library endowment consists of nine separate endowments established by various individuals and estates. The endowment corpus is nonspendable and the earnings are used to support the Chattanooga-Hamilton County Bicentennial 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 Endowment Board Investment committee has established investment objectives as follows:

- To maximize the return on assets while maintaining an appropriate level of risk for each account.
- To provide long term financial support for each account in accordance with its specific purpose.

The investment committee has a 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.

(J) Pollution Remediation Obligations

The City recognizes pollution remediation obligations when an obligating event is identified and a monetary estimate can be determined.

(K) 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.

NOTE 2. FRIENDS OF THE ZOO

During 2008, the City entered into a loan agreement with Friends of the Zoo, Inc. (FOZ) to construct improvements to the Chattanooga Zoo at Warner Park. Under this agreement the City advanced $2,000,000 to FOZ to pay for construction improvements. Upon completion of the improvements, the City retained right, title, and interest in the improvements, and FOZ relinquished any ownership right in the improvements. FOZ agreed to raise funds to reimburse the City for the cost of the improvements and to repay $400,000 per year to the City beginning in 2009. Under terms of this agreement, $300,000 was received. In 2010, the loan agreement was amended. Under the new loan agreement, FOZ will repay the outstanding balance of $1,700,000 with payments of $150,000 per year. The first installment was received in FY11. As an early payoff incentive to FOZ, the City agreed to appropriate to FOZ and amount equal to one dollar for every two dollars raised by FOZ through donation for capital improvements, up to a maximum of $250,000 per year subject to annual appropriation.

Effective in FY11, the City entered into an operating agreement with FOZ. Under the terms of the agreement, FOZ agrees to operate the Chattanooga Zoo at Warner Park. As compensation, the City agrees to an annual appropriation of the lesser of $639,000 or 45% of the total operating budget of the Zoo. The appropriation is to be paid in 12 monthly installments by the 15th of each month. The term of the agreement is 5 years, with an option for 2 additional 3-year periods. The City intends to fund the payment of the appropriation in each fiscal year, subject to funding and fiscal constraints of the City. In the event that the City is unable to pay the appropriation due to fiscal constraints, the City shall be entitled to terminate the agreement.

NOTE 3. VOLKSWAGEN GROUP OF AMERICA, INC.

At June 30, 2011, Volkswagen Group of America, Inc. (VW) has nearly completed building a $1 billion automotive production facility in Chattanooga, Tennessee. The VW facility, already in production, is expected to contribute to the economic expansion of the City and the surrounding region for years to come.

The City and Hamilton County, Tennessee have worked jointly to support the development of the VW facility. The Industrial Development Board of the City of Chattanooga (lDB) and The Health, Educational, and Housing Facility Board of the City of Chattanooga (HEB) were awarded grants and appropriations in excess of $200 million by various Tennessee state agencies and departments for the development of the VW facility. The City acts as custodial agent for IDB and HEB grant funds to ensure that proper purchasing policies and procedures are followed; the City maintains an Agency Fund for funds held on behalf of IDB and HEB

NOTE 4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Compliance with Finance Related Legal and Contractual Provisions

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

2) Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2011, the City had no material excess of expenditures over appropriations in individual funds.

3) Net Assets/Fund Balance Deficit

The Solid Waste/Sanitation Fund has a deficit in net assets of $4,725,846 at June 30, 2011. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by $2,046,192 from the prior fiscal year.

NOTE 5. CASH AND INVESTMENTS

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

At June 30, 2011, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	1.83	$ 25,235,000
Certificates of deposit classified as investments	.52	18,387,384
Total	1.28	$ 43,622,384
Primary Government – Business-Type Activities:		
Certificates of deposit classified as investments	1.21	$ 47,130,597
Total	1.21	$ 47,130,597
Component Units:		
U.S. Treasury Notes	0.17	$ 106,082
U.S. Government agency securities	0.00	9,690,711
Total	0.17	$ 9,796,793

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, 2011, 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).

Component unit investments in U.S. Government agency securities of $106,082 were securities of the Federal National Mortgage Association which was rated AAA by S & P and Moody's.

Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Fund - The Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Fund 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 percent or more of plan net assets. 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	$ 2,319,506
Mutual funds – fixed income	Not rated	921,912
Common equity securities	Not rated	328,341
Temporary investments	Not rated	72,004
		$ 3,641,763
City of Chattanooga General Pension Plan		
Domestic corporate bonds	B	$ 2,289,757
Domestic corporate bonds	BA	227,360
Domestic corporate bonds	CAA	1,308,983
Domestic corporate bonds	Not rated	536,038
Mutual funds – equity	Not rated	44,021,894
Mutual funds – fixed income	Not rated	52,647,474
Domestic equity securities	Not rated	82,765,907
Limited partnerships	Not rated	39,040,314
Temporary investments	Not rated	5,314,866
Other investments	Not rated	1,711,499
		$ 229,864,093

