Management's Discussion and Analysis

As management of the City of Chattanooga (City) we provide readers of the City's financial statements with this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with our Letter of Transmittal beginning on page Intro 3 and the financial statements beginning on page A-1.

Financial Highlights

- The assets of the primary government exceeded its liabilities at the close of the most recent fiscal year by $1.9 billion (net assets), an increase of $31.6 million, or 1.7 percent. Of this amount, $92.8 million may be used to meet the City's ongoing obligations to citizens and creditors (unrestricted net assets); this is a $72.6 million or 359.2 percent, increase over last year. This is largely due to a reclassification of net assets for the business-type activities.

- Net assets of governmental activities at June 30 were $1.3 billion, an increase of $12.7 million, or 1.0 percent. The increase is primarily the result of a $9.5 million increase in reserves in the internal service fund for payment of third party liabilities, future health claims and fleet replacement.

- Business-type activities reported ending net assets of $561.8 million, an increase of $19.0 million, or 3.5 percent. Over 60.0 percent of the increase is from the Electric Power Board (EPB) electric and fiber operations as the largest business-type activity. Prior year EPB operations included over $28 million of nonrecurring costs due to damage resulting from a deadly tornado in April 2011.

- Long-term liabilities for the City's primary government increased $4.6 million or 0.6 percent, during the current fiscal year.

- At the end of the current fiscal year, unassigned fund balance for the General Fund is $45.5 million, up $11.6 million or 34.3 percent from prior year. This increase is primarily due to conservative budgeting resulting in favorable variances in revenues and expenditures. This represents 20.7 percent of total General Fund expenditures and transfers out; the City's debt management policy recommends this to remain at or above 15.0 percent.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic 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 comprehensive financial 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.

There are two government-wide financial statements:

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

The government-wide financial statements reflect three distinct activities:

Governmental Activities -- These activities are primarily supported by taxes and intergovernmental revenues. The governmental activities of the City include general government; public safety; public works; parks, recreation, education, arts & culture and social services.

Business-type Activities -- These activities are supported by user fees and charges for service which are intended to recover all, or a significant portion, of their costs. The City's business-type activities include electric, sewer and water quality systems, as well as solid waste disposal and housing management operations.

Governmental activities and business-type activities combine to comprise the primary government.

Component Units -- Three entities that are legally separate for which the City of Chattanooga is financially accountable. These include: The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation (CDRC). The financial information for these component units is reported separately from the financial information for the primary government.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the most significant funds—not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes. Some funds are required by State or Federal law or by bond covenants. Other funds are established by the City to help manage money for specific purposes (i.e. economic development projects) or to demonstrate legal compliance (i.e. grants received from the U. S. Department of Housing and Urban Development or hotel-motel taxes).

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

Governmental Funds -- These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However the focus of these funds is on: 1) how cash and other financial assets that can readily be converted to cash were received and used and 2) what remains at the end of the fiscal year for future spending. This view may be useful in evaluating the City's near-term financing requirements.

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

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. Additional details for the General Fund along with budgetary comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Since neither the Capital Projects Fund nor the permanent fund adopts an annual budget, they are excluded from budgetary reporting.

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

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

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Water Quality Management 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 are used to accumulate and allocate costs internally among the various functions. The City accounts for its vehicles and risk management programs (including health costs) in the internal service fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included as part of governmental activities in the government-wide financial statements.

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

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

The City's fiduciary funds are a pension trust fund, an OPEB trust fund and an agency fund as fiduciary funds. The pension trust and OPEB trust funds report the resources held in trust for retirees and beneficiaries covered by the plans. The agency fund reports resources held in a custodial capacity for the Industrial Development and Health, Educational and Housing Facilities Boards. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Notes to the Financial Statements

An integral part of the the financial statements, the notes, provide additional information that is essential to a full understanding of the government-wide and fund financial statements.

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

Supplemental Information

Required supplementary information – details regarding the City's progress in funding its obligation to provide pension and OPEB benefits to its employees begins on page B-1 of this report.

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

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

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by $1.9 billion at the close of the most recent fiscal year, an increase of $31.6 million, or 1.7 percent, from last year. At the end of the fiscal year, the City 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. The same situation held true for the prior fiscal year.

