Hazlett, Lewis & Bieter, PLLC
Certified Public Accountants and Business Advisors

Report of Independent Certified Public Accountants on Financial Statements, Supplementary Information, and Schedule of Expenditures of Federal and State Awards

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, which represent 47 percent and 72 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages iii through xvii of the Financial Section and the required supplementary information on pages 57-58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, the financial schedules, and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hazlett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
December 16, 2009

Management's Discussion and Analysis

In this section of the City of Chattanooga's annual financial report we offer readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2009. Please consider the information presented here in conjunction with the transmittal letter found at the front of this report and with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by $1.89 billion (net assets), a decrease of $17.6 million. Of this amount, $21.0 million may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets), a $5.9 million decrease over last year.
- While the net assets of our business-type activities increased $17.2 million, or 3.2 percent, the net assets of our governmental activities decreased $34.8 million, or 2.5 percent. During the year, the City generated $235.3 million in taxes and other revenues for governmental programs. This compares with $264.3 million of expenses for these programs.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year governmental activities recognized depreciation expense of $40.8 million including $26.2 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $97.3 million, an increase of $4.7 million from last year. This increase is the result of several factors.
  - Fund balance in General Fund decreased $8.3 million due to use of $8.9 million of reserves. This includes $3.9 million for city capital projects and $5.0 million as an appropriation to the Industrial Development Board (IDB) to fund a portion of the City's commitment to the Volkswagen facility.
  - Capital projects fund balance increased $15.9 million due to new debt issuance.
  - Fund balance in other governmental funds decreased $2.9 million primarily due to the transfer of $2.0 million from the Hotel-Motel Tax Fund (a special revenue fund) to the capital projects fund for improvements at the waterfront.
  - Property tax revenues were $2.4 million higher than prior year reflecting stable real estate values in the area. State shared income tax decreased $1.3 million or 26.1 percent and state shared sales tax decreased $931,000 or 8.3 percent reflecting the economic challenges facing the nation. Local shared sales tax decreased $1.3 million which was only a 3.4 percent decrease highlighting the relative economic stability of the Chattanooga area.
  - Both revenues and expenditures increased in the General Fund by $10.8 million due to draw downs of a Federal grant to enhance public safety communications in the region.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was $31.5 million, down $9.2 million or 22.6 percent from prior year. This represents 15.1 percent of total General Fund expenditures and transfers out. The City's Debt Management Policy prescribes this to remain above 15 percent.
- Long-term liabilities for the City's Primary Government increased $30.4 million, 4.3 percent, during the current fiscal year. This includes $45.4 million of bonds issued within governmental activities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

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

The government-wide financial statements are:

- **Statement of Net Assets** -- presents information about the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **Statement of Activities** -- presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works; parks, recreation, education, arts & culture and social services. The business-type activities include the City's electric, sewer and water quality systems, as well as solid waste disposal and housing management operations.

The government-wide financial statements include not only the City itself (known as the primary government) but also three legally separate entities (known as component units). The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation, although legally separate from the City, are important because the City is financially accountable for them.

Complete financial statements of the component units may be obtained from: (1) Chattanooga Metropolitan Airport Authority, P. O. Box 22444, Chattanooga, TN 37422; (2) CARTA, 1617 Wilcox Boulevard, Chattanooga, TN 37406 and (3) The Chattanooga Downtown Redevelopment Corporation, 101 East 11th Street, Suite 101, Chattanooga, Tennessee 37402.

The government-wide financial statements begin on page 1 of this report.

Fund financial statements: The fund financial statements provide more detailed information about the most significant funds—not the City as a whole. Some funds are required by State or Federal law or by bond covenants; other funds are established by the City to help it manage money for specific purposes (i.e. economic development projects) or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used (i.e. grants received from the U. S Department of Housing and Urban Development).

All the funds of the City can be divided into three types of funds: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

- **Governmental funds** -- The City's basic services are included in governmental funds. The focus of these funds is on: (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending. This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statements that explain the differences between the long-term view and the short-term view.

The City maintains a general fund, multiple special revenue funds, a debt service fund, a capital projects fund and one permanent fund as governmental funds. Information is presented separately in the governmental statements for the General Fund and the Capital Projects Fund since both of these are considered major funds. Data for the other funds is combined into a single column with individual fund data for each of these nonmajor governmental funds provided in the other supplementary information section of this report.

The City of Chattanooga adopts an annual budget for the General Fund, special revenue funds and the debt service fund. Budgetary comparisons are provided for these funds to demonstrate compliance with the budget: the General Fund budgetary comparison is found in the fund statements of this report and comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Both the capital projects fund and the permanent funds are excluded from budgetary reporting since neither adopts an annual budget.

The governmental fund financial statements begin on page 4 of this report.

- **Proprietary funds** — Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Chattanooga maintains two different types of proprietary funds: enterprise funds and an internal service fund.

  Enterprise funds are the same as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Water Quality Management and Solid Waste are considered major funds. The only other fund, Housing Management, is also shown on the face of the proprietary fund financial statements.

  Internal service funds provide services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing (including health costs) in the internal service fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

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

- **Fiduciary funds** — These funds are used to account for resources held for the benefit of others outside the government. The City maintains a pension trust fund, an OPEB trust fund and an agency fund as fiduciary funds. The City is responsible for ensuring that the assets are used for their intended purposes, however, we exclude these activities from the City's government-wide financial statements since these assets cannot be used to finance City operations. The statement of fiduciary net assets and statement of changes in fiduciary net assets are reported in the fund financial statements.

  The fiduciary fund financial statements begin on page 14 of this report.

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

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

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

Supplementary information: In addition to the basic financial statements discussed above, this report also contains supplementary information.

- **Required supplementary information** – Information about the City's progress in funding its obligation to provide pension and OPEB benefits to its employees.

- **Other supplementary information** – This includes the combining statements for nonmajor governmental funds and discretely presented component units. It also includes a more detailed budget to actual comparison for General Fund and budget to actual comparisons for special revenue funds and the debt service fund.

Both the required and other supplementary information may be found following the notes to the financial statements beginning on page 57.

Financial Analysis of the City as a Whole

Net Assets: Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $1.9 billion at the close of the most recent fiscal year, a decrease of $17.6 million, or 0.9 percent, from last year.

By far the largest portion of the City's net assets, 96.3 percent, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

A portion of the City's net assets, $48.7 million or 2.6 percent, represents resources that are restricted in how they may be used. The remaining balance of $21.0 million may be used to meet the City's ongoing obligations, a $5.9 million decrease.

At the end of the fiscal year, the City of Chattanooga is able to report a positive net asset balance for the government as a whole, as well as for its governmental and business-type activities.

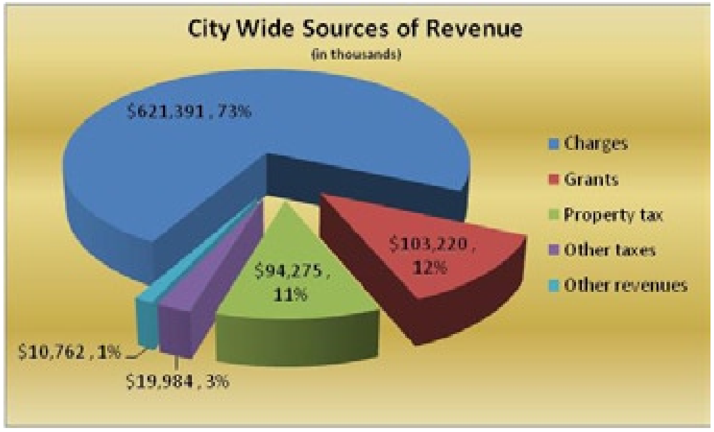
City of Chattanooga's Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and						
other assets	$ 263,143	$ 252,658	$ 376,655	$ 418,237	$ 639,798	$ 670,895
Capital assets	1,550,391	1,546,363	762,783	698,474	2,313,174	2,244,837
Total assets	1,813,534	1,799,021	1,139,438	1,116,711	2,952,972	2,915,732
Long-term debt						
outstanding	328,777	294,097	437,509	441,044	766,286	735,141
Other liabilities	143,521	128,874	154,217	145,130	297,738	274,004
Total liabilities	472,298	422,971	591,726	586,174	1,064,024	1,009,145
Net assets:						
Invested in						
capital assets,						
net of debt	1,259,406	1,276,307	559,872	563,418	1,819,278	1,839,725
Restricted	24,162	12,296	24,501	27,647	48,663	39,943
Unrestricted	57,668	87,447	(36,661)	(60,528)	21,007	26,919
Total net assets	$ 1,341,236	$ 1,376,050	$ 547,712	$ 530,537	$ 1,888,948	$ 1,906,587

Changes in Net Assets: Net assets of the City's governmental activities were $1.34 billion, a $34.8 million decrease from the prior year. Of that balance $1.28 billion are either restricted as to how they may be used or are invested in capital assets (buildings, roads, bridges, etc.). Therefore $57.7 million remains to meet the City's ongoing obligations to citizens and creditors, a $29.8 million decrease.

During the current year the net assets of the business-type activities increased $17.2 million or 3.2 percent to $547.7 million. These net assets are dedicated solely to finance the continuing operations of the electric, sewer, and water quality systems, solid waste disposal and housing management operations.

The following graphs summarize the sources of the City's total revenues of $849.6 million and total program expenses of $858.4 million. These graphs combine governmental and business-type information.



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

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

	Governmental Activities 2009	Governmental Activities 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total 2008
Revenues						
Program revenues:						
Charges for services	$ 19,532	$ 20,259	$ 601,859	$ 538,481	$ 621,391	$ 558,740
Grants and contributions	50,577	55,275	2,654	1,858	53,231	57,133
General revenues:						
Property taxes	94,275	91,848	-	-	94,275	91,848
Other taxes	19,984	20,063	-	-	19,984	20,063
Investment income	1,420	4,104	8,992	5,250	10,412	9,354
Miscellaneous	(458)	2,893	808	817	350	3,710
Unrestricted grants	49,989	53,466	-	-	49,989	53,466
Total revenues	235,319	247,908	614,313	546,406	849,632	794,314
Expenses						
Governmental activities:						
General government	88,029	75,283	-	-	88,029	75,283
Public safety	70,745	72,595	-	-	70,745	72,595
Public works	61,148	55,936	-	-	61,148	55,936
Parks, rec, ed & culture	17,223	17,370	-	-	17,223	17,370
Social services	20,440	19,072	-	-	20,440	19,072
Interest on long-term debt	6,694	6,902	-	-	6,694	6,902
Business-type activities:						
Electric utility	-	-	542,811	472,114	542,811	472,114
Sewer	-	-	40,311	37,859	40,311	37,859
Solid waste	-	-	4,373	4,974	4,373	4,974
Water quality	-	-	5,639	5,059	5,639	5,059
Housing management	-	-	942	1,003	942	1,003
Total expenses	264,279	247,158	594,076	521,009	858,355	768,167
Excess (deficiency) before special item and transfers	(28,960)	750	20,237	25,397	(8,723)	26,147
Special item	(8,916)	-	-	-	(8,916)	-
Transfers	3,062	4,321	(3,062)	(4,321)	-	-
Increase (decrease) in net assets	(34,814)	5,071	17,175	21,076	(17,639)	26,147
Net assets, beginning	1,376,050	1,370,979	530,537	509,461	1,906,587	1,880,440
Net assets, ending	$ 1,341,236	$ 1,376,050	$ 547,712	$ 530,537	$ 1,888,948	$ 1,906,587

Governmental Activities: Current fiscal year revenues for the City's governmental activities were $235.3 million compared to $247.9 million last year, down 5.1 percent. Current year expenses were $264.3 million compared to $247.2 million last year, a 6.9 percent increase.

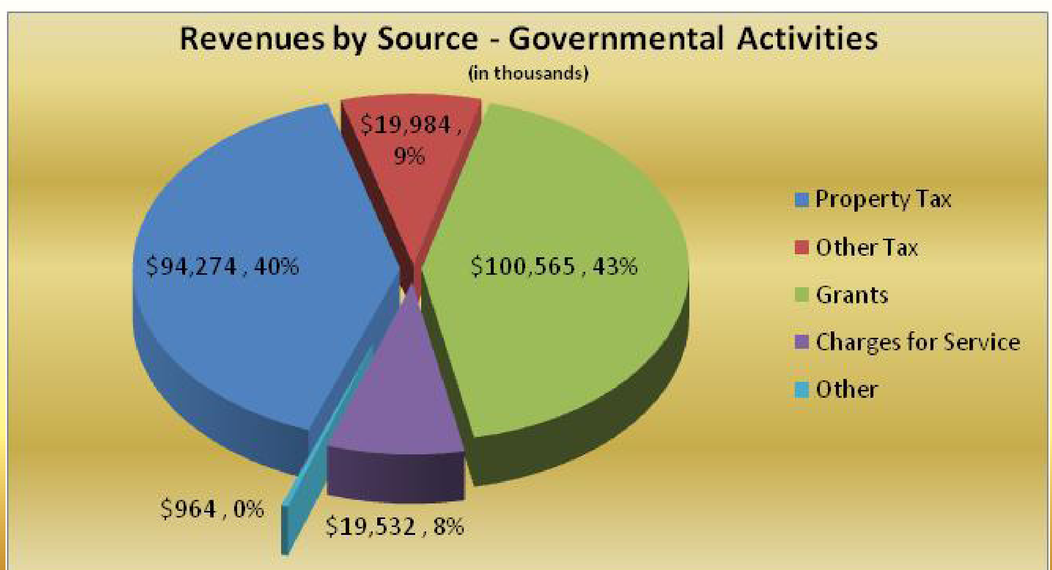
Most areas of general revenue experienced a major change for the year; each is discussed below.