	S & P or Moody's Rating	Fair Value
Fire and Police Pension Fund		
U.S. Government securities	AAA	$ 25,563
Domestic corporate bonds	AAA	16,690
Domestic corporate bonds	AA	174,545
Domestic corporate bonds	A	1,494,468
Domestic corporate bonds	BBB	206,356
Domestic corporate bonds	CAA	42,082
Domestic corporate bonds	Not rated	3,898,639
U.S. Government securities	Not rated	406,547
Preferred/convertible securities	Not rated	5,116,714
Pooled, common & collective funds	Not rated	21,840,000
Mutual funds – equity	Not rated	60,676,254
Domestic equity securities	Not rated	48,674,912
Temporary investments	Not rated	3,350,626
Limited partnerships	Not rated	44,238,303
Other investments	Not rated	14,188,819
		$ 203,850,518
Other Postemployment Benefit Trust Fund		
Domestic equity securities	AAA	$ 198,012
Domestic equity securities	AA	83,117
Domestic equity securities	A+	81,932
Domestic equity securities	A	200,391
Domestic equity securities	A-	95,526
Domestic equity securities	BBB+	70,401
Domestic equity securities	Not rated	2,058,937
Mutual funds – equity	Not rated	3,792,369
Mutual funds – fixed income	Not rated	5,166,938
Mutual funds – international equity	Not rated	2,188,522
Temporary investments	Not rated	3,265,126
		$ 17,201,301

At June 30, 2011, the fair values of the City's investments in Pension Trust Funds totaling $83,278,617 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 6. RECEIVABLES

Receivables at June 30, 2011, consist of the following:

	Governmental Activities Funds					
	General	Capital Projects	Other Governmental	Internal Service	Business-Type Activities	Total
Primary Government						
Receivables:						
Taxes	$ 120,246,572	$ -	$ -	$ -	$ -	$120,246,572
Accounts	5,898,791	25,000	969,359	-	-	6,893,150
Notes	3,454,573	1,943,088	16,374,498	-	-	21,772,159
Customer service	-	-	-	321,504	59,245,336	59,566,840
Other	572,434	-	-	-	63,269	635,703
Restricted	-	37,093	-	56,766	31,810	68,903
Intergovernmental	19,078,825	1,180,071	3,547,077	-	30,781,007	54,643,746
Gross receivables	149,251,195	3,185,252	20,890,934	378,270	90,121,422	263,827,073
Less: Allowance for Uncollectibles	(4,609,253)	-	(820,000)	-	(2,553,479)	(7,982,732)
Net receivables	$ 144,641,942	$ 3,185,252	$ 20,070,934	$ 378,270,	$ 87,567,943	$255,844,341

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2011.

Notes include a $2,396,514 receivable from Housing Management, an enterprise fund, for capital improvements and a $1,058,059 receivable from Chattanooga Neighborhood Enterprise for management of an economic development loan portfolio.

NOTE 7. INTERFUND BALANCES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2011, as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	$ 389,171
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	482,713
		$ 871,884

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 8. INTERFUND TRANSFERS

	Transfers In: General Fund	Capital Projects	Nonmajor Governmental	Solid Waste	Water Quality Management	Total
Transfer out:						
General Fund	$ -	$ 3,483,711	$ 20,781,161	$ -	$ -	$ 24,264,872
Capital Projects Fund	104,211	-	251,565	215,328	-	571,104
Nonmajor Governmental Funds						
Community Development Funds	103,343	308,030	488,493	-	24,180	924,046
Air Pollution	-	14,097	-	-	-	14,097
Hotel/Motel Tax	-	350,000	3,320,547	-	-	3,670,547
Electric Power Board	4,691,279	-	-	-	-	4,691,279
Total	$ 4,898,833	$ 4,155,838	$ 24,841,766	$ 215,328	$ 24,180	$ 34,135,945

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, (4) record payments in lieu of taxes from the Electric Power Board to the General Fund, and (5) cover costs incurred by the General Fund for water quality initiatives.

NOTE 9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
PRIMARY GOVERNMENT				
Governmental Activities:				
Non-depreciable assets:				
Land and land improvements	$ 1,034,884,810	$ 2,408,776	$ 1,564,100	$ 1,035,729,486
Construction in progress	14,236,870	17,211,464	2,317,665	29,130,669
Total non-depreciable assets	1,049,121,680	19,620,240	3,881,765	1,064,860,155
Depreciable assets:				
Buildings and improvements	214,207,321	670,893	1,169,713	213,708,501
Vehicles and machinery	133,260,814	8,012,567	10,023,700	131,249,681
Infrastructure	678,271,298	4,793,463	1,184,222	681,880,539
Total depreciable assets	1,025,739,433	13,476,923	12,377,635	1,026,838,721
Less accumulated depreciation for:				
Buildings and improvements	83,283,942	7,339,428	600,818	90,022,552
Vehicles and machinery	96,054,055	9,708,320	9,856,245	95,906,130
Infrastructure	348,337,076	27,677,022	59,573	375,954,525
Total accumulated depreciation	527,675,073	44,724,770	10,516,636	561,883,207
Depreciable assets, net	498,064,360	(31,247,847)	1,860,999	464,955,515
Governmental activities capital assets, net	$ 1,547,186,040	$ (11,627,607)	$ 5,742,764	$ 1,529,815,670