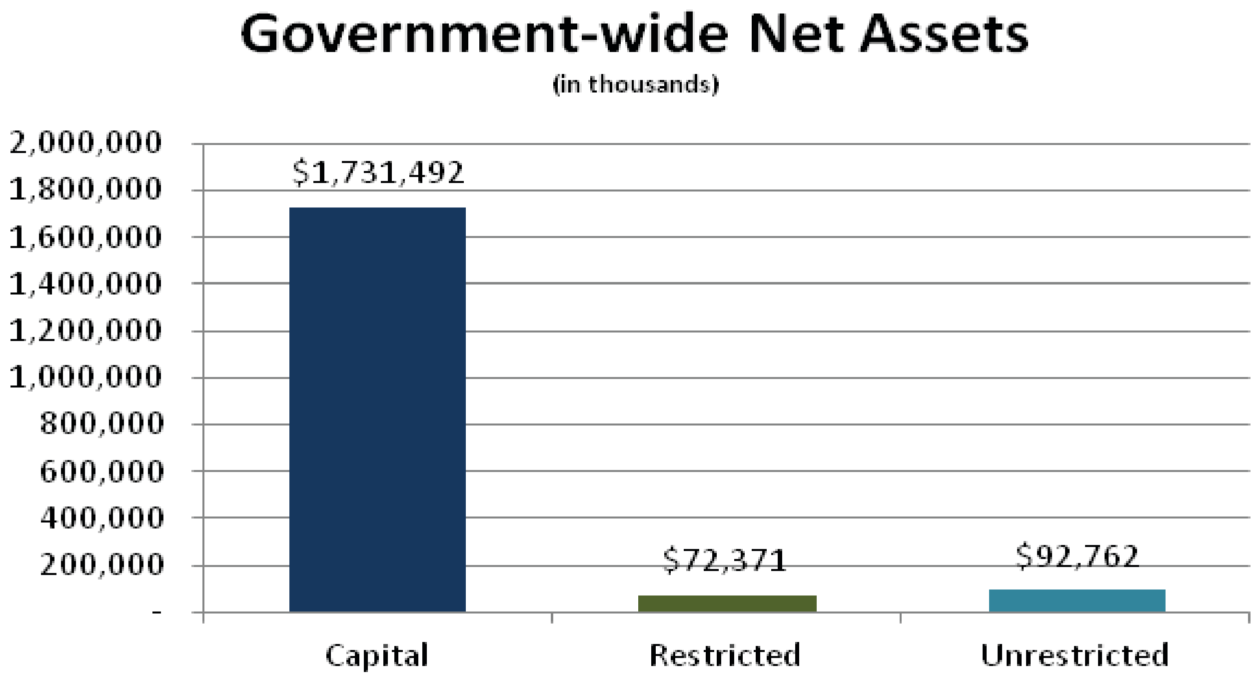
City of Chattanooga's Net Assets

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 327,802	$ 293,730	$ 246,906	$ 282,448	$ 574,708	$ 576,178
Capital assets	1,515,927	1,529,816	910,556	872,912	2,426,483	2,402,728
Total assets	1,843,729	1,823,546	1,157,462	1,155,360	3,001,191	2,978,906
Long-term liabilities outstanding	362,657	344,261	426,671	440,424	789,328	784,685
Other liabilities	146,234	157,110	169,004	172,105	315,238	329,215
Total liabilities	508,891	501,371	595,675	612,529	1,104,566	1,113,900
Net assets:						
Invested in capital assets, net of debt	1,203,908	1,231,353	527,584	568,186	1,731,492	1,799,539
Restricted	41,687	27,168	30,684	18,098	72,371	45,266
Unrestricted	89,243	63,654	3,519	(43,453)	92,762	20,201
Total net assets	$ 1,334,838	$ 1,322,175	$ 561,787	$ 542,831	$ 1,896,625	$ 1,865,006

By far the largest portion of the City's net assets, 91.3 percent, reflects its investment in capital assets (land, bulidings, equipment, infrastructure, etc), less any related debt used to acquire those assets. While 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.