- The single largest source of governmental activity revenue, property taxes, increased by $2.4 million, or 2.6 percent resulting from higher property tax assessments reflecting relatively strong property values throughout the City.
- Liquor and beer taxes were up $443,500 or 6.4 percent while other taxes decreased $522,900 or 4.0 percent primarily from franchise taxes and hotel-motel tax. In FY08 an additional quarterly franchise tax payment was received, otherwise there would have been a slight increase in FY09. Hotel-Motel tax decreased $173,600 or 4.3 percent as a result of reduced tourism and business travel during this recession.
- The City's portion of State income taxes decreased $1.3 million or 26.1 percent resulting from weak dividend and money market returns.
- State allocated sales tax decreased $931,000 or 8.3 percent while local sales tax decreased $1.3 million or 3.4 percent.
- Investment income decreased $2.7 million or 65.4 percent reflecting historically low short-term interest rates.
- Miscellaneous revenue was down $3.3 million revenue due to a change in the method of accounting for the EPB payment in lieu of tax in 2008.

Program revenues, especially the grants, had significant changes for the year.

- Charges for services decreased 3.6 percent or $726,900 from a mixture of increases and decreases. Automated camera enforcement revenue increased $516,700 while building related permits, low-income rehab paybacks and city court fees and fines were down $615,600, $327,100 and $308,600 respectively.
- Operating grants and contributions increased $13.3 million or 50.7 percent. $10.8 million results from draw downs on the Public Safety Interoperable Communications (PSIC) grant. An additional $1.3 million is an increase in the Low Income Energy Assistance Program (LIEAP).
- Capital grants and contributions decreased $18.0 million or 62.1 percent primarily as a result of a decline in donations of streets. During FY08 a single, new sub-division contributed $10.3 million in streets; with the economic down-turn this was not repeated in FY09.

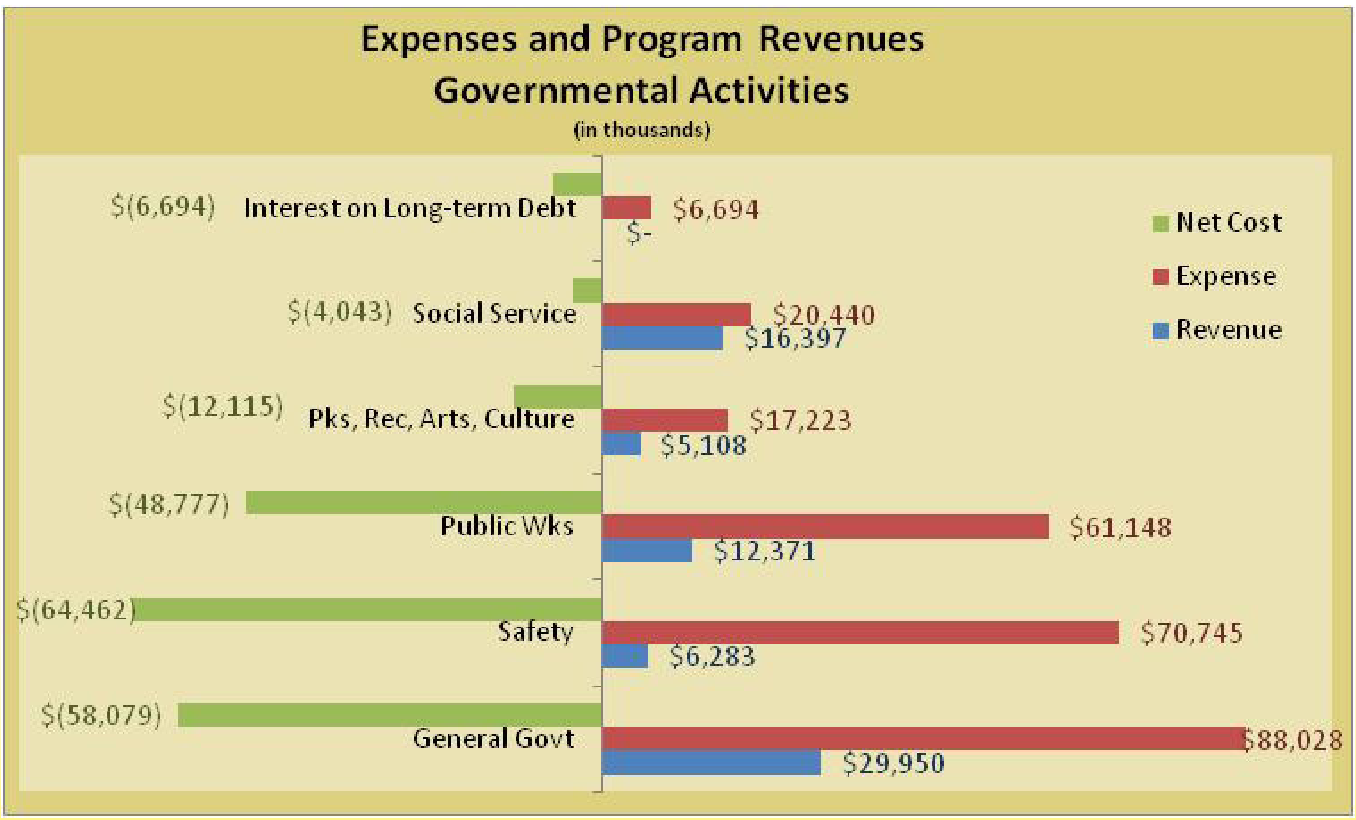
The graph below shows the source of governmental activities revenue.



While revenues were down in 2009, expenses for governmental activities were up General Government, Public Works and Social Services experienced increases while Public Safety, Parks, Recreation, Arts & Culture and Debt Service decreased for the year.

- General government expenses increased $12.7 million or 16.9 percent. $7.8 million is attributable to an appropriation to the IDB to finance a portion of the City's commitment to construction of the Volkswagen facility at Enterprise South Industrial Park (ESIP). An additional $3.6 million was appropriated to CARTA to build a parking garage in the North Shore area and the liability insurance premium increased approximately $900,000.
- Public Works expenses increased 9.3 percent or $5.2 million. As with General Government, the largest single contributor was an appropriation to the IDB; Public Work's contribution was $2.8 million. The next largest increase was $1.6 million for landfill fees paid to the Solid Waste Fund. Other increases include $741,000 in vehicle costs (both for parts and labor on older vehicles and city-lease program costs for newer vehicles) and $429,000 increased costs for street lighting.
- Social Services expenses increased $1.4 million or 7.2 percent with the increase driven by increased grant funding.
- Public Safety experienced a $1.8 million or 2.5 percent decrease in expense. The largest component was a $717,000 adjustment resulting from a 9.4 percent excess contribution over the actuarially computed annual required contribution (ARC). Other decreases include $374,000 for gasoline for police cars due to reduction in gas prices from an all-time high in 2008 and $315.000 less paid out in leave because of fewer retirements.

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



Business-type Activities: Revenues for the City's business-type activities were $614.3 million for the year just completed; this is a $67.9 million or 12.4 percent increase. The increase in revenue was offset by a $73.2 million, 14.0 percent, increase in expenses, to $594.4 million.

The following chart provides a summary for each business-type activity. Each is briefly covered following the table.

Expenses and Program Revenues - Business-type Activities (in thousands)						
	Electric	Sewer	Solid Waste	Water Quality	Housing	Total
Expenses	$ 543,102	$ 40,312	$ 4,373	$ 5,639	$ 942	$ 594,368
Program Revenues	555,502	44,739	7,234	6,032	807	614,314
Transfers	(3,469)	(14)	-	712	-	(2,771)
Change in net assets	$ 8,931	$ 4,413	$ 2,861	$ 1,105	$ (135)	$ 17,175

Electric Power Board

The largest source of business-type activity revenue is generated from the Electric Power Board. Operating revenue from customers increased by $60.2 million, 12.4 percent, due mainly to the impact of rate increases passed on from TVA and fuel cost adjustments. This increase in revenue was offset by a $65.9 million, 14.2 percent, increase in operating costs including a $59.7 million increase in purchased power costs.

Total net assets of the Electric Power Board increased $8.9 million to $271.0 million for fiscal year 2009, an increase of 3.4 percent.

Net assets invested in capital and restricted for use total $318.6 million leaving a deficit of $47.6 million available to finance day-to-day operations (unrestricted net assets). This negative, unrestricted net assets results from the heavy investment in infrastructure for the Smart Grid reallocating net assets between invested in capital and unrestricted.

Interceptor Sewer System

Net assets of the Interceptor Sewer System increased $4.4 million, 1.8 percent, to $250.5 million.

Operating revenues rose $1.3 million or 3.0 percent primarily as a result of rate increases, while operating expenses rose $2.8 million or 8.4 percent. Rates were adjusted October 1 from 4.83 to 4.98 and adjusted April 1 to 5.12. Costs for electricity were up due to higher rates and significant increase in chemical costs during the year.

Unrestricted net assets, those that can be used to finance on-going operations, increased $1.5 million or 5.5 percent to $29.2 million. An additional $12.3 million is restricted for future capital spending. All categories of net assets increased.

Solid Waste

The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and post-closure care requirements for such landfills. As a result of an aggressive program to meet these requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2009 net assets increased $2.9 million following a continual trend of improvement.

To date the City has accrued liabilities of $4.3 million for a closed landfill and $5.5 million for a landfill currently in operation, virtually unchanged from last year. Many of these costs are being financed through general obligation bonds.

The major customer of the landfill is the City itself. During the current fiscal year tipping fees from the City of Chattanooga were $6.3 million, 91.8 percent of total tipping fees.

Water Quality Management

The Water Quality Fund, established to comply with EPA guidelines, now has $32.2 million in net assets, an increase of $1.1 million, 3.5 percent, from last year.

$27.9 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City. This is a $1.6 million, 6.1 percent increase.

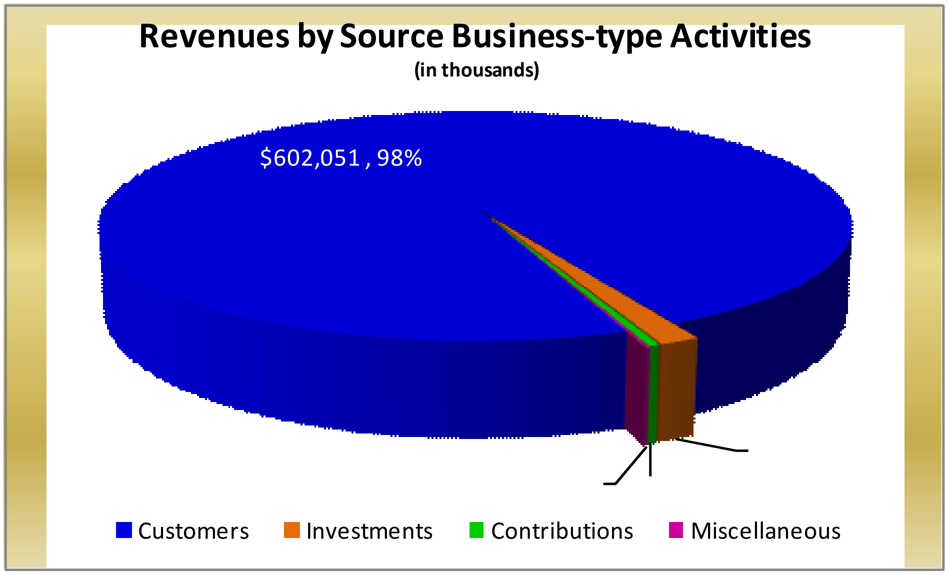
Net assets available to fund day-to-day operations increased from $3.6 million to $3.9 million.

Housing Management

The Housing Management Fund reported $807,000 in rental income, an increase of 7.4 percent from last year. During the same period operating expenses decreased 5.6 percent to $905,000.

The fund ended the year with net assets of $2.7 million, a decrease of $135,000, or 4.8 percent primarily as a result of building depreciation. Almost all of the net assets are invested in capital leaving $123,000 in net assets available to meet on-going operations.

The following graph presents the major sources of revenue for business-type activities.



Financial Analysis of the City's Funds

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

Governmental Funds: Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of $97.3 million at the end of the fiscal year. 40.5 percent, of this amount, or $39.4 million, is available for day-to-day operations (unreserved, undesignated fund balance). All of the governmental funds, except for the Hotel-Motel Tax Fund, reported a positive ending fund balance. $2 million was allocated and transferred to capital for waterfront repairs during 2009 with a portion funded from existing reserves and a portion to be funded from 2010 reserves. Information about the major governmental funds is presented below.

General Fund: This is the chief operating fund of the City of Chattanooga. Total fund balance of the City's General Fund decreased by 16.0 percent or $8.3 million to $43.7 million during the fiscal year. Unreserved fund balance was $35.1 million, of which $3.6 million is designated for future spending. During the fiscal year unreserved, undesignated fund balance decreased $9.2 million. Key factors are as follows:

- $8.9 million of fund balance was appropriated for capital projects; $4.99 million of which was appropriated to IDB to partially fund the City's commitment under a Memorandum of Understanding between the State, City of Chattanooga, Hamilton County and Volkswagen of America.