	Beginning Balance	Additions	Deductions	Ending Balance
Business-Type Activities:				
Non-depreciable assets:				
Land	$ 17,055,208	$ 91,691	$ -	$ 17,146,899
Construction in progress	64,427,540	(2,019,171)	11,959,016	50,449,353
Total non-depreciable assets	81,482,748	(1,927,480)	11,959,016	67,596,252
Depreciable assets:				
Buildings and improvements	126,320,692	3,986,884	339,000	129,968,576
Vehicles and machinery	132,719,774	90,354,056	26,172,201	196,901,629
Sewer system	405,814,448	10,163,918	-	415,978,366
Solid waste system	9,520,509	-	-	9,520,509
Water quality management system	36,565,502	35,242	-	36,600,744
Electric system	404,513,000	36,636,000	16,994,000	424,155,000
Communication system	65,991,000	19,949,000	57,000	85,883,000
Total depreciable assets	1,181,444,925	161,125,100	43,562,201	1,299,007,824
Less accumulated depreciation for:				
Buildings and improvements	44,552,135	3,618,216	7,000	48,163,351
Vehicles and machinery	37,757,760	12,994,749	1,197,816	49,554,693
Sewer system	169,167,181	10,281,018	-	179,448,199
Solid waste system	775,407	317,351	-	1,092,758
Water quality management system	6,903,561	752,963	-	7,656,524
Electric system	173,268,000	14,409,998	5,382,998	182,295,000
Communication system	17,346,000	8,136,000		25,482,000
Total accumulated depreciation	449,770,044	50,510,295	6,587,814	493,692,525
Depreciable assets, net	731,674,881	110,614,805	36,974,387	805,315,299
Business-type activities capital assets, net	$ 813,157,629	$ 108,687,325	$ 48,933,403	$ 872,911,551
Discretely Presented Component Units				
Non-depreciable assets:				
Land	$ 6,066,608	$ 1,035,000	$ -	$ 7,101,608
Construction in progress	18,521,369	2,931,475	-	21,452,844
Total non-depreciable assets	24,587,977	3,966,475	-	28,554,452
Depreciable assets:				
Buildings	111,637,469	11,402,325	162,561	122,877,233
Vehicle and machinery	62,458,672	937,522	-	63,396,194
Total depreciable assets	174,096,141	12,339,847	162,561	186,273,427
Less accumulated depreciation for:				
Buildings	48,235,978	6,609,277	157,464	54,687,791
Vehicles and machinery	47,882,095	2,766,026	-	50,648,121
Total accumulated depreciation	96,118,073	9,375,303	157,464	105,335,912
Depreciable assets, net	77,978,068	2,964,544	5,097	80,937,515
Component units capital assets, net	$ 102,566,045	$ 6,931,019	$ 5,097	$ 109,491,967

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	$ 11,849,073
Public safety	2,353,065
Public works	26,966,577
Parks, recreation, education, arts & culture	3,461,871
Social services	94,184
Total	$ 44,724,770
Primary Government – Business-Type Activities:	
Sewer	$ 14,360,784
Solid Waste	564,339
Water Quality Management	1,090,771
Housing Management	245,401
Electric Utility	34,249,000
Total	$ 50,510,295
Discretely Presented Component Units:	
Transportation Authority	$ 5,625,885
Airport Authority	3,272,064
Downtown Redevelopment	477,354
Total	$ 9,375,303

NOTE 10. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$ 176,064,209	$ -	$ 10,095,498	$ 165,968,711	$ 8,970,901
Notes payable	31,266,117	130,000	2,848,235	28,547,882	2,724,722
Capital leases payable	106,531,819	-	2,853,204	103,678,615	3,053,517
Accrued pollution remediation costs	1,430,000	3,061,766	2,911,766	1,580,000	280,000
Accrued postemployment benefits	27,201,450	13,718,933	13,838,396	27,081,987	-
Compensated absences	17,197,441	9,241,698	9,302,109	17,137,030	6,134,685
Total governmental activities	$ 359,691,036	$ 26,152,397	$ 41,849,208	343,994,225	$ 21,163,825
Net deferred refunding and original issue premiums and discounts				267,182	
				$ 344,261,407	

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$ 285,390,000	$ -	$ 2,710,000	$ 282,680,000	$ 2,750,000
Notes payable	-	19,500,000	593,000	18,907,000	3,662,000
Accrued postemployment benefits	9,272,,000	1,764,000	2,206,000	8,830,000	-
Compensated absences	690,000	-	82,000	608,000	-
	295,352,000	21,264,000	5,591,000	311,025,000	6,412,000
Interceptor Sewer System:					
General obligation serial bonds	41,146,682	-	5,676,792	35,469,890	5,836,626
Notes payable	48,912,189	-	2,269,408	46,642,781	2,967,550
Capital leases payable	122,705	-	26,586	96,119	28,286
Compensated absences	797,588	616,408	622,149	791,847	348,407
	90,979,165	616,408	8,594,935	83,000,638	9,180,869
Solid Waste/Sanitation Fund					
General obligation serial bonds	$ 21,371,612	$ -	$ 2,718,407	$ 18,653,205	$ 1,472,715
Notes payable	788,452	-	64,168	724,284	66,004
Accrued landfill closure costs	9,903,161	283,572	727,896	9,458,837	541,546
Compensated absences	65,652	50,455	52,155	63,952	28,727
	31,128,877	334,027	3,562,626	28,900,278	2,108,992
Water Quality/Management Fund:					
General obligation serial bonds	9,962,495	-	1,644,302	8,318,193	789,758
Notes payable	496,905	-	180,198	316,707	187,500
Compensated absences	487,468	568,324	528,228	527,564	263,948
	10,946,869	568,324	2,352,728	9,162,465	1,241,206
Housing Management Fund:					
Other obligations	2,477,708	-	2,477,708	-	-
Total business-type activities	$ 431,884,619	$ 22,782,759	$ 22,578,997	432,088,381	$18,943,066
Net deferred refunding and original issue premiums and discounts				8,355,904	
				$ 440,424,285	
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bond	$ 6,264,901	$ -	$ 308,912	$ 5,955,989	$ 326,289
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	118,740,000	66,955,000	62,860,000	122,835,000	4,060,000
Total component units	$ 125,004,901	$ 66,955,000	$ 63,168,912	128,790,989	$ 4,386,289
Net deferred refunding and original issue premiums and discounts and swaption derivative				6,091,948	
				$ 134,882,937	

Total reductions in Long-Term Liabilities for Governmental Activities above are different than principal retirement expenditures in Governmental Funds. The difference is due to the principal portion of capital lease payments of $7,789,754 to Chattanooga Downtown Redevelopment Corporation (CDRC), which is budgeted in general government expenditures. Also, the payment to refunded bonds escrow agent includes a net deferred refunding debit of $3,611,627.