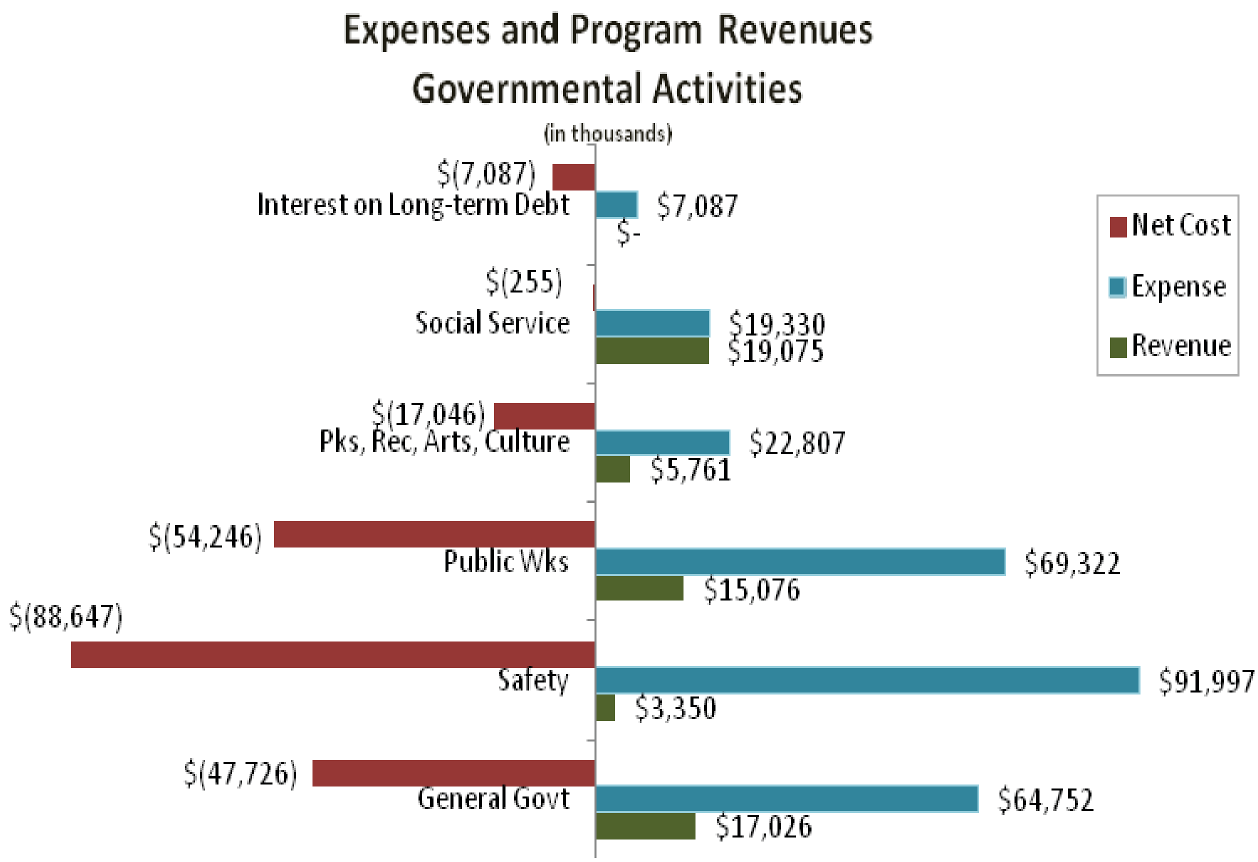
An additional portion of the City's net assets, $72.4 million or 3.8 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $92.8 million is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. While this is a $72.6 million increase from last year, the change is mainly due to reclassification of total net assets in the business-type activities.



Governmental Activities

During the current fiscal year, net assets of the City's governmental activities increased $12.7 million from the prior year for an ending balance of $1.3 billion. Overall revenue increased $23.5 million or 9.1 percent. Effective fiscal year 2012, the local sales tax agreement with Hamilton County expired; this brought in over $10.0 million directly to the City. These funds were used to support jointly funded agencies that were previously shared by the County under the agreement. An additional $15.0 million of property tax revenues erroneously deferred in prior years were recognized in fiscal year 2012. Expenses, which increased $8.0 million or 3.0 percent, include a $4.5 million adjustment to bring the OPEB liability up to the beginning actuarial valuation. The City began fully funding the annual required contribution for OPEB during fiscal year 2011.