- Total revenues increased $8.2 million, 4.3 percent, from the prior year with a mix of increases and decreased as discussed below.
  - During the current fiscal year property tax increased $2.4 million, 2.6 percent over last year. This is a result of stable property values without any increase in tax rate or property re-appraisal.
  - Licenses and permits were $198,000 lower, 4.3 percent, primarily due to a $616,000 decrease in building permits which was partially offset by $272,000 additional parking meter revenue.
  - Intergovernmental revenues increased $8.4 million or 13.7 percent over the prior year. The driving force behind this increase is $10.8 million of revenue received under a new PSIC grant for inter-operative communications in the Southeast. State shared revenues including income and sales tax were down, $1.3 million, or 26.1 percent, and $0.9 million, or 8.3 percent, respectively. County-wide sales taxes were down but not as drastically at $1.3 million or 3.4 percent. The remainder is an increase in several, miscellaneous grants that fluctuate from year to year.
  - Charges for services increased 1.8 percent or $86,700. This increase is primarily a reclassification of zoo revenues from miscellaneous revenue to charges for services. Zoo revenues were up $181,000 while court costs were down $125,000 as discussed below. Golf course revenues were down $212,000 as a result of the economy and a very rainy springtime.
  - Fines, Forfeitures and Penalties were up $341,000 or 13.7 percent. This is a result of increased automated enforcement efforts which increased $522,000. Court related fines decreased $184,000 because of fewer fines assessed due to use of the automated enforcement program.
  - Interest income decreased $2.3 million, 57.6 percent, due to the stressed interest rate environment.
  - Miscellaneous revenue decreased $781,000 or 14.6 percent. Prior year included a one-time fire settlement and current year zoo revenues moved to charges for services. Attendance at civic venues has decreased accounting for the remainder of the change.
- Total expenditures increased $20.2 million, 12.2 percent, from the previous year.
  - The largest change was in General Government for the new inter-operative communications grant. Expenditures of $10.8 million were equal to grant revenues.
  - $5.0 million was included as a new appropriation in General Government to the Industrial Development Board to be used as a portion of the City's local match toward work at the Volkswagen site located at Enterprise South Industrial Park.
  - Salaries and fringe benefits decreased $2.2 million or 2.1 percent mainly in the area of Safety. The animal services division of the Police Department was turned over to a non-profit organization at the beginning of the year. Mid-way through the year payroll for 911 Communications was turned over to the new unified 911 District in an effort to improve effectiveness throughout Hamilton County.
  - Public Works waste disposal costs increased $1.6 million or 35.4 percent due to increased landfill costs paid to the Solid Waste Fund.
  - Electricity costs increase $684,000 or 15.9 percent. Over 60 percent of the increased cost impacted Public Works through street lighting costs.

Capital Projects Fund: This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported $32.9 million in fund balance all of which was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; new debt increases fund balance while construction decreases it. For fiscal year 2009 there was a $15.9 million increase. Analysis of project income and expenditures follows.

- Project income for the year of $58.4 million includes $46.4 million in general obligation debt proceeds and premiums, $1.6 million in intergovernmental revenue and various small amounts in contributions, interest, note proceeds and sale of property. Transfers include $3.96 million of General Fund appropriation, $2.9 million of economic development money and $2.7 million transferred from special revenue funds.

- Current year expenditures and transfers of $42.5 million include $10.5 million for street improvements, $7.9 million for Summit of Softball complex, $6.0 appropriation to the Industrial Development Board for the Volkswagen project, $5.0 for roads at ESIP, $4.0 million appropriation to CARTA, $1.7 for software, $1.1 for fire station construction, $1.0 for fire equipment, $1.0 for police equipment and various other project including completion of the Outdoor Chattanooga office, work on Greenways, The Passage and bridge improvements.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, had combined net assets of $564.8 million.

- $567.7 million is invested in capital assets with an additional $24.5 million restricted for future use, leaving a deficit of $27.4 million available to meet on-going obligations. As previously stated, EPB is heavily investing in infrastructure resulting in a reallocation of net assets from unrestricted to invested in capital.
- Total net assets of the enterprise funds rose $17.2 million, 3.2 percent. Factors concerning the finances of the enterprise funds have already been addressed in the discussion of the City's business-type activities.
- The internal service fund serves City government by providing fuel, vehicle maintenance, fleet leasing and by accounting for the City's self-insurance program. Fund balance for this fund increased $2.7 million, 18.5 percent, primarily because medical insurance premiums paid to the fund were in excess of claims paid during the year by $1.6 million.
- Because the internal service fund primarily serves the governmental funds, its information is included in governmental activities in the government-wide financial statements.

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

- When comparing final budgeted revenues to actual, there was a $8.8 million deficit for the year.
  - Total tax collections for fiscal year 2009 exceeded budget expectations by $1.0 million or 1.0 percent. Property tax and liquor/beer taxes were $604,000 and $395,000 above budget, respectively.
  - Licenses and permits were down $663,000, primarily due to building related permits.
  - The largest variance is in intergovernmental revenue, which was $8.4 million less than budget. The city allocation of state sales tax was under budget $1.2 million, or 10.3 percent, compared to the city allocation of the county-wide sales tax was under $2.7 million, or 6.7 percent, under budget. These were partially offset by the city allocation of the state income tax being over expectations by $929,000. At first glance it is concerning that special programs were under budget $5.7 million; however this is due to $16.8 million in grant revenue being budgeted for the PSIC grant while only $10.8 was drawn down and recognized during the year.
  - Charges for services were $443,000 under budget. An unusually wet spring resulted in fewer rounds of golf during peak months for the city's golf courses. Other areas impacted were fees for city court with fewer fines assessed due to the automated enforcement program and plans checking fees relating to construction.
  - As previously mentioned, fewer court fees and fines were assessed. This is the primarily reason for fines, forfeitures and penalties being $122,000 under budget.
  - Investment income and contributions were slightly over expectations while miscellaneous revenue, which fluctuates from year to year, was $245,000 below budget.
- Expenditures were less than budgetary estimates by $5.7 million which includes salaries and benefits under budget by $6.1 million. All departments were below budget as a result of the city's intensive contingency planning measures.
- The General Fund budget anticipated use of $13.4 million of fund balance during the year. This included planned use of $10.4 million for capital with the remainder used in special programs that cross fiscal years. For 2009 the actual use of fund balance was $5.1 million less than anticipated.

Capital Asset and Debt Administration

Capital Assets: At the end of this year, the City had $2.3 billion (net of accumulated depreciation) invested in capital assets, an increase of $68.4 million or 3.0 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The following table shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Non-depreciable:						
Land & Easements	$1,023,977	$1,023,642	$ 16,842	$ 15,332	$ 1,040,819	$ 1,038,974
Work in progress	25,332	15,136	52,728	31,096	78,060	46,232
Depreciable:						
Buildings & Improvements	119,455	120,874	73,244	70,222	192,699	191,096
Vehicles & Machinery	28,160	28,654	45,564	38,337	73,724	66,991
Infrastructure	353,467	358,056	574,405	543,487	927,872	901,543
Total	$1,550,391	$1,546,362	$ 762,783	$ 698,474	$ 2,313,174	$ 2,244,836

Highlights for this year's major capital asset changes:

- Land includes the addition of $5.6 million in donated roadbeds and $5.2 million transferred from the City to the IDB for the Volkswagen facility.
- The major additions to work-in-progress are $10.5 million for communication system associated with the PSIC grant, $2.1 million North Point Blvd. extension, $1.2 million for a new HVAC system at the Development Resource Center and work on Fire Station # 4 of $1.1 million. $2.0 million for the McKamey Animal Care and Adoption Center was transferred to buildings and $3.7 million was transferred from the City to the IDB for the Volkswagen facility.
- Street improvements of $8.7 million and $7.8 million for the Summit of Softball complex were the major additions to infrastructure. An additional $3.0 million of donated streets were accepted from contractors.
- The Electric Power Board investment in plant assets increased $64.1 million for the year. This includes $45.2 million in the electric system and $18.9 million for fiber optics.
- $10.5 million was capitalized as new infrastructure for the Interceptor Sewer System. The Water Quality System capitalized $712,000 as new infrastructure.

The capital budget for fiscal year 2010 anticipates spending $59.7 million for various capital projects including $750,000 for expansion and upgrade of the City's parks and park facilities; $20.7 million for various public works projects such as paving, street improvement, curbs, gutters and sidewalks, and equipment replacement; $4.9 million for fire service expansion, equipment and new stations; $252,000 for Police radios; $262,000 for CARTA for match for Federal Grants; computer software replacement and upgrades $3.6 million; $12.3 million for Industrial Development Board for infrastructure improvements at Enterprise South Industrial Park; and $10.8 million for various interceptor sewer upgrades. $13.5 million in bonds has been approved to help finance a portion of these projects.

More detailed information about the City's capital assets is presented in the Note 8 to the financial statements.

Debt Administration: At year-end the City had $736.7 million in long-term debt outstanding. This is a $30.4 million increase, 4.3 percent, from last year. Detail is shown in the table and narrative that follow.

City of Chattanooga's Long-term Debt (in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds						
(backed by the City)	$ 169,653	$ 130,844	$ 83,302	$ 96,052	$ 252,955	$ 226,896
Revenue bonds						
(backed by specific revenues)	-	-	288,060	289,660	288,060	289,660
Notes payable and other	30,655	32,593	55,105	44,406	85,760	76,999
Capital leases	109,822	112,604	148	171	109,970	112,775
Total	$ 310,130	$ 276,041	$ 426,615	$ 430,289	$ 736,745	$ 706,330

- The City of Chattanooga maintains an "AA+" rating from both Standard & Poor's which was recently upgraded and an "AA" rating from Fitch Investor's Service for general obligation debt.
- City Charter limits the amount of net general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is $416.7 million. The City's general obligation debt, net of self-supporting debt of $134.0 million is well within that limit.
- During the year the City issued the following new debt:
- The City issued $45.4 million in general obligation bonds to fund capital projects including Summit of Softball sports complex, improvements at Warner Park, road improvements, fire station replacement and purchase of fire apparatus.
- Various small notes and capital leases were entered into including: (a) an additional $319,000 draw on a state revolving loan with $19.3 million outstanding at year-end; (b) $98,000 obligated to pay Foreign-Trade Zone fees for Volkswagen and (c) $323,000 for a capital lease for golf course equipment. All of these are governmental activities.
- The Interceptor Sewer System drew down $11.3 million on a new state revolving loan for sewer system improvements. This is a business-type activity.

More detailed information about the City's long-term liabilities is presented in the Note 9 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the General Fund budget for 2010:

- The City uses Conservative forecasts for budgeting purposes. The primary source of funds remains property taxes which are budgeted at 95 percent of the tax levy. For the 2010 budget this should result in an increase in property taxes.
- Sales tax revenue is budgeted lower than 2009 based on actual experience from prior year reflecting the continued weak economy for the near future. The lower estimates apply to both the City allocation of the State sales tax and the County-wide sales tax.
- Interest revenues are expected to decline.
- The 2010 budget is reflective of the tough economic times we are facing on a local and national scale. The challenge to avoid employee layoffs and to maintain a high quality medical benefits program for employees and

retirees has been met while continuing to focus on providing quality services to the citizens of our community.

Anticipated revenues in the General Fund budget are $194.0 million, down 2.98 percent from the 2009 budget. Property taxes are projected to grow by 2.1 percent or $1.9 million. The City allocation of State sales tax and County-wide sales tax collections are projected to decline by 9.9 percent and 6.0 percent, respectively. Interest earnings are estimated to decrease 65.9 percent due to a decrease in available funds and historically low interest rates.

Budgeted expenditures are expected to decrease by 2.9 percent from $200.0 million to $194.0 million. Salaries and fringe benefits are expected to decrease by 7.3 percent primarily due to freezing of many vacant positions.