In prior years, the City refunded certain general obligation, sewage facility and other 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, 2011, the remaining liabilities for the bonds refunded were as follows:

Year Refunded	Primary Government	Component Units
1992	$ 6,920,000	$ -
1998	11,150,000	-
2002	20,105,000	-
2003	7,245,000	-
2005	45,660,000	-
2007	17,715,000	55,340,000
2010	32,340,000	-

Debt related to governmental activities at June 30, 2011, consisted of the following:

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

Issue	Interest Rates	Principal Amount
General Obligations Refunding Bonds, Series 1998	5.25%-5.50%	$ 2,271,700
General Obligations Refunding Bonds, Series 2002	4.38% - 5.38%	4,160,000
General Obligations Refunding Bonds, Series 2002 A	3.60% - 5.00%	1,050,215
Hotel-Motel Tax Pledge Bonds, Series 2002	3.13% - 5.00%	17,440,000
General Obligation Bonds, Series 2003 A	3.50% - 4.20%	2,040,000
General Obligations Refunding Bonds, Series 2005 A	3.50% - 5.00%	14,757,064
Hotel-Motel Tax Refunding Bonds, Series 2005 A	3.50% - 5.00%	5,403,495
General Obligations Bonds, Series 2006 A	4.00% - 5.00%	16,586,237
General Obligations Refunding Bonds, Series 2007 A	4.30% - 5.00%	14,520,000
General Obligations Bonds, Series 2009 A	3.00% - 4.63%	40,865,000
General Obligations Bonds, Series 2010 A	2.00% - 4.00%	6,385,000
Hotel-Motel Tax Pledge Refunding Bonds, Series 2010 B	2.00% - 4.00%	29,320,320
General Obligation Refunding Bonds, Series 2010 B	2.00% - 4.00%	4,669,680
Recovery Zone Facility Bonds, Series 2010 C	2.00% - 4.00%	6,500,000
Total payable from Debt Service Fund		$ 165,968,711

Tennessee Municipal Bond Fund Loan (1997) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a IS-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2011, is $746,023.

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a IS-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, 2011, is $2,864,499.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2011, is $17,648,334.

Fire Hall Land Note - During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2011, is $13,984.

Hennen Land Note - In December 2007, the City purchased the Narrow Bridge Property from Jenkins Road, LLC (Tim Hennen). Hennen will be paid for the land from the parking revenue generated by Hennen's Restaurant employees and customers. The note carries fixed parking prices for five years beginning January 2008. The balance at June 30, 2011, is $389,170.

Petros Note Payable - In 2007, the City purchased property from John and Voula Petros to build a city park on Jenkins Road. The City executed a note payable to the former owners. The City incurred expenses of $4,054 which were paid at closing. The note provides for annual installments over four years which began in March 2008. The last payment was made March 2011, so there is no balance at June 30, 2011.

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 will be amortized over 15 years with an optional redemption after 10 years. The balance at June 30, 2011 is $3,966,000.

IDB Foreign Trade Zone Note Payable - In July 2008, the City entered into an agreement with Volkswagen Group of America, Inc. to cover the cost, jointly with Hamilton County, of application, activation, and annual fees required for Volkswagen to make use of the existing Foreign-Trade Zone designation. The balance at June 30, 2011, is $39,871.

U.S. General Services Administration Land Note Payable - The City entered into an agreement with the U.S. General Services Administration for the purchase of land from them, jointly with Hamilton County, for economic development. The balance is due in full in 2015. The balance at June 30, 2011, is $2,750,000.

Tennessee Temple University – In November 2010, the City entered into an agreement with Tennessee Temple University to purchase a piece of land for $205,000 with a payment of $75,000 and the balance will be a non interest bearing note to be paid when the City Council approves the fiscal 2011-2012 Capital budget but no later than October 12, 2012. The balance at June 30, 2011 is $130,000.

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over $120 million. Facilities include (1) the Chattanoogan - a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semiannual payments in amounts sufficient to meet the annual debt service requirements on $129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by the City's share of the 112% 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, 2011, was $9,684,068, of which $2,789,754 was a reduction of principal. The recorded liability under this capital lease at June 30, 2011 is $103,518,327.

The debt service reserve fund held by the fiscal agent at June 30, 2011, is $9,796,793. 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.

Golf Course Capital Lease - In December 2008, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling $323,028. The lease term is five years and provides for monthly payments which began December 1, 2008. The recorded liability under this capital lease at June 30, 2011 is $160,288.

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 assets invested in capital assets, net of related debt.

Debt related to business-type activities at June 30, 2011, consisted of the following:

Issue	Interest Rates	Principal Amount
EPB:		
Electric System Revenue Bonds, Series 2000	4.63% - 5.00%	$ 1,600,000
Electric System Revenue Bonds, Series 2006A	4.00% - 5.00%	37,820,000
Electric System Refunding Revenue Bonds, Series 2006B	4.00% - 4.25%	23,430,000
Electric System Revenue Bonds, Series 2008A	3.00% - 5.00%	219,830,000
Secured Notes Payable 2011	8.34%	18,907,000
Inceptor Sewer system Fund:		
General Obligations Refunding Bonds, Series 1998	5.25%-5.50%	8,878,300
General Obligations Refunding Bonds, Series 2002	4.25% - 4.50%	9,971,739
General Obligations Refunding Bonds, Series 2002 A	3.60% - 5.00%	5,609,785
General Obligations, Series 2005 A	3.75% - 5.00%	11,010,067
1992 State Revolving Loan*	3.98%	316,706
1998 Georgia Environmental Facilities Authority	4.00%	3,678,673
2003 State Revolving Loan	2.98%	29,647,402
2007 State Revolving Loan	2.79%	13,000,000
2001 Capital Lease City of Collegedale	6.36% - 6.68%	96,119
Solid Waste/Sanitation Fund:		
General Obligations Refunding Bonds, Series 2002	3.60% - 5.38%	3,063,732
General Obligations Bonds, Series 2005 A	3.75% - 5.00%	8,575,709
General Obligations Bonds, Series 2006 A	4.00% - 5.00%	4,533,764
General Obligations Refunding Bonds, Series 2007 A	4.30% - 5.00%	2,480,000
2003 Tennessee Municipal Bond Fund Loan	0.40%	290,501
2004 Tennessee Municipal Bond Fund Loan	0.40%	433,784
Water Quality Management Fund:		
General Obligations Refunding Bonds, Series 2002	3.60% - 5.00%	2,289,529
General Obligations Bonds, Series 2005 A	3.75% - 5.00%	5,278,665
General Obligations Refunding Bonds, Series 2007 A	4.30% - 5.00%	750,000
1992 State Revolving Loan*	3.98%	316,707
Total payable from business-type activities		$ 411,808,180

* 1992 State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2011 is $633,413.

Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2011 is $3,678,673.

State Revolving Loan 2003 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2011 is $29,647,402.

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 will be repaid in monthly installments through 2028 at 2.79% interest. The balance at June 30, 2011 is $13,000,000.

Collegedale Capital Lease - The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2011 is $96,119.

Housing Management Obligation - The City entered into a management agreement in which it was obligated to the previous owner for certain property acquired by the City. The City paid off the note on October 2010 and the Housing Management Fund owes the General Fund.

Component Units debt at June 30, 2011, consisted of the following:

Issue	Interest Rates	Principal Amount
Metropolitan Airport Authority		
Taxable Refunding Revenue Bonds, Series 2009	5.41%	$ 5,955,989
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Refunding Revenue Bonds, Series 2007	4.00% - 5.00%	55,880,000
Chattanooga Lease Rental Revenue Refunding Bonds 2010	3.00% - 5.00%	66,955,000
Total payable from Component Units		$ 128,790,989

CDRC refunded a portion of the Lease Rental Revenue Bonds Series 2000 in 2007 and the remaining balance in 2010. A portion of the proceeds of the refunding in 2010 was used to pay a swap termination.

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

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2012	$ 11,762,154	$ 6,726,639	$ 17,732,152	$ 18,085,574
2013	11,572,126	6,386,158	18,308,109	17,333,541
2014	11,081,046	6,072,118	20,507,721	16,563,001
2015	14,135,178	5,752,627	21,952,240	15,719,244
2016	11,497,248	5,411,927	20,797,259	14,818,426
2017-2021	52,209,862	21,664,632	87,099,059	62,030,491
2022-2026	52,197,627	12,274,873	81,252,163	44,189,040
2027-2031	30,221,639	3,080,927	89,948,361	25,112,726
2032-2036	-	-	59,115,000	4,522,363
	$ 194,676,880	$ 67,369,901	$ 411,712,063	$ 218,374,406

	Component Units	
Year	Principal	Interest
2012	$ 4,386,289	$ 5,846,319
2013	4,584,643	5,633,965
2014	4,759,030	5,449,053
2015	4,904,507	5,293,951
2016	5,081,136	5,110,572
2017-2021	31,100,384	21,211,322
2022-2026	33,520,000	13,671,542
2027-2031	40,455,000	5,251,047
	$ 128,790,989	$ 67,467,771

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

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2012	$ 2,986,987	$ 6,713,363	$ 28,286	$ 5,366
2013	3,164,158	6,519,651	30,133	3,520
2014	3,360,019	6,314,449	32,138	1,515
2015	3,570,878	6,096,546	5,563	46
2016	3,797,017	5,864,967	-	-
2017-2021	22,891,938	25,306,096	-	-
2022-2026	31,046,241	16,889,956	-	-
2027-2031	32,701,089	5,464,949	-	-
	$ 103,518,327	$ 79,169,977	$ 96,120	$ 10,447

NOTE 11. DEFERRED COMPENSATION PLAN

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

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

The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2010	$ 16,855,709
Deferrals of compensation	1,285,910
Earnings (losses)	(1,343,307)
Withdrawals	2,495,553
Administrative expenses	(2,821)
Asset balance at June 30, 2011	$ 19,291,044

NOTE 12. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Fire and Police Pension Fund, and EPB Pension Plan) and an other postemployment benefit plan. All employees are eligible to participate in one of these retirement benefit pension plans. 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 pension trust funds. The City also acts as Trustee for the Other Postemployment Benefits Trust, which is included in the accompanying financial statements as an other postemployment benefits trust fund. The City does not administer the assets of the EPB Pension Plan; therefore, they are not included in the accompanying financial statements. The following is a summary of each of these plans:

City of Chattanooga Administered Pension and Other Postemployment Benefit Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the General Pension Plan, the Fire and Police Pension Fund and Other Postemployment Benefits Trust Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and Cash Equivalents

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

Method Used to Value Investments

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

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The City is currently contributing 9.08 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report.