A modest increase in net assets for the City's business-type activities is expected during FY 2010.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the assets it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department
101 East 11th Street; Suite 101
Chattanooga, Tennessee 37402
(423) 757-5232
www.chattanooga.gov

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 42,310,483	$ 141,084,783	$ 183,395,266	$ 10,103,244
Investments	44,388,360	142,056,253	186,444,613	742,341
Receivables, net of allowance for uncollectibles	128,381,539	61,591,287	189,972,826	7,259,894
Net investment in capital lease	-	-	-	108,937,617
Internal balances	3,760,000	(3,760,000)	-	-
Due from component units	819,187	-	819,187	-
Deferred charges	1,715,526	3,915,039	5,630,565	1,936,536
Inventories	1,955,396	10,825,149	12,780,545	257,073
Prepaid items	129,217	3,968,000	4,097,217	454,244
Other assets	-	3,962,000	3,962,000	-
Restricted assets:				
Cash and cash equivalents	3,457,021	754,335	4,211,356	508,397
Investments	17,241,331	12,239,553	29,480,884	9,933,897
Endowment investments	2,818,085	-	2,818,085	-
Receivables	-	17,774	17,774	202,824
Net pension assets	8,267,901	-	8,267,901	-
Equity interest in joint venture	7,899,411	-	7,899,411	-
Land and other nondepreciable assets	1,049,308,958	69,569,855	1,118,878,813	16,741,629
Other capital assets, net of accumulated depreciation	501,081,693	693,213,573	1,194,295,266	84,180,995
Total assets	1,813,534,108	1,139,437,601	2,952,971,709	241,258,691
LIABILITIES				
Accounts payable and accrued liabilities	27,676,230	103,608,353	131,284,583	6,601,929
Customer deposits	-	18,255,000	18,255,000	-
Due to primary government	-	-	-	819,187
Contracts payable	975,795	1,508,142	2,483,937	1,943,082
Unearned revenue	95,434,809	-	95,434,809	23,720
Accrued closure and post-closure care	-	9,793,507	9,793,507	-
Net pension obligations	-	-	-	103,163
Accrued postemployment benefits	19,434,217	9,141,000	28,575,217	-
Other liabilities	-	11,911,176	11,911,176	-
Long-term liabilities:				
Due within one year	21,230,892	17,773,202	39,004,094	3,342,268
Due in more than one year	307,545,920	419,735,432	727,281,352	124,424,293
Total liabilities	472,297,863	591,725,812	1,064,023,675	137,257,642
NET ASSETS				
Invested in capital assets, net of related debt	1,259,405,543	559,872,034	1,819,277,577	93,546,268
Restricted for:				
Capital projects	20,698,352	-	20,698,352	-
Debt service	550,000	-	550,000	10,022,839
Renewal and replacement	-	24,501,372	24,501,372	741,597
Permanent endowments:				
Expendable	36,705	-	36,705	-
Nonexpendable	2,877,108	-	2,877,108	-
Unrestricted	57,668,537	(36,661,617)	21,006,920	(309,655)
Total net assets	$1,341,236,245	$ 547,711,789	$1,888,948,034	$104,001,049

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 88,028,404	$ 12,239,326	$ 17,286,864	$ 423,711
Public safety	70,745,129	630,281	5,330,777	322,101
Public works	61,147,976	1,893,443	299,207	10,178,684
Parks, recreation, education, arts & culture	17,223,313	4,069,218	950,787	88,000
Social services	20,440,264	700,179	15,697,275	-
Interest on long-term debt	6,693,847	-	-	-
Total governmental activities	264,278,933	19,532,447	39,564,910	11,012,496
Business-type activities:				
Electric utility, including communications	542,811,000	544,635,000	-	2,268,000
Sewer	40,311,413	43,749,143	-	18,551
Solid waste/sanitation	4,373,161	6,871,844	132,140	-
Water quality management	5,638,936	5,796,188	59,435	176,000
Housing management	941,834	807,058	-	-
Total business-type activities	594,076,344	601,859,233	191,575	2,462,551
TOTAL PRIMARY GOVERNMENT	$ 858,355,277	$ 621,391,680	$ 39,756,485	$ 13,475,047
Component units:				
Airport authority	$ 9,189,838	$ 7,319,562	$ -	$ 8,492,531
Transportation authority	20,829,026	6,289,314	6,777,677	11,407,525
Downtown redevelopment	16,821,192	15,544,319	-	-
TOTAL COMPONENT UNITS	$ 46,840,056	$ 29,153,195	$ 6,777,677	$ 19,900,056

General revenues:
- Property taxes
- Liquor and beer 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
- Unrestricted investment earnings
- Miscellaneous
- Loss on equity interest in joint venture

Special item - transfer of land for VW facility

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (58,078,503)	$ -	$ (58,078,503)	$ -
(64,461,970)	-	(64,461,970)	-
(48,776,642)	-	(48,776,642)	-
(12,115,308)	-	(12,115,308)	-
(4,042,810)	-	(4,042,810)	-
(6,693,847)	-	(6,693,847)	-
(194,169,080)	-	(194,169,080)	-
-	4,092,000	4,092,000	-
-	3,456,281	3,456,281	-
-	2,630,823	2,630,823	-
-	392,687	392,687	-
-	(134,776)	(134,776)	-
-	10,437,015	10,437,015	-
(194,169,080)	10,437,015	(183,732,065)	-
-	-	-	6,622,255
-	-	-	3,645,490
-	-	-	(1,276,873)
-	-	-	8,990,872
94,274,504	-	94,274,504	-
7,394,591	-	7,394,591	-
12,588,985	-	12,588,985	-
36,104,934	-	36,104,934	-
10,254,407	-	10,254,407	-
3,629,181	-	3,629,181	-
1,420,375	8,991,904	10,412,279	905,307
-	808,000	808,000	1,597,902
(457,589)	-	(457,589)	-
(8,916,345)	-	(8,916,345)	-
3,061,998	(3,061,998)	-	-
159,355,041	6,737,906	166,092,947	2,503,209
(34,814,039)	17,174,921	(17,639,118)	11,494,081
1,376,050,284	530,536,868	1,906,587,152	92,506,968
$ 1,341,236,245	$ 547,711,789	$ 1,888,948,034	$ 104,001,049

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,841,410	$14,909,088	$13,689,048	$ 30,439,546
Investments	40,334,123	17,241,331	6,872,322	64,447,776
Receivables, net of allowance for uncollectibles:				
Taxes	94,501,070	-	-	94,501,070
Accounts	-	154,440	74,134	228,574
Notes	1,196,665	2,584,218	-	3,780,883
Other	4,820,812	33,161	-	4,853,973
Due from other funds	5,126	1,520,829	507,807	2,033,762
Due from component units	359,556	459,631	-	819,187
Due from other governments	19,023,181	1,258,203	4,390,364	24,671,748
Inventories	637,594	-	-	637,594
Prepaid items	129,217	-	-	129,217
Total assets	$162,848,754	$38,160,901	$25,533,675	$ 226,543,330
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 10,202,311	$ 3,577,382	$ 1,934,094	$ 15,713,787
Due to other funds	-	507,807	1,525,955	2,033,762
Due to other governments	2,403,064	176,687	297	2,580,048
Deferred revenue	106,496,380	-	1,471,604	107,967,984
Contracts payable	-	975,795	-	975,795
Total liabilities	119,101,755	5,237,671	4,931,950	129,271,376
Fund balances:				
Reserved for:				
Encumbrances	6,653,954	-	308,774	6,962,728
Library endowment	-	-	2,877,108	2,877,108
Inventories	637,594	-	-	637,594
Prepaid items	129,217	-	-	129,217
Capital improvements	-	32,923,230	-	32,923,230
Notes receivable	1,196,665	-	-	1,196,665
Debt service escrow	-	-	550,000	550,000
Unreserved, designated for:				
Debt service	-	-	8,375,003	8,375,003
Subsequent years' expenditures	3,608,909	-	562,100	4,171,009
Unreserved, undesignated, reported in:				
General fund	31,520,660	-	-	31,520,660
Special revenue	-	-	7,892,035	7,892,035
Permanent funds	-	-	36,705	36,705
Total fund balances	43,746,999	32,923,230	20,601,725	97,271,954
Total liabilities and fund balances	$162,848,754	$38,160,901	$25,533,675	$ 226,543,330

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, 2009

Differences in amounts reported for governmental activities in the statement of net assets on page 1:		
Fund balances - total governmental funds		$ 97,271,954
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.		1,542,526,928
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		12,533,175
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		3,760,000
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.		8,267,901
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial asset and, therefore, is not reported in the funds.		7,899,411
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.		17,100,022
The Other Postemployment Benefits Plan has not been funded to meet annual requirement contributions, creating an accrued postemployment benefits liability. This liability is not due and payable in the current period and, therefore, is not reported in the funds.		(19,434,217)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:		
General obligation serial bonds	$(169,652,698)	
Add net deferred refunding and original premiums and discounts	(1,651,900)	
Less deferred charges	1,715,526	
Notes payable	(30,654,836)	
Capital leases	(109,822,026)	
Compensated absences	(16,579,911)	
Accrued interest payable	(2,043,084)	
		(328,688,929)
Net assets of governmental activities		$1,341,236,245

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, 2009

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$108,065,249	$ -	$ 3,893,990	$111,959,239
Licenses and permits	4,435,320	-	-	4,435,320
Intergovernmental	69,532,447	1,565,325	23,916,644	95,014,416
Charges for services	5,016,133	-	286,728	5,302,861
Fines, forfeitures, and penalties	2,835,260	-	-	2,835,260
Investment income	1,667,951	350,453	(241,060)	1,777,344
Contributions and donations	101,296	384,601	104,017	589,914
Miscellaneous	4,578,309	141,815	1,250,760	5,970,884
Total revenues	196,231,965	2,442,194	29,211,079	227,885,238
EXPENDITURES				
Current:				
General government	64,029,282	-	5,906,521	69,935,803
Public safety	72,440,836	-	175,993	72,616,829
Public works	32,664,046	-	4,521,953	37,185,999
Parks, recreation, education, arts & culture	16,809,777	-	-	16,809,777
Social services	-	-	17,712,991	17,712,991
Capital outlay/capital assets	-	42,127,765	401,016	42,528,781
Debt service:				
Principal retirement	-	-	9,591,682	9,591,682
Interest and fiscal charges	-	-	6,333,051	6,333,051
Total expenditures	185,943,941	42,127,765	44,643,207	272,714,913
Excess (deficiency) of revenues over (under) expenditures	10,288,024	(39,685,571)	(15,432,128)	(44,829,675)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,589,000	9,550,712	18,610,893	31,750,605
Transfers out	(22,547,922)	(353,043)	(6,068,966)	(28,969,931)
Issuance of debt	323,028	45,733,857	-	46,056,885
Premium on bonds issued	-	682,236	-	682,236
Total other financing sources (uses)	(18,635,894)	55,613,762	12,541,927	49,519,795
Net change in fund balance	(8,347,870)	15,928,191	(2,890,201)	4,690,120
FUND BALANCE, beginning	52,094,869	16,995,039	23,491,926	92,581,834
FUND BALANCE, ending	$ 43,746,999	$32,923,230	$20,601,725	$ 97,271,954

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, 2009

Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:	
Net change in fund balances - total governmental funds	$ 4,690,120
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.	31,050,239
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(39,273,354)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of streets contributed by developers.	8,617,700
The net effect of various transactions involving capital assets is to decrease net assets.	1,809,205
The loss on equity interest in joint venture is reported in the statement of activities. This loss does not provide current financial resources and is not reflected in the governmental funds.	(457,589)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(34,079,724)
The net revenues of internal service funds are reported with governmental activities.	2,670,000
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	(9,653,611)
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.	(187,025)
Change in net assets of governmental activities	$(34,814,039)

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Over (Under)
REVENUES				
Taxes	$107,037,728	$107,037,728	$108,065,249	$ 1,027,521
Licenses and permits	5,098,057	5,098,057	4,435,320	(662,737)
Intergovernmental	77,884,079	77,884,079	69,532,447	(8,351,632)
Charges for services	5,459,509	5,459,509	5,016,133	(443,376)
Fines, forfeitures, and penalties	2,957,665	2,957,665	2,835,260	(122,405)
Investment income	1,642,889	1,642,889	1,667,951	25,062
Contributions and donations	92,826	92,826	101,296	8,470
Miscellaneous	4,823,193	4,823,193	4,578,309	(244,884)
Total revenues	204,995,946	204,995,946	196,231,965	(8,763,981)
EXPENDITURES				
General government	71,332,773	71,332,773	66,652,273	(4,680,500)
Finance and Administration	4,200,081	4,200,081	3,840,362	(359,719)
Police	44,403,204	44,403,204	44,315,485	(87,719)
Fire	28,350,881	28,350,881	28,295,578	(55,303)
Public Works	32,774,414	32,774,414	32,686,580	(87,834)
Parks, recreation, education, arts & culture	16,997,806	16,997,806	16,528,590	(469,216)
Total expenditures	198,059,159	198,059,159	192,318,868	(5,740,291)
Excess of revenues over expenditures	6,936,787	6,936,787	3,913,097	(3,023,690)
OTHER FINANCING SOURCES (USES)				
Transfers In	3,589,000	3,589,000	3,589,000	-
Transfers out	(23,938,584)	(23,938,584)	(22,547,922)	1,390,662
Total other financing sources (uses)	(20,349,584)	(20,349,584)	(18,958,922)	1,390,662
Net change in fund balance	$ (13,412,797)	$ (13,412,797)	(15,045,825)	$ (1,633,028)
Adjustment for encumbrances			6,697,955	
Net change in fund balance (GAAP basis)			(8,347,870)	
FUND BALANCE at beginning of year (GAAP basis)			52,094,869	
FUND BALANCE at end of year (GAAP basis)			$ 43,746,999	

EXPLANATION OF DIFFERENCES:

REVENUES	
Actual amounts (budgetary basis) from the budgetary comparison schedule	$196,231,965
Differences - none	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental fund	$196,231,965
EXPENDITURES	
Actual amounts (budgetary basis) from the budgetary comparison schedule	$192,318,868
Adjustment for encumbrances	(6,697,955)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental fund	$185,620,913