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

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

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

(2) Fire and Police Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 24.91 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Members of the Plan are not covered under OASDI through their City of Chattanooga employment. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the Plan is borne by the City.

The normal retirement benefit is 68.75 percent of average base salary, where average base salary is based on the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year up to 30 years of service, up to a maximum of 75% of final average monthly salary.

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

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

A deferred retirement option plan provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service. A deferred retirement option plan (DROP) provides alternative benefits for credit service to eligible members who have a minimum of 25 years to a maximum of 30 years of credited service, based on a formula using participant's monthly service retirement benefit from the three-year period of service yielding the highest arithmetic average of the participant's entire salary history, plus the average of the employee's last 36 monthly contributions, with 7 percent interest applied for the DROP period. Effective September 2, 2008, the DROP formula was changed by City ordinance. Participants who were active on this date could elect to contribute an additional 1 percent of base salary to continue eligibility in the original DROP plan. The election period to remain in the original DROP plan was closed as of December 31, 2008, for current plan members and February 27, 2009, for cadets. Active participants who did not elect to contribute the additional 1 percent are eligible for a new DROP plan based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history at the beginning of the DROP period, plus the average of the employee's last 36 monthly contribution, with interest applied at Actuarial Assumed Rate of Return minus 3 percent. Plan participants who did not elect to remain in the original DROP plan by their respective deadline will be eligible for a "cost-neutral" DROP.

(3) Other Postemployment Benefits

The City follows provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)."

The City maintains a single-employer defined benefit postemployment health and medical care plan for retirees and their dependents in accordance with City ordinance. 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. 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 is currently contributing 14.9 percent of the total covered payroll of the participants.

The City has established an Other Postemployment Benefits Trust (the Trust), which is used to partially pre-fund benefits. For fiscal year 2011, the City contributed $8,064,522 to the Trust to prefund benefits. Only the prefunded portion of the OPEB cost is included in the OPEB trust. The pay-as-you-go component is funded and accounted for in the City's Internal Service Fund.

Actuarial valuations of an ongoing plan 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 contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the terms of the 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 values of assets, consistent with the long-term perspective of the calculations.

The City's annual OPEB 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 over a period not to exceed thirty years.

Current membership in each of these plans was comprised of the following as of June 30, 2011:

Group	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Retirees and beneficiaries currently receiving benefits	872	692	1,100
Vested terminated employees	92	7	0
Active employees	1,443	791	2,304
Actuarial update	1/1/2011	1/1/2011	1/1/2010

Trend Information:

	Year Ended	Annual Pension/OPEB Cost (APC)	Percentage of APC Contributed	Net Pension/ OPEB Obligation (Assets)
General Pension Plan	6/30/11	$ 6,340,774	69.02%	$ (1,302,008)
	6/30/10	3,817,842	99.01%	(4,100,566)
	6/30/09	3,635,302	92.18%	(4,138,811)
Fire and Police Pension Fund	6/30/11	8,526,415	96.58%	(4,385,105)
	6/30/10	7,818,280	107.01%	(4,677,104)
	6/30/09	7,623,063	109.40%	(4,129,090)
Other Postemployment Benefits	6/30/11	13,718,933	100.87%	27,081,987
	6/30/10	18,190,921	57.30%	27,201,450
	6/30/09	17,790,129	44.28%	19,434,217

Funding Policy and Other Information:

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

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Contribution rates for employer	9.08%	24.91%	N/A
Contribution rates for plan members	2.00%	8.00%-9.00%	Varies
Annual pension/OPEB cost	$6,340,774	$8,526,415	$13,718,933
Contributions made by employer	5,146,581	8,898,127	8,064,522
Contributions made by plan members	1,146,716	3,130,296	-
Actuarial valuation date for current contributions	January 1, 2011	January 1, 2011	January 1, 2010
Actuarial cost methods	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	28 Years Remaining	30 Years Open
Asset valuation method	Market Value, As Adjusted	Market Value, As Adjusted	Market Value
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	7.50%
Projected salary increases	4.50%-5.50%	3.25%-7.50%	3.25%-7.50%
Inflation rate	3.00%	3.00%	3.00%

In the January 1, 2010, actuarial valuation for the City's OPEB Plan, the investment rate of return above is the assumed rate of return on general assets. The actuarial valuation is also uses an annual healthcare cost trend rate of 10% initially, reducing incrementally to an ultimate rate of 5.0%.

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

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Annual required contribution	$ 6,302,882	$ 8,613,696	$ 13,838,396
Interest on net pension/OPEB obligation (asset)	(317,794)	(362,476)	2,380,407
Adjustment to annual required contribution	355,686	275,195	(2,499,870)
Annual pension/OPEB cost	6,340,774	8,526,415	13,718,933
Adjustment to NPO prior contributions	834,268	-	-
Contributions made	(4,376,484)	(8,234,416)	(13,838,396)
Increase in net pension/OPEB obligation (asset)	2,798,558	291,999	(119,463)
Net pension/OPEB obligation (asset) at beginning of year	(4,100,566)	(4,677,104)	27,201,450
Net pension/OPEB obligation (asset at end of year	$ (1,302,008)	$ (4,385,105)	$ 27,081,987

Beginning in fiscal year 2011, the City began fully funding an OPEB 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. All obligations are liquidated from the OPEB trust.

Complete funded status and funding progress may be found on page B-1.

Financial Reports:

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

Combining Statement of Pension Trust Net Assets:

	General Pension Plan	Fire and Police Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	$ 210,183	$ 167,833	$ 378,016
Total receivables	210,183	167,833	378,016
Investments, at fair value:			
U.S. Government securities	-	432,110	432,110
Corporate bonds and notes	4,362,139	5,332,779	9,694,918
Preferred/Convertible Securities	-	5,116,714	5,116,714
Corporate stocks	82,765,907	48,674,912	131,440,819
Pooled, Common & collective funds	-	21,840,000	21,840,000
Mutual funds – equity	44,021,894	60,676,254	104,698,148
Mutual funds – fixed income	52,647,474	-	52,647,474
Temporary investments	5,314,866	3,350,626	8,665,492
Limited partnerships	39,040,314	44,238,303	83,278,617
Other investments	1,711,499	14,188,819	15,900,318
Total investments	229,864,093	203,850,518	433,714,610
Total assets	230,074,275	204,018,351	434,092,626
LIABILITIES			
Accrued expenses	-	20,188	20,188
Total liabilities	-	20,188	20,188
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 230,074,275	$ 203,998,163	$ 434,072,438

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Fire and Police Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 5,146,581	$ 8,898,127	$ 14,044,708
Employee	1,146,716	3,130,296	4,277,012
Total contributions	6,293,297	12,028,423	18,321,720
Investment income:			
Net appreciation in fair market value of investments	45,570,660	24,107,160	69,677,820
Interest	289,465	3,471,467	3,760,932
Dividends	1,789,545	3,034,881	4,824,426
	47,649,670	30,613,508	78,263,178
Less investment expense	(515,276)	(590,171)	(1,105,447)
Net investment income (loss)	47,134,394	30,023,337	77,157,731
Total additions	53,427,691	42,051,760	95,479,451
DEDUCTIONS			
Benefits paid to participants	13,287,368	22,085,275	35,372,643
Administrative expenses	120,120	733,651	853,771
Total deductions	13,407,488	22,818,925	36,226,414
NET INCREASE	40,020,203	19,232,834	59,253,037
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	190,054,072	184,765,329	374,819,401
End of year	$ 230,074,275	$ 203,998,163	$ 434,072,438

(4) EPB

EPB Pension Plan

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

Contribution requirements of Plan members and EPB are established and can be amended by EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate; the current rate is 9.71 percent of annual covered payroll.

EPB's annual pension cost of the Plan for the current year was approximately $2,725,560. EPB has no net pension obligation at June 30, 2011, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2010, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 3.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 7.5% for preretirement and a blend of 7.5% and 4.0% for post-retirement.

Trend Information:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/11	$ 2,725,560	100%	$ -
6/30/10	2,200,000	100%	-
6/30/09	2,500,000	100%	-

EPB Other Postemployment Benefits

The Electric Power Board of Chattanooga Post Retirement Health and Welfare Benefit Plan (“Plan”) is a single-employer defined benefit healthcare and welfare plan administered by an individual designated by EPB. The plan provides health and life insurance benefits. A standalone financial report is not issued for this plan.

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members receiving benefits contribute based on retiree's age, retirement date, and years of service.

The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2011, EPB contributed approximately $2.2 million for current claims.

Actuarial valuations of an ongoing plan 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 the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The EPB's annual other post employment benefit (OPEB) 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. 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 calculators.

	Pension Plan	Other Post Employment Benefits
Contribution rates for employer	9.71%	7.1%
Contribution rates for plan members	-	Varies
Annual pension/OPEB cost	$2,726,000	$ 1,764,000
Contributions made by employer	2,726,000	2,206,000
Contributions made by plan members	-	-
Actuarial valuation date for current contributions	August 1, 2010	July 1, 2010
Actuarial cost methods	Aggregate	Projected Unit Credit
Amortization method	N/A	Level Dollar
Remaining amortization method	N/A	20 years open
Asset valuation method	Market Value	3 Year Smoothed Market
Actuarial assumptions:		
Investment rate of return	7.50%	6.50%
Projected salary increases	3.00%	-
Inflation rate	3.00%	3.00%

Trend Information:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	$ 1,764,000	125%	$ 8,830,000
6/30/10	1,766,000	93%	9,272,000
6/30/09	1,864,000	99%	9,141,000

In the July 1, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .25% per year to an ultimate rate of 5.5% in 2018. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a three year period. The UAAL is being amortized as a level dollar. The remaining amortization period at July 1, 2010, was twenty years.

EPB's annual pension/OPEB cost and net pension/OPEB obligation (asset) for the current year were as follows:

	Pension Plan	Other Post Employment Benefits
Annual required contribution	$ 2,726,000	$ 1,764,000
Adjustment to annual required contribution	-	-
Annual pension/OPEB cost	2,726,000	1,764,000
Contributions made	(2,726,000)	(2,206,000)
Increase in net pension/OPEB obligation	-	(442,000)
Net pension/OPEB obligation at beginning of year	-	9,272,000
Net pension/OPEB obligation at end of year	$ -	$ 8,830,000

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 15 percent of salary in a tax-deferred savings plan. EPB contributes up to 4.0 percent of an employee's salary after one year of employment. EPB contributions are immediately fully vested and amounted to approximately $951,000 for the year ended June 30, 2011.