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS
June 30, 2009

	Business-type Activities - Enterprise Funds						Governmental
	Major Funds				Other Fund		Activities -
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	Internal Service Fund
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 128,168,000	$ 4,584,152	$ 3,574,071	$ 4,598,899	$ 159,661	$ 141,084,783	$ 15,327,958
Investments	109,234,000	32,822,253	-	-	-	142,056,253	-
Receivables:							
Customer service	53,413,000	6,277,924	60,843	771,346	-	60,523,113	296,048
Other	90,000	122,409	-	-	16,894	229,303	-
Less allowance for doubtful accounts	(824,000)	(450)	(1,630)	(358,845)	-	(1,184,925)	-
Inventories	10,265,000	560,149	-	-	-	10,825,149	1,317,802
Prepaid items	3,968,000	-	-	-	-	3,968,000	-
Due from other governments	-	1,942,625	81,171	-	-	2,023,796	49,243
Other current assets	2,087,000	-	-	-	-	2,087,000	-
Total current assets	306,401,000	46,309,062	3,714,455	5,011,400	176,555	361,612,472	16,991,051
NONCURRENT ASSETS							
Restricted assets:							
Cash and cash equivalents	-	-	721,254	-	33,081	754,335	-
Investments	-	1,603,152	10,636,401	-	-	12,239,553	-
Accounts receivable	-	-	17,774	-	-	17,774	-
Total restricted assets	-	1,603,152	11,375,429	-	33,081	13,011,662	-
Capital assets:							
Land	5,439,000	7,992,355	1,517,514	1,865,986	27,000	16,841,855	-
Buildings and improvements	53,538,000	41,407,727	1,826,887	-	6,804,461	103,577,075	604,415
Vehicles and machinery	37,057,000	32,370,959	5,519,776	1,626,217	9,420	76,583,372	11,527,939
Construction in progress	52,728,000	-	-	-	-	52,728,000	-
Electric system	413,952,000	-	-	-	-	413,952,000	-
Solid waste system	-	-	9,250,985	-	-	9,250,985	-
Sewer system	-	421,842,851	-	-	-	421,842,851	-
Water quality system	-	-	-	47,087,619	-	47,087,619	-
Fiber optics system	53,956,000	-	-	-	-	53,956,000	-
	616,670,000	503,613,892	18,115,162	50,579,822	6,840,881	1,195,819,757	12,132,354
Less accumulated depreciation	(217,155,000)	(197,057,431)	(6,514,361)	(10,494,922)	(1,814,615)	(433,036,329)	(4,268,631)
Net capital assets	399,515,000	306,556,461	11,600,801	40,084,900	5,026,266	762,783,428	7,863,723
Other assets:							
Deferred charges	2,713,000	788,505	288,627	124,907	-	3,915,039	-
TVA discounted energy units	1,875,000	-	-	-	-	1,875,000	-
Total other assets	4,588,000	788,505	288,627	124,907	-	5,790,039	-
Total noncurrent assets	404,103,000	308,948,118	23,264,857	40,209,807	5,059,347	781,585,129	7,863,723
Total assets	$ 710,504,000	$ 355,257,180	$ 26,979,312	$ 45,221,207	$ 5,235,902	$ 1,143,197,601	$ 24,854,774

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	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	$ 3,256,000	$ 9,962,916	$ 2,687,236	$ 1,846,650	$ 20,400	$ 17,773,202	$ 161,508
Accounts payable and accrued liabilities	102,514,000	3,844,601	588,868	367,325	53,559	107,368,353	960,927
Accrued claims	-	-	-	-	-	-	6,378,384
Customer deposits	1,927,000	-	-	-	-	1,927,000	-
Contracts payable	-	1,508,142	-	-	-	1,508,142	-
Conservation advances	92,000	-	-	-	-	92,000	-
Other current liabilities	10,313,000	-	-	-	-	10,313,000	-
Total current liabilities	118,102,000	15,315,659	3,276,104	2,213,975	73,959	138,981,697	7,500,819
LONG-TERM LIABILITIES							
Notes, capital leases and other obligations	-	47,743,184	788,453	496,905	2,477,708	51,506,250	-
Compensated absences	761,000	616,552	32,611	143,707	-	1,553,870	253,933
Customer deposits	16,328,000	-	-	-	-	16,328,000	-
Accrued closure and post closure care	-	-	9,793,507	-	-	9,793,507	-
Revenue bonds payable	285,390,000	-	-	-	-	285,390,000	-
Original issue premium	8,643,000	-	-	-	-	8,643,000	-
Deferred refunding	(318,000)	-	-	-	-	(318,000)	-
General obligation bonds payable	-	41,146,683	21,371,612	9,962,497	-	72,480,792	-
Deferred refunding	-	(1,897,652)	(662,534)	(408,531)	-	(2,968,717)	-
Original issue premium	-	1,876,394	999,747	572,096	-	3,448,237	-
Other noncurrent liabilities	1,473,000	-	-	-	33,176	1,506,176	-
Accrued postemployment benefits	9,141,000	-	-	-	-	9,141,000	-
Total long-term liabilities	321,418,000	89,485,161	32,323,396	10,766,674	2,510,884	456,504,115	253,933
Total liabilities	439,520,000	104,800,820	35,599,500	12,980,649	2,584,843	595,485,812	7,754,752
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	318,029,000	208,897,724	2,560,823	27,856,329	2,528,158	559,872,034	7,863,723
Restricted for renewal and replacement	586,000	12,327,153	11,129,020	459,199	-	24,501,372	-
Unrestricted	(47,631,000)	29,231,483	(22,310,031)	3,925,030	122,901	(36,661,617)	9,236,299
Total net assets (deficit)	$ 270,984,000	$ 250,456,360	$ (8,620,188)	$ 32,240,558	$ 2,651,059	$ 547,711,789	$ 17,100,022

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
OPERATING REVENUES							
Charges for sales and services:							
Electric sales	$ 518,109,000	$ -	$ -	$ -	$ -	$ 518,109,000	$ -
Fiber optics revenues	17,235,000	-	-	-	-	17,235,000	-
Sewer charges	-	43,749,143	-	-	-	43,749,143	-
Waste charges	-	-	6,871,844	-	-	6,871,844	-
Water quality management fees	-	-	-	5,796,188	-	5,796,188	-
Rent	-	-	-	-	786,153	786,153	-
Other services	9,291,000	-	-	-	20,905	9,311,905	42,897,241
Other	-	-	132,140	59,435	-	191,575	-
Total operating revenues	544,635,000	43,749,143	7,003,984	5,855,623	807,058	602,050,808	42,897,241
OPERATING EXPENSES							
Power purchases	434,749,000	-	-	-	-	434,749,000	-
Other electric operations	38,941,000	-	-	-	-	38,941,000	-
Fiber optics operations	10,997,000	-	-	-	-	10,997,000	-
Sewer plant operations	-	23,919,458	-	-	-	23,919,458	-
Solid waste operations	-	-	2,737,807	-	-	2,737,807	-
Water quality management operations	-	-	-	3,990,248	-	3,990,248	-
Pump station operations	-	2,556,690	-	-	-	2,556,690	-
Housing management operations	-	-	-	-	660,023	660,023	-
Municipal garage operations	-	-	-	-	-	-	4,032,327
Maintenance and repairs	15,615,000	-	-	-	-	15,615,000	6,220,908
Depreciation and amortization	21,699,000	9,819,457	636,960	1,042,128	245,401	33,442,946	1,491,354
Closure/postclosure costs	-	-	(186,674)	-	-	(186,674)	-
Liability insurance	-	-	-	-	-	-	2,314,722
On-site medical services	-	-	-	-	-	-	26,158,254
Other	8,173,000	-	-	-	-	8,173,000	-
Total operating expenses	530,174,000	36,295,605	3,188,093	5,032,376	905,424	575,595,498	40,217,565
OPERATING INCOME (LOSS)	14,461,000	7,453,538	3,815,891	823,247	(98,366)	26,455,310	2,679,676
NONOPERATING REVENUES (EXPENSES)							
Investment income	7,791,000	971,072	229,832	-	-	8,991,904	-
Interest expense	(12,928,000)	(4,015,808)	(1,185,068)	(606,560)	(36,410)	(18,771,846)	-
Other income (expense)	808,000	-	-	-	-	808,000	-
Total nonoperating revenues (expenses)	(4,329,000)	(3,044,736)	(955,236)	(606,560)	(36,410)	(8,971,942)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	10,132,000	4,408,802	2,860,655	216,687	(134,776)	17,483,368	2,679,676
Capital contributions	2,268,000	18,551	-	176,000	-	2,462,551	-
Transfers in	-	-	-	712,002	-	712,002	(9,676)
Transfers out	(3,469,000)	(14,000)	-	-	-	(3,483,000)	-
CHANGE IN NET ASSETS	8,931,000	4,413,353	2,860,655	1,104,689	(134,776)	17,174,921	2,670,000
NET ASSETS (DEFICIT), beginning	262,053,000	246,043,007	(11,480,843)	31,135,869	2,785,835	530,536,868	14,430,022
NET ASSETS (DEFICIT), ending	$ 270,984,000	$ 250,456,360	$ (8,620,188)	$ 32,240,558	$ 2,651,059	$ 547,711,789	$ 17,100,022

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 546,143,000	$ 39,924,531	$ 6,902,762	$ 5,817,970	$ 824,438	$ 599,612,701	$ 6,482,824
Receipts from interfund services provided	-	-	-	-	-	-	36,276,773
Receipts from operating grants	-	-	74,034	-	-	74,034	-
Payments to suppliers	(470,720,000)	(18,881,747)	(2,368,144)	(1,756,599)	(684,429)	(494,410,919)	(36,219,450)
Payments to employees	(21,842,000)	(7,010,137)	(648,771)	(2,402,025)	-	(31,902,933)	(2,801,984)
Payments in lieu of taxes	(7,165,000)	-	-	-	-	(7,165,000)	-
Net cash provided by operating activities	46,416,000	14,032,647	3,959,881	1,659,346	140,009	66,207,883	3,738,163
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	-	-	712,002	-	712,002	-
Transfers out	(3,469,000)	(14,000)	-	-	-	(3,483,000)	(9,676)
Net cash provided by (used in) noncapital financing activities	(3,469,000)	(14,000)	-	712,002	-	(2,770,998)	(9,676)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(2,309,000)	(10,988,409)	(2,532,365)	(1,645,269)	(27,995)	(17,503,038)	-
Interest paid on capital debt	(12,061,000)	(3,853,005)	(1,228,184)	(653,590)	(36,410)	(17,832,189)	-
Line of credit	(2,030,000)	-	-	-	-	(2,030,000)	-
Receipts from bond issue	-	11,302,798	-	-	-	11,302,798	-
Bond issuance cost	-	-	-	-	-	-	-
Capital grants and contributions	2,268,000	18,551	-	176,000	-	2,462,551	-
Additions to capital assets	(88,928,000)	(11,139,049)	(16,880)	(710,277)	-	(100,794,206)	(2,992,567)
Proceeds from the sale of capital assets	-	-	-	-	-	-	-
Net cash flows used in capital and related financing activities	(103,060,000)	(14,659,114)	(3,777,429)	(2,833,136)	(64,405)	(124,394,084)	(2,992,567)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	(44,171,000)	(117,575,351)	(27,972,010)	-	-	(189,718,361)	-
Proceeds from sales and maturities of investments	103,303,000	119,313,146	23,369,749	-	-	245,985,895	-
Interest	7,947,000	1,064,695	361,716	-	-	9,373,411	-
Net cash flows provided by (used in) investing activities	67,079,000	2,802,490	(4,240,545)	-	-	65,640,945	-
Net increase (decrease) in cash and cash equivalents	6,966,000	2,162,023	(4,058,093)	(461,788)	75,604	4,683,746	735,920
Cash and cash equivalents, beginning of year	121,202,000	2,422,129	8,353,418	5,060,687	117,138	137,155,372	14,592,038
Cash and cash equivalents, end of year	$ 128,168,000	$ 4,584,152	$ 4,295,325	$ 4,598,899	$ 192,742	$ 141,839,118	$ 15,327,958
CLASSIFIED AS:							
Current assets	$ 128,168,000	$ 4,584,152	$ 3,574,071	$ 4,598,899	$ 159,661	$ 141,084,783	$ 15,327,958
Restricted assets	-	-	721,254	-	33,081	754,335	-

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	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 14,461,000	$ 7,453,538	$ 3,815,891	$ 823,247	$ (98,366)	$ 26,455,310	$ 2,679,676
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	21,699,000	9,819,457	636,960	1,042,128	245,401	33,442,946	1,491,354
Miscellaneous nonoperating expenses, net	1,037,000	-	-	-	-	1,037,000	-
Provision for uncollectible accounts	-	527,749	1,555	(22,796)	-	506,508	
Provision for obsolete inventory	-	-	-	-	-	-	
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(1,008,000)	(4,352,361)	2,438	(14,858)	17,380	(5,355,401)	(142,314)
(Increase) decrease in due from other funds	-	-	-	-	-	-	1,745
(Increase) decrease in due from other governments	-	-	(31,181)	-	-	(31,181)	2,925
(Increase) decrease in inventory	(1,699,000)	83,523	-	-	-	(1,615,477)	(374,292)
(Increase) decrease in prepaid items	(1,610,000)	-	-	-	-	(1,610,000)	-
(Increase) decrease in deferred charges	7,000	91,337	25,358	-	-	123,695	-
Increase (decrease) in accounts payable	6,268,000	486,742	(59,700)	(175,646)	(26,666)	6,492,730	(488,162)
Increase (decrease) in accrued liabilities	1,028,000	(318,660)	(30,796)	(18,926)	-	659,618	13,876
Increase (decrease) in accrued claims	-	-	-	-	-	-	599,879
Increase (decrease) in other assets/liabilities	7,089,000	147,259	(394,291)	-	2,260	6,844,228	-
Increase (decrease) in compensated absences	(856,000)	94,063	(6,353)	26,197	-	(742,093)	(46,524)
Increase (decrease) in due to other funds	-	-	-	-	-	-	-
TOTAL ADJUSTMENTS	31,955,000	6,579,109	143,990	836,099	238,375	39,752,573	1,058,487
Net cash provided by operating activities	$ 46,416,000	$ 14,032,647	$ 3,959,881	$ 1,659,346	$ 140,009	$ 66,207,883	$ 3,738,163