(5) Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation (Asset)
Disability and Retirement Plan:			
6/30/11	$931,980	100.0%	$ -
6/30/10	686,159	100.0%	-
6/30/09	325,203	100.0%	-
Defined Benefit Plan:			
6/30/11	$89,461	0.0%	$222,546
6/30/10	79,922	62.6%	133,085
6/30/09	112,405	66.7%	103,163

NOTE 13. FEDERAL EMERGENCY MANAGEMENT ASSISTANCE GRANT

During April 2011, there were over 300 tornadoes within a two-day period that struck the Mississippi, Alabama, Georgia, and Tennessee region. The National Severe Storm Laboratory has listed these storms as the deadliest two-day period since 1936. EPB incurred costs of approximately $28.0 million. Due to the significance of the storms and the resulting damage, EPB applied for assistance from the Federal Emergency Management Agency. At June 30, 2011, EPB included grants receivable of approximately $19.6 million toward these storms leaving $8.4 million of unreimbursed storm costs. For purposes of presentation in the Comprehensive Annual Financial Report, the amounts of the grants have been reclassified from expenditures to revenues.

NOTE 14. JOINT VENTURE

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

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

Total Net Assets	$11,516,998
Multiplied by two-thirds	x 2/3
City's equity interest	$ 7,677,999

Complete financial statement can be obtained from:

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

Condensed financial information for Carter Street Corporation as of June 30, 2011, is as follows:

ASSETS	
Cash	$ 1,158,316
Accounts receivable, net	85,884
Prepaid expenses	21,301
Inventories	52,061
Other current assets	7,750
Capital assets, net	10,521,144
Total assets	$ 11,846,456
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	$ 99,197
Accrued expenses	99,296
Deferred revenue	10,000
Advanced deposits	120,965
Total liabilities	329,458
NET ASSETS	
Invested in capital assets, net of related debt	10,521,144
Restricted	1,762
Unrestricted	994,092
Total net assets	11,516,998
Total liabilities and net assets	$ 11,846,456

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	$ 6,148,113
Total operating expenses	3,267,620
Loss from operations	(364,915)
Nonoperating revenues	359,580
Capital contributions	-
Net decrease	(5,335)
Net assets at July 1, 2010, as previously reported	11,554,316
Prior period adjustment	(31,983)
Net assets at July 1, 2010, as restated	11,522,333
Net assets at June 30, 2011	$ 11,516,998

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

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

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and water quality systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2011. The total contractual commitments outstanding as of June 30, 2011, aggregated approximately $19,639,057.

NOTE 16. 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 has issued at least thirty-one (31) bond issues since 1984, the original amounts of which were $511,755,000. The Board has no means of determining the outstanding amount of these bonds.

The Health, Educational and Housing Facility Board has issued at least forty-nine (49) bond issues since 1985, the original amount of which were $984,247,117. The Board has no means of determining the outstanding amount of these bonds.

NOTE 17. 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 3.5 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 20 years. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2011, are as follows:

Estimated liability, June 30, 2010	$ 9,903,161
Expenses recognized	283,572
Costs incurred	(727,896)
Estimated liability, June 30, 2011	$ 9,458,837
Due within one year	$ 541,546

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 June 30, 2011. 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.

NOTE 18. POLLUTION REMEDIATION

Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB does not require the City to search for pollution, it does require the City to reasonably estimate and report a remediation liability 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 recognized estimated additional liabilities of $2,643,505 and spent $512,152 in pollution remediation obligation related activities. At June 30, 2011, the City had an outstanding pollution remediation liability of $3,979,614 with an estimated $2,399,614 in grant revenue and donated services to offset these costs leaving a net pollution remediation obligation of $1,580,000.

Site investigation, planning, cleanup and site monitoring are typical remediation activities underway across the City. Four brownfield remediation sites have been identified for remediation activities to address contamination from hazardous substances. During the fiscal year remediation was completed for two sites, the Anchor Hocking glass plant site and the Ohls Avenue site. Cleanup activities at an old construction landfill on 36th Street and dumping at a railroad overpass on Tennessee Avenue are just beginning. EPA has determined the likely outlay for remediation to be $480,000 and has awarded a $400,000 grant to cover the majority of the expected costs of cleanup. Other sites are being inventoried and assessed; therefore no liability is currently estimable for them.

Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) site list, is an old construction 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 for use an athletic field; 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 $1,500,000. This estimate will be evaluated annually as better cost estimates are determined.

NOTE 19. 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 $50,000 per occurrence. 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.

As of June 30, 2011, interfund premiums did not exceed expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years. 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.

At June 30, 2011, the Internal Service Fund liability consists of $5,350,000 related to torts and $2,516,034 related to medical benefits.

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

	General Fund	Internal Service Fund
Unpaid claims, June 30, 2009	$ 422,362	$ 6,378,384
Incurred claims, including IBNRs/reduction in estimated liabilities	2,062,138	24,085,589
Claim payments	(2,133,747)	(21,006,651)
Unpaid claims, June 30, 2010	350,753	9,457,322
Incurred claims, including IBNRs/reduction in estimated liabilities	1,664,939	19,734,084
Claim payments	(1,731,124)	(21,325,372)
Unpaid claims, June 30, 2011	$ 284,568	$ 7,866,034
Due within one year	$ 284,568	$ 7,866,034

NOTE 20. 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 October 2011, the City issued $26,495,000 General Obligation Bonds, Series 2011A and $17,545,000 General Obligation Refunding Bonds, Series 2011B (the Bonds). The Series 2011A Bonds are being issued for the purpose of financing all or a portion of the costs of certain public improvement projects and to pay costs associated with the issuance of the Series 2011A Bonds. The Series 2011B Bonds are being issued for the purpose of refunding certain outstanding maturities and paying the costs associated with the issuance of the Series 2011B Bonds.

The Bonds are direct obligations and are backed by the full faith and credit of the City. The Bonds are issued as serial bonds in denominations of $5,000, with interest at rates ranging from 1.5% to 4%. The Bonds mature on October 1 of each year in varying amounts through 2027.