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

CITY OF CHATTANOOGA, TENNESSEE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2009

	Other Postemployment Benefits Trust Fund	Pension Trust Funds	Agency Fund
ASSETS			
Cash	$ -	$ -	$ (1,200,496)
Investments:			
U.S. Government securities	-	12,749,614	-
Corporate bonds	-	24,504,622	-
Foreign bonds	-	706,926	-
Corporate stocks	463,018	151,615,426	-
Pooled, common, & collective funds	-	12,000,000	-
Mutual funds - equity	830,631	40,710,217	-
Mutual funds - fixed income	-	71,919,627	-
Temporary investments	2,246,749	8,175,082	-
Limited partnerships	-	29,244,229	-
Other investments	1,048,405	950,000	-
Receivables:			
Accrued income	678	781,170	-
Due from others	-	-	1,200,496
Due from plan custodian	561,006	698,367	-
Total assets	5,150,487	354,055,280	-
LIABILITIES			
Due to plan custodian	-	189,862	-
Accounts payable and accrued expenses	-	820,330	-
Total liabilities	-	1,010,192	-
NET ASSETS			
Held in trust for pension and other postemployment benefits	$ 5,150,487	$ 353,045,088	$ -

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

CITY OF CHATTANOOGA, TENNESSEE

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2009

	Other Postemployment Benefits Trust Fund	Pension Trust Funds
ADDITIONS		
Contributions:		
Employer	$ 850,357	$ 11,982,349
Employee	-	3,997,558
Total contributions	850,357	15,979,907
Investment income:		
Net depreciation in fair market value of investments	(259,562)	(116,380,927)
Interest	24,841	2,911,453
Dividends	-	5,881,636
	(234,721)	(107,587,838)
Less investment expense	(4,589)	(1,123,653)
Net investment income (loss)	(239,310)	(108,711,491)
Total additions	611,047	(92,731,584)
DEDUCTIONS		
Benefits paid to participants	-	31,137,275
Administrative expenses	-	709,354
Total deductions	-	31,846,629
CHANGE IN NET ASSETS	611,047	(124,578,213)
Net assets, beginning	4,539,440	477,623,301
Net assets, ending	$ 5,150,487	$ 353,045,088

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

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF NET ASSETS
June 30, 2009

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	$ 5,414,903	$ 1,728,024	$ 2,960,317	$ 10,103,244
Investments	-	-	742,341	742,341
Accounts receivable	4,578,151	2,270,345	411,398	7,259,894
Net investment in capital lease	-	-	108,937,617	108,937,617
Deferred charges	29,311	-	1,907,225	1,936,536
Inventories	-	138,113	118,960	257,073
Prepaid items	122,915	212,423	118,906	454,244
Restricted assets:				
Cash and cash equivalents	349,397	159,000	-	508,397
Investments	-	-	9,933,897	9,933,897
Receivables	202,824	-	-	202,824
Land and other nondepreciable assets	13,195,040	3,258,047	288,542	16,741,629
Other capital assets, net of accumulated depreciation	55,729,256	26,753,464	1,698,275	84,180,995
Total assets	79,621,797	34,519,416	127,117,478	241,258,691
LIABILITIES				
Accounts payable and accrued liabilities	596,436	3,168,678	2,836,815	6,601,929
Deferred revenue	11,650	12,070	-	23,720
Contracts payable	1,943,082	-	-	1,943,082
Due to primary government	-	819,187	-	819,187
Net pension obligations	-	103,163	-	103,163
Revenue bonds payable	6,557,169	-	121,790,000	128,347,169
Original issue premium (discount)	-	-	1,883,501	1,883,501
Deferred refunding	-	-	(2,464,109)	(2,464,109)
Total liabilities	9,108,337	4,103,098	124,046,207	137,257,642
NET ASSETS				
Invested in capital assets (net of related debt)	62,367,127	29,192,324	1,986,817	93,546,268
Restricted for:				
Debt service	552,221	-	9,470,618	10,022,839
Renewal and replacement	-	-	741,597	741,597
Unrestricted	7,594,112	1,223,994	(9,127,761)	(309,655)
Total net assets	$ 70,513,460	$ 30,416,318	$ 3,071,271	$ 104,001,049

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

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

		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	$ 9,189,838	$ 7,319,562	$ -	$ 8,492,531	$ 6,622,255	$ -	$ -	$ 6,622,255
CARTA								
CARTA operations	20,829,026	6,289,314	6,777,677	11,407,525	-	3,645,490	-	3,645,490
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	16,821,192	15,544,319	-	-	-	-	(1,276,873)	(1,276,873)
Total component units	$ 46,840,056	$ 29,153,195	$ 6,777,677	$ 19,900,056	6,622,255	3,645,490	(1,276,873)	8,990,872
General revenues:								
Investment income					228,137	3,274	673,896	905,307
Miscellaneous					1,383,654	214,248	-	1,597,902
Total general revenues					1,611,791	217,522	673,896	2,503,209
CHANGE IN NET ASSETS					8,234,046	3,863,012	(602,977)	11,494,081
Net assets, beginning					62,279,414	26,553,306	3,674,248	92,506,968
Net assets, ending					$ 70,513,460	$ 30,416,318	$ 3,071,271	$ 104,001,049

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

Index to Notes

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, 2009. 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 City Hall, 101 E. 11th Street
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

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

Carter Street Corporation – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The Carter Street Corporation is managing the trade center and parking garage under a management agreement. Additional information regarding the City's participation in this joint venture is disclosed in Note 13.

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

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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, the Internal Service Fund, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

The City reports the following major enterprise funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and telecommunication service for the residential and commercial concerns of Chattanooga and Hamilton County, Tennessee. The EPB is a separately administered organization whose Board of Trustees is affirmed by the City. All disbursements of the EPB funds are approved by the City.

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

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

<u>Water Quality Management Fund</u> – 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:

<u>Special Revenue Funds</u> - 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.

<u>Debt Service Fund</u> – 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.

<u>Permanent Fund</u> – 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.

<u>Internal Service Fund</u> - The Internal Service Fund is used to account for 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.

<u>Other Postemployment Benefits Trust Fund</u> - 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.

<u>Pension Trust Funds</u> - 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.

<u>Agency Fund</u> - The Agency Fund accounts for resources held by the City as an agent for others. The Agency Fund is custodial in nature and does not involve the measurement of results of operations.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use 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 compile 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 except that encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

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

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2009, no supplemental appropriations were necessary.

(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) 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 report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(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 2008 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 2008, 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, 2009.

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 business-type funds.

5) Interfund Transactions

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

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

6) Payments Between the City and Component Units

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

7) Indirect Costs

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

8) Estimates

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

(H) Net Assets

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

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

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

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

(I) Library Endowments

The library endowment consists of nine separate endowments established by various individuals and estates. The endowment corpus is restricted 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. No pollution remediation obligations are recorded at June 30, 2009.

(K) Reclassification

The Housing Management Fund previously reported a liability related to acquisition of certain capital assets as an account payable. During the current year, the terms of the obligation were renegotiated and the liability is now presented as a long-term obligation.

(L) Subsequent Events

Management performed an evaluation of subsequent events through December 16, 2009, the date these financial statements were issued.

NOTE 2. VOLKSWAGEN GROUP OF AMERICA, INC.

During the fiscal year ended June 30, 2009, Volkswagen Group of America, Inc. (VW) announced its decision to build a $1 billion automotive production facility in Chattanooga, Tennessee. The announcement was the culmination of years of extensive economic development efforts by the project team, led by:

- Tennessee Governor Phil Bredesen
- Commissioner Matt Kisber, Tennessee Department of Economic and Community Development
- Commissioner Reagan Farr, Tennessee Department of Revenue
- City of Chattanooga Mayor Ron Littlefield and the City Council
- Hamilton County, Tennessee Mayor Claude Ramsey and the County Commission
- U.S. Senator Bob Corker
- U.S. Senator Lamar Alexander
- U.S. Congressman Zach Wamp
- Vice President of Economic Development Trevor Hamilton, Chattanooga Chamber of Commerce

The VW facility is expected to contribute to the economic expansion of the City and the surrounding region for years to come. The VW facility is under construction at the date these financial statements are issued.

The City and Hamilton County, Tennessee are working jointly to support the development of the VW facility. The Industrial Development Board of the City of Chattanooga (IDB) 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's role in the VW facility is reflected in the accompanying financial statements in several areas, the most significant of which are as follows:

- Transfer of land valued at $8,916,345 to IDB for the VW facility
- Capital projects expenditures of $5,985,000
- General Fund appropriations to IDB of $4,989,473
- Establishing an Agency Fund for funds held on behalf of IDB and HEB

NOTE 3. 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, 2009, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The Solid Waste/Sanitation Fund has a deficit in net assets of $8,620,188 at June 30, 2009. 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 $2,860,655 from the prior fiscal year.

The Hotel/Motel Tax Fund has a deficit of $354,464 at June 30, 2009. This deficit resulted from a slight decline in tax revenues. The deficit may be covered by future tax revenues.

NOTE 4. 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, 2009, 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	0.64	$ 43,074,400
Certificates of deposit classified as investments	0.47	18,555,291
Total	0.59	$ 61,629,691
Primary Government – Business-Type Activities:		
U.S. Government agency securities	1.27	$ 97,146,870
Certificates of deposit classified as investments	0.40	57,148,936
Total	0.95	$154,295,806
Component Units:		
U.S. Treasury Notes	0.25	$ 151,464
U.S. Government agency securities	0.23	9,782,433
Certificates of deposit classified as investments	0.76	742,341
Total	0.27	$ 10,676,238

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 to less than one year. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk - The City's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. The City's investment policy includes specific policies involving credit risk. At June 30, 2009, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) or Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of $9,782,433 were securities of the Federal Home Loan Mortgage Corporation which was rated AAA by S & P or 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 Funds		
Mutual funds - equity	Not rated	$ 1,944,380
Mutual funds – fixed income	Not rated	789,978
Temporary investments	Not rated	83,727
		$ 2,818,085

	S & P or Moody's Rating	Fair Value
City of Chattanooga General Pension Plan		
Domestic corporate bonds	B	$ 980,525
Domestic corporate bonds	BA	143,498
Domestic corporate bonds	BAA	105,999
Domestic corporate bonds	CA	707,387
Domestic corporate bonds	CAA	1,206,275
Domestic corporate bonds	Withdrawn	148,645
Domestic corporate bonds	Not rated	334,083
Mutual funds - equity	Not rated	21,259,672
Mutual funds – fixed income	Not rated	52,846,514
Domestic equity securities	Not rated	63,088,686
Limited partnerships	Not rated	29,244,229
Temporary investments	Not rated	2,478,667
		$172,544,180
Firemen's and Policemen's Insurance and Pension Fund		
U.S. Government securities	AAA	$ 6,619,395
Domestic corporate bonds	AAA	1,683,661
Domestic corporate bonds	AA	4,405,081
Foreign bonds	AA	122,825
Domestic corporate bonds	A	9,620,114
Foreign bonds	A	119,176
Mutual funds – equity	A	109,007
Domestic corporate bonds	BAA	4,948,126
Foreign bonds	BAA	464,925
Mutual funds – equity	BAA	59,603
U.S. Government securities	Not rated	6,130,220
Domestic corporate bonds	Not rated	221,227
Mutual funds - fixed income	Not rated	19,073,113
Mutual funds - equity	Not rated	19,281,935
Domestic equity securities	Not rated	88,526,740
Pooled, common, & collective funds	Not rated	12,000,000
Temporary investments	Not rated	5,696,415
Investment in real estate corporation	Not rated	950,000
		$180,031,563
Other Postemployment Benefit Trust Fund		
Domestic equity securities	A+	$ 53,636
Domestic equity securities	A	43,379
Domestic equity securities	A-	41,861
Domestic equity securities	B+	129,994
Domestic equity securities	B	55,852
Foreign equity securities	B	6,753
Domestic equity securities	B-	26,061
Domestic equity securities	C	7,654
Domestic equity securities	Not rated	59,205
Foreign equity securities	Not rated	38,623
Mutual funds - equity	Not rated	830,631
Other assets	Not rated	1,048,405
Temporary investments	Not rated	2,246,749
		$ 4,588,803

At June 30, 2009, the fair values of the City of Chattanooga General Pension Plan investments totaling $103,350,415 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 5. RECEIVABLES

Receivables at June 30, 2009, consist of the following:

	Governmental Activities Funds				
	General	Capital Projects	Other Governmental	Business-Type Activities	Total
Primary Government					
Receivables:					
Taxes	$ 98,113,248	$ -	$ -	$ -	$ 98,113,248
Accounts	-	154,440	74,134	17,774	246,348
Notes	1,196,665	2,584,218	-	-	3,780,883
Customer service	-	-	-	60,523,113	60,523,113
Other	4,833,557	33,161	-	229,303	5,096,021
Intergovernmental	19,023,181	1,258,203	4,390,364	2,023,796	26,695,544
Gross receivables	123,166,651	4,030,022	4,464,498	62,793,986	194,455,157
Less:					
Allowance for uncollectibles	(3,624,923)	-	-	(1,184,925)	(4,809,848)
Net receivables	$119,541,728	$4,030,022	$4,464,498	$61,609,061	$189,645,309

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, 2009.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2009, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds (Community Development)	$ 5,126
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	507,807
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/ Motel Tax)	1,520,829
		$2,033,762

NOTE 7. INTERFUND TRANSFERS

	Transfers In: General Fund	Capital Projects	Nonmajor Governmental	Water Quality Management	Internal Service	Total
Transfers out:						
General Fund	$ -	$6,885,932	$14,978,038	$683,952	$ -	$22,547,922
Capital Projects Fund	120,000	-	242,719	-	(9,676)	353,043
Nonmajor Governmental Funds	-	2,664,780	3,390,136	14,050	-	6,068,966
Electric Power Board	3,469,000	-	-	-	-	3,469,000
Interceptor Sewer System	-	-	-	14,000	-	14,000
Total	$3,589,000	$9,550,712	$18,610,893	$712,002	$(9,676)	$32,452,931

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, and 4) record payments in lieu of taxes from the Electric Power Board to the General Fund.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is as follows:

Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	$1,023,642,426	$ 5,889,207	$ 5,554,296	$1,023,977,337
Construction in Progress	15,136,058	17,687,209	7,491,646	25,331,621
Total non-depreciable assets	1,038,778,484	23,576,416	13,045,942	1,049,308,958
Depreciable Assets:				
Buildings and improvements	189,010,042	4,251,316	-	193,261,358
Vehicles and machinery	111,042,800	8,385,715	1,431,998	117,996,517
Infrastructure	654,773,061	21,633,409	-	676,406,470
Total depreciable assets	954,825,903	34,270,440	1,431,998	987,664,345
Less Accumulated Depreciation for:				
Buildings and improvements	68,136,046	5,670,323	-	73,806,369
Vehicles and machinery	82,388,573	8,869,295	1,420,786	89,837,082
Infrastructure	296,717,146	26,225,090	3,035	322,939,201
Total accumulated depreciation	447,241,765	40,764,708	1,423,821	486,582,652
Depreciable Assets, net	507,584,138	(6,494,268)	8,177	501,081,693
Governmental activities capital assets, net	$1,546,362,622	$17,082,148	$13,054,119	$1,550,390,651

	Beginning Balance	Additions	Deductions	Ending Balance
Business-Type Activities:				
Non-Depreciable Assets:				
Land	$ 15,331,858	$ 1,509,997	$ -	$ 16,841,855
Construction in Progress	31,096,000	21,918,000	286,000	52,728,000
Total non-depreciable assets	46,427,858	23,427,997	286,000	69,569,855
Depreciable Assets:				
Buildings and improvements	97,811,710	6,023,000	257,635	103,577,075
Vehicles and machinery	67,277,677	11,351,695	2,046,000	76,583,372
Sewer system	411,426,758	10,416,093	-	421,842,851
Solid waste system	9,250,985	-	-	9,250,985
Water quality management system	46,526,642	560,977	-	47,087,619
Electric system	399,442,000	26,790,000	12,280,000	413,952,000
Communications system	31,819,000	22,306,000	169,000	53,956,000
Total depreciable assets	1,063,554,772	77,447,765	14,752,635	1,126,249,902
Less Accumulated Depreciation for:				
Buildings and improvements	27,589,916	2,846,929	104,000	30,332,845
Vehicles and machinery	28,941,323	3,865,427	1,788,000	31,018,750
Sewer system	159,167,725	8,257,828	-	167,425,553
Solid waste system	154,183	308,366	-	462,549
Water quality management system	8,146,236	961,396	-	9,107,632
Electric system	174,911,000	14,142,000	9,875,000	179,178,000
Communications system	12,598,000	3,061,000	148,000	15,511,000
Total accumulated depreciation	411,508,383	33,442,946	11,915,000	433,036,329
Depreciable Assets, net	652,046,389	44,004,819	2,837,635	693,213,573
Business-type activities capital assets, net	$ 698,474,247	$67,432,816	$ 3,123,635	$ 762,783,428
Discretely Presented Component Units				
Non-Depreciable Assets:				
Land	$ 4,823,508	$ -	$ -	$ 4,823,508
Construction in Progress	18,148,169	7,085,048	13,315,096	11,918,121
Total non-depreciable assets	22,971,677	7,085,048	13,315,096	16,741,629
Depreciable Assets:				
Buildings	95,130,968	17,171,736	49,838	112,252,866
Vehicles and machinery	51,551,952	8,045,613	-	59,597,565
Total depreciable assets	146,682,920	25,217,349	49,838	171,850,431
Less Accumulated Depreciation for:				
Buildings	42,110,677	3,604,293	135	45,714,835
Vehicles and machinery	36,145,550	5,809,051	-	41,954,601
Total accumulated depreciation	78,256,227	9,413,344	135	87,669,436
Depreciable Assets, net	68,426,693	15,804,005	49,703	84,180,995
Component units capital assets, net	$ 91,398,370	$22,889,053	$13,364,799	$ 100,922,624

The City is in the process of preparing to change capital assets records systems. As a result, reclassifications have been made to the beginning balances among asset classes.

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	$19,322,253
Public Safety	264,921
Public Works	20,506,019
Parks and Recreation	592,550
Social Services	78,965
Total	$40,764,708
Primary Government – Business-Type Activities:	
Sewer	$ 9,819,457
Solid Waste/Sanitation	636,960
Water Quality Management	1,042,128
Housing Management	245,401
Electric Utility	21,699,000
Total	$33,442,946
Discretely Presented Component Units:	
Transportation Authority	$ 5,674,181
Airport Authority	3,409,282
Downtown Redevelopment	329,881
Total	$ 9,413,344

NOTE 9. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$130,843,479	$45,415,000	$ 6,605,781	$169,652,698	$ 9,078,489
Notes payable	32,593,423	416,857	2,355,444	30,654,836	2,865,683
Capital leases payable	112,603,776	323,028	3,104,778	109,822,026	3,290,207
Compensated absences	17,028,600	9,237,588	9,270,836	16,995,352	5,996,513
Total governmental activities	$293,069,278	$55,392,473	$21,336,839	327,124,912	$21,230,892
Net deferred refunding and original issue premiums and discounts				1,651,900	
				$328,776,812	

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$289,660,000	$ -	$ 1,600,000	$288,060,000	$ 2,670,000
Notes payable	1,295,000	-	709,000	586,000	586,000
Compensated absences	741,000	20,000	-	761,000	-
	291,696,000	20,000	2,309,000	289,407,000	3,256,000
Interceptor Sewer System:					
General obligation serial bonds	56,618,625	-	8,798,566	47,820,059	6,673,376
Notes payable	41,364,189	11,302,798	2,166,269	50,500,718	2,880,239
Capital leases payable	171,298	-	23,575	147,723	25,018
Compensated absences	906,772	717,860	623,797	1,000,835	384,283
	99,060,884	12,020,658	11,612,207	99,469,335	9,962,916
Solid Waste/Sanitation Fund:					
General obligation serial bonds	26,434,233	-	2,471,819	23,962,414	2,590,802
Notes payable	911,242	-	60,546	850,696	62,243
Compensated absences	73,156	63,686	70,040	66,802	34,191
	27,418,631	63,686	2,602,405	24,879,912	2,687,236
Water Quality Management Fund:					
General obligation serial bonds	12,998,664	$ -	1,478,836	11,519,828	1,557,331
Notes payable	836,516	-	166,433	670,083	173,178
Compensated absences	233,650	236,203	210,005	259,848	116,141
	14,068,830	236,203	1,855,274	12,449,759	1,846,650
Housing Management Fund:					
Other obligation	2,534,655	-	36,547	2,498,108	20,400
Total business-type activities	$434,779,000	$12,340,547	$18,415,433	428,704,114	$17,773,202
Net deferred refunding and original issue premiums and discounts				8,804,520	
				$437,508,634	
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bonds	$ 12,625,000	$ 6,600,000	$12,667,831	$ 6,557,169	$ 292,268
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	124,700,000	-	2,910,000	121,790,000	3,050,000
Total component units	$137,325,000	$ 6,600,000	$15,577,831	128,347,169	$ 3,342,268
Net deferred refunding and original issue premiums and discounts				(580,608)	
				$127,766,561	

Total additions to Long-Term Liabilities for Governmental Activities above are different than issuance of debt in Governmental Funds. The difference is due to a $98,000 long-term obligation incurred in 2009 related to the VW facility that did not provide current financial resources.

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 $2,474,321 to Chattanooga Downtown Redevelopment Corporation (CDRC), which is budgeted in general government expenditures.

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, 2009, the remaining liabilities for the bonds refunded were as follows:

Year Refunded	Primary Government	Component Units
1986	$ 1,425,000	$ -
1992	11,380,000	-
1996	4,000,000	-
1998	17,120,000	-
2002	29,975,000	-
2003	13,575,000	-
2005	48,675,000	-
2007	17,715,000	55,340,000

Debt related to governmental activities at June 30, 2009 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
Public Improvement Refunding, Series 1998	5.25% - 5.50%	$ 5,366,500
Public Improvement Refunding, Series 2002	4.38% - 5.38%	5,575,000
Refunding Bonds, 2002 Series A	3.60% - 5.00%	2,039,720
Hotel-Motel Tax Pledge, Series 2002	3.00% - 5.00%	47,320,000
General Obligation, 2003 Series A	3.25% - 4.20%	8,110,000
General Obligation, 2005 Series A	3.50% - 5.00%	17,197,982
Hotel-Motel Tax Refunding, Series 2005A	3.50% - 5.00%	5,448,980
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	18,659,516
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	14,520,000
General Obligation, 2009 Series A	3.00% - 4.63%	45,415,000
Total payable from the Debt Service Fund		$169,652,698

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 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2009, is $2,125,023.

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 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2009, is $3,573,585.

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, 2009, is $19,252,634.

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, 2009, is $21,788.

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, 2009, is $507,806.

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 balance at June 30, 2009, is $500,000.

HUD Section 108 Loan – On June 12, 2008, the City received a loan from the U.S. Department of Housing and Urban Development. 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 will be amortized over 15 years, with a variable interest rate. The balance at June 30, 2009, is $4,576,000.

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, 2009, is $98,000.

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 1/2% 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, 2009, was $6,863,320, of which $2,474,321 was a reduction of principal. The recorded liability under this capital lease at June 30, 2009, is $108,937,617.

The debt service reserve fund held by the fiscal agent at June 30, 2009, is $9,933,897. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling $3,800,000. The lease term is six years and provides for annual payments which began July 1, 2004. The recorded liability under this capital lease at June 30, 2009, is $600,159.

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, 2009, is $284,250.

Debt service requirements for general obligation bonds, notes payable, and capital leases are met by the General Fund. The compensated absences liability attributable to governmental activities will be liquidated by the General Fund and the Special Revenue Funds.

Debt related to business-type activities at June 30, 2009, consisted of the following:

Issue	Interest Rates	Principal Amount
EPB:		
Electric System Revenue Bonds, Series 2000	4.60% - 5.00%	$ 4,800,000
Electric System Revenue Bonds, Series 2006A	4.00% - 5.00%	40,000,000
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
Equipment Notes	4.40% - 4.95%	586,000

Issue	Interest Rates	Principal Amount
Interceptor Sewer System Fund:		
Municipal Public Improvement Refunding, Series 1998	5.25% - 5.50%	$ 10,752,100
Municipal Public Improvement Refunding, Series 2002	4.00% - 4.50%	15,157,763
Refunding Bonds, 2002 Series A	3.60% - 5.00%	10,895,280
Refunding Bonds, 2005 Series A	3.50% - 5.00%	11,014,916
1992 State Revolving Sewer Loan*	3.98%	670,082
Georgia Environmental Facilities Authority	4.00%	4,379,320
State Revolving Loan 2003	2.98%	34,148,518
State Revolving Loan 2007	2.79%	11,302,798
City of Collegedale Capital Lease	6.30% - 6.68%	147,723
Solid Waste/Sanitation Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	2,530,500
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	4,857,341
Refunding Bonds, 2005 Series A	3.50% - 5.00%	8,994,089
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	5,100,484
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	2,480,000
2003 Tennessee Municipal Bond Fund Loan	1.10%	362,415
2004 Tennessee Municipal Bond Fund Loan	1.10%	488,281
Water Quality Management Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	1,735,900
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	3,629,895
Refunding Bonds, 2005 Series A	3.50% - 5.00%	5,404,033
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	750,000
1992 State Revolving Sewer Loan*	3.98%	670,083
Housing Management Fund:		
Other obligation	3.69%	2,498,108
Total payable from business-type activities		$426,615,629

*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, 2009, is $1,340,165.

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, 2009, is $4,379,320.

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, 2009, is $34,148,518.

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 2027 at 2.79% interest. The balance at June 30, 2009, is $11,302,798.

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, 2009, is $147,723.

EPB Equipment Notes – EPB has five installment notes outstanding at June 30, 2009, totaling $586,000. The proceeds of these notes were used for electrical equipment. The notes will be repaid over a 5-year period at interest rates in the range of 4.40% to 4.95%.

Housing Management obligation – The City entered into a management agreement in which it is obligated to the previous owner for certain property acquired by the City. The obligation will be repaid in monthly payments of $1,700 plus interest. The balance at June 30, 2009, is $2,498,108.

Component Units debt at June 30, 2009, consisted of the following:

Issue	Interest Rates	Principal Amount
Metropolitan Airport Authority:		
Taxable Refunding Revenue Bonds, Series 2009	5.41%	$ 6,557,169
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.88%	65,755,000
Chattanooga Lease Rental Refunding Revenue Bonds, Series 2007	4.00% - 5.00%	56,035,000
Total payable from Component Units		$128,347,169

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
2010	$ 11,944,172	$ 8,055,528	$ 17,213,569	$ 18,953,093
2011	12,035,625	7,162,913	15,967,237	18,228,373
2012	10,740,624	6,785,184	14,151,121	17,558,047
2013	10,307,737	6,435,435	14,604,908	16,926,970
2014	10,182,024	6,093,055	16,679,853	16,281,104
2015-2019	50,954,823	24,915,963	93,367,780	69,939,936
2020-2024	48,172,613	15,855,741	78,427,258	51,358,155
2025-2029	37,229,916	6,188,761	79,926,072	32,972,325
2030-2034	8,740,000	444,250	94,142,000	12,178,385
2035-2039	-	-	1,988,108	29,332
	$200,307,534	$81,936,830	$426,467,906	$254,425,720

Year	Component Units	
	Principal	Interest
2010	$ 3,342,268	$ 6,665,176
2011	3,513,912	6,485,121
2012	3,721,289	6,295,331
2013	3,899,643	6,103,227
2014	4,094,030	5,897,615
2015-2019	26,761,027	25,822,689
2020-2024	28,650,000	17,748,098
2025-2029	36,805,000	8,981,397
2030-2034	17,560,000	888,750
	$128,347,169	$84,887,404

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

Year	Primary Government			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	$ 3,290,207	$ 7,085,611	$ 25,018	$ 8,635
2011	2,853,204	6,903,542	26,585	7,068
2012	3,053,517	6,719,541	28,286	5,366
2013	3,233,918	6,522,599	30,133	3,520
2014	3,384,017	6,314,687	32,138	1,515
2015-2019	20,250,295	28,015,697	5,563	46
2020-2024	27,488,510	20,566,987	-	-
2025-2029	37,321,866	10,459,633	-	-
2030-2033	8,946,492	580,197	-	-
	$109,822,026	$93,168,494	$147,723	$26,150

NOTE 10. DEFERRED COMPENSATION PLAN

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

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

Asset balance at July 1, 2008	$17,866,922
Deferrals of compensation	1,156,118
Earnings (losses)	(2,380,135)
Withdrawals	(1,434,355)
Administrative expenses	(781)
Asset balance at June 30, 2009	$15,207,769

NOTE 11. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan) 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 Firemen's and Policemen's Insurance and 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 Firemen's and Policemen's Insurance and 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 6.31 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) Firemen's and Policemen's Insurance and Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 23.13 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.

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

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

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 8.27 percent of the total covered payroll of the participants.

During 2008, the City established an Other Postemployment Benefits Trust (the Trust). Upon establishment of the Trust, the City began partially pre-funding benefits. For fiscal year 2009, the City contributed $850,357 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, 2009:

Group	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Retirees and beneficiaries currently receiving benefits	792	684	1,046
Vested terminated employees	96	5	0
Active employees	1532	808	2,015
Actuarial update	1-1-2009	1-1-2009	7-1-2008

Trend Information:

	Year Ended	Annual Pension/OPEB Cost (APC)	Percentage of APC Contributed	Net Pension/ OPEB Obligation (Asset)
General Pension Plan	12/31/08	$ 3,635,302	92.18%	$(4,138,811)
	12/31/07	3,540,962	98.90%	(4,177,414)
	12/31/06	3,825,453	98.97%	(4,216,376)
Firemen's and	12/31/08	7,623,063	109.40%	(4,129,090)
Policemen's	12/31/07	7,437,283	99.88%	(3,412,170)
Fund	12/31/06	7,454,348	90.00%	(3,420,846)
Other Postemployment	6/30/09	17,790,129	44.28%	19,434,217
Benefits	6/30/08	20,360,866	53.24%	9,521,039

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	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Contribution rates for employer	6.31%	23.13%	N/A
Contribution rates for plan members	2.00%	8.00%-9.00%	Varies
Annual pension/OPEB cost	$3,635,302	$7,623,063	$17,790,129
Contributions made by employer	3,591,842	8,390,507	6,463,540
Contributions made by plan members	1,134,956	3,820,210	-
Actuarial valuation date for current contributions	January 1, 2009	January 1, 2009	July 1, 2008
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	30 Years Remaining	30 Years Open
Asset valuation method	Market Value, As Adjusted	Market Value, As Adjusted	Market Value

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Actuarial assumptions:			
Investment rate of return	7.75%	8.00%	5.50%
Projected salary increases	4.50%-5.50%	3.25%-8.25%	3.00%-8.50%
Inflation rate	3.00%	3.00%	3.00%

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	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Annual required contribution	$ 3,600,000	$ 7,686,489	$17,921,571
Interest on net pension/OPEB obligation (asset)	(323,750)	(272,974)	523,657
Adjustment to annual required contribution	362,353	209,548	(655,099)
Annual pension/OPEB cost	3,638,603	7,623,063	17,790,129
Contributions made	(3,600,000)	(8,339,983)	(7,876,951)
Increase in net pension/OPEB obligation (asset)	38,603	(716,920)	9,913,178
Net pension/OPEB obligation (asset) at beginning of year	(4,177,414)	(3,412,170)	9,521,039
Net pension/OPEB obligation (asset) at end of year	$(4,138,811)	$(4,129,090)	$19,434,217

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	Firemen's and Policemen's Insurance and Pension Fund	Total
ASSETS			
Receivables:			
Due from plan custodian			
For securities sold	$ -	$ 698,367	$ 698,367
Accrued income	298,630	482,540	781,170
Total receivables	298,630	1,180,907	1,479,537

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ASSETS			
Investments, at fair value:			
U.S. Government securities	$ -	$ 12,749,614	$ 12,749,614
Corporate bonds	3,626,412	20,878,210	24,504,622
Foreign bonds	-	706,926	706,926
Pooled, common, & collective funds	-	12,000,000	12,000,000
Corporate stocks	63,088,686	88,526,740	151,615,426
Mutual funds - equity	21,259,672	19,450,545	40,710,217
Mutual funds – fixed income	52,846,514	19,073,113	71,919,627
Temporary investments	2,478,667	5,696,415	8,175,082
Limited Partnerships	29,244,229	-	29,244,229
Other investments	-	950,000	950,000
Total investments	172,544,180	180,031,563	352,575,743
Total assets	172,842,810	181,212,470	354,055,280
LIABILITIES			
Due to plan custodian			
For securities purchased	-	189,862	189,862
Accrued expenses	151,404	668,926	820,330
Total liabilities	151,404	858,788	1,010,192
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$172,691,406	$180,353,682	$353,045,088

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 3,591,842	$ 8,390,507	$ 11,982,349
Employee	1,134,956	2,862,602	3,997,558
Total contributions	4,726,798	11,253,109	15,979,907

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Investment income:			
Net depreciation in fair market value of investments	$(54,002,044)	$(62,378,883)	$(116,380,927)
Interest	424,197	2,487,256	2,911,453
Dividends	2,061,426	3,820,210	5,881,636
	(51,516,421)	(56,071,417)	(107,587,838)
Less investment expense	(307,537)	(816,116)	(1,123,653)
Net investment income (loss)	(51,823,958)	(56,887,533)	(108,711,491)
Total additions	(47,097,160)	(45,634,424)	(92,731,584)
DEDUCTIONS			
Benefits paid to participants	10,574,558	20,562,717	31,137,275
Administrative expenses	191,996	517,358	709,354
Total deductions	10,766,554	21,080,075	31,846,629
NET DECREASE	(57,863,714)	(66,714,499)	(124,578,213)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	230,555,120	247,068,181	477,623,301
End of year	$172,691,406	$180,353,682	$353,045,088

(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 9.91% of annual covered payroll.

EPB's annual pension cost of the Plan for the current year was approximately $2,500,000. EPB has no net pension obligation at June 30, 2009, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2008, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 8.0%.

Trend Information:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	$2,500,000	100%	$ -
6/30/08	2,000,000	100%	-
6/30/07	2,132,000	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 stand-alone 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 2009, EPB contributed approximately $1.8 million for current claims.

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.

In the July 1, 2008, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% 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 8% initially, reduce by decrements of .25% per year to an ultimate rate of 6% in 2016. 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, 2008, was twenty years.

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

Annual required contribution	$1,864,000
Interest on net OPEB obligation (asset)	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,864,000
Contributions made	1,844,000
Increase in net OPEB obligation	20,000
Net OPEB obligation at beginning of year	9,121,000
Net OPEB obligation at end of year	$9,141,000

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 $889,000 for the year ended June 30, 2009.

(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:			
6/30/09	$325,203	100.0%	$ -
6/30/08	512,089	100.0%	-
6/30/07	328,586	100.0%	-
Defined Benefit Plan:			
6/30/09	$112,405	66.7%	$103,163
6/30/08	203,137	0.0%	156,490
6/30/07	2,453	0.0%	(46,647)

NOTE 12. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2009, outstanding funds advanced by TVA totaled $92,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2009, the outstanding receivables for loans made from these funds amounted to $90,000. A total of approximately $78,400,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 13. 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	$11,849,117
Multiplied by two-thirds	x 2/3
City’s equity interest	$ 7,899,411

Complete financial statements can be obtained from: Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

Condensed financial information for Carter Street Corporation as of June 30, 2009, is as follows:

ASSETS	
Cash	$ 617,326
Accounts receivable, net	249,749
Inventories	75,102
Prepaid items	62,797
Capital assets, net	11,164,547
Other assets	12,100
Total assets	$12,181,621
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	$ 216,845
Advance deposits	63,219
Notes payable	52,440
Total liabilities	332,504
NET ASSETS	
Invested in capital assets, net of related debt	11,112,107
Unrestricted	737,010
Total net assets	11,849,117
Total liabilities and net assets	$12,181,621

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	$ 6,068,561
Total operating expenses	7,073,708
Loss from operations	(1,005,147)
Nonoperating revenues	318,764
Net decrease	(686,383)
Net assets at July 1, 2008	12,535,500
Net assets at June 30, 2009	$11,849,117

NOTE 14. 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, 2009. The total contractual commitments outstanding as of June 30, 2009, aggregated approximately $22,022,978. The City has sufficient funds available to cover these commitments

NOTE 15. 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.

As of June 30, 2009, 122 series of Industrial Revenue Bonds had been issued. The principal amount of the 16 series issued after July 1, 1995, was $210,400,000 as of August 1, 2009. The aggregate principal amounts payable for the 106 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $253,648,700.

The Health, Educational and Housing Facility Board has issued at least forty-two (42) bond issues since 1985, the original amount of which were $596,880,000. The Board has no means of determining the outstanding amount of these bonds.

NOTE 16. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of the City landfill and landfills closed in prior years (Summit and 36th Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of $9,793,507 at June 30, 2009, is based on the use of 100 percent of the capacity of the Summitt landfill, and 95 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is 1.4 years. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2009, are as follows:

Estimated liability, June 30, 2008	$10,200,052
Expenses recognized	(186,675)
Costs incurred	(219,870)
Estimated liability, June 30, 2009	$ 9,793,507
Due within one year	$ 91,630

The phase of the City landfill currently in use is nearly at capacity. The City plans to begin a new phase of the landfill during the 2011 fiscal year. A reduction in costs was recorded in the current year to properly reflect the estimated liability at June 30, 2009. The City will recognize the remaining estimated costs of closure and postclosure care of $301,278 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of $10,094,785 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, 2009. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 17. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The Internal Service Fund accounts for all exposures, except on-the-job-injury claims. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2009, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

The City has a self-funded medical benefits plan that is administered by Blue Cross/Blue Shield of Tennessee. The City's exposure is limited by a stop-loss policy with High Mark Life Insurance Company.

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, 2009, the Internal Service Fund liability consists of $4,025,000 related to torts and $2,353,384 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, 2007	$ 478,269	$ 3,517,000
Incurred claims, including IBNRs/reduction in estimated liabilities	6,989,239	19,738,820
Claim payments	(7,106,003)	(17,477,315)
Unpaid claims, June 30, 2008	361,505	5,778,505
Incurred claims, including IBNRs/reduction in estimated liabilities	7,648,914	21,978,476
Claim payments	(7,588,057)	(21,378,597)
Unpaid claims, June 30, 2009	$ 422,362	$ 6,378,384
Due within one year	$ 422,362	$ 6,378,384

NOTE 18. COMPONENT UNIT SWAPTION

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

Objective:

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

Terms:

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

Fair value:

At June 30, 2009, the swap had a negative fair value of $8,465,148, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

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