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



City of Chattanooga's Changes in Net Assets

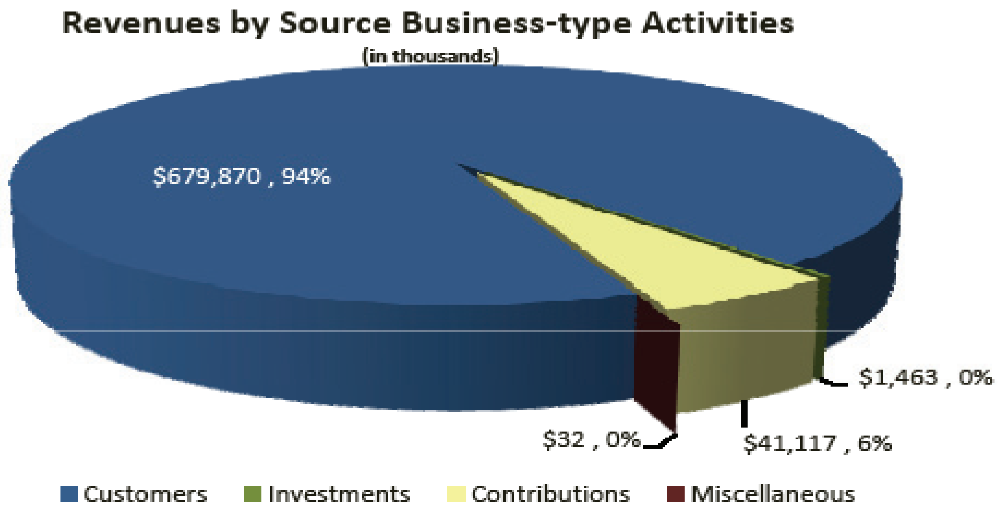
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 19,489	$ 18,430	$ 693,928	$ 659,907	$ 713,417	$ 678,337
Operating grants	38,546	45,528	101	19,983	38,647	65,511
Capital grants	2,254	7,860	39,217	41,117	41,471	48,977
General revenues:						
Property taxes	133,455	112,954	-	-	133,455	112,954
Other taxes	19,891	18,700	-	-	19,891	18,700
Investment income	874	1,345	804	1,463	1,678	2,808
Miscellaneous	374	180	148	-	522	180
Unrestricted grants	66,731	53,071	-	-	66,731	53,071
Total revenues	281,614	258,068	734,198	722,470	1,015,812	980,538
Expenses						
Governmental activities:						
General government	64,752	63,958	-	-	64,752	63,958
Public safety	91,997	84,765	-	-	91,997	84,765
Public works	69,322	66,493	-	-	69,322	66,493
Parks, rec, ed & culture	22,807	24,010	-	-	22,807	24,010
Social services	19,330	20,925	-	-	19,330	20,925
Interest on long-term debt	7,087	7,127	-	-	7,087	7,127
Business-type activities:						
Electric utility	-	-	640,201	633,507	640,201	633,507
Sewer	-	-	50,174	47,790	50,174	47,790
Solid waste	-	-	5,108	5,038	5,108	5,038
Water quality	-	-	12,387	10,004	12,387	10,004
Housing management	-	-	1,028	1,106	1,028	1,106
Total expenses	275,295	267,278	708,898	697,445	984,193	964,723
Excess (deficiency) before extraordinary item and transfer	6,319	(9,210)	25,300	25,025	31,619	15,815
Extraordinary item	-	-	-	(28,000)	-	(28,000)
Transfers	6,344	5,918	(6,344)	(5,918)	-	-
Increase (decrease) in net assets	12,663	(3,292)	18,956	(8,893)	31,619	(12,185)
Net assets, beginning	1,322,175	1,325,467	542,831	551,724	1,865,006	1,877,191
Net assets, ending	$ 1,334,838	$ 1,322,175	$ 561,787	$ 542,831	$ 1,896,625	$ 1,865,006

Business-type Activities

During the current year net assets of the business-type activities increased $19.0 million or 3.5 percent to $561.8 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.

Revenues for the City's business-type activities were $734.2 million for the year just completed; this is a $11.7 million or 1.6 percent increase. Expenses, including an extraordinary item for 2011, are down $16.5 million or 2.3 percent resulting in total expense of $708.9 million for the year. The following graph presents the major sources of revenue for business type activities.



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

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

	Electric	Sewer	Solid Waste	Water Quality	Housing	Total
Expenses	$ 640,200,589	$ 50,173,707	$ 5,108,430	$ 12,386,648	$ 1,028,404	$ 708,897,778
Revenues	658,258,000	52,410,338	6,462,505	16,160,917	905,776	734,197,536
Transfers In (Out)	(6,683,411)	-	290,000	49,100	-	(6,344,311)
Change in net assets	$ 11,374,000	$ 2,236,631	$ 1,644,075	$ 3,823,369	$ (122,628)	$ 18,955,447

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to 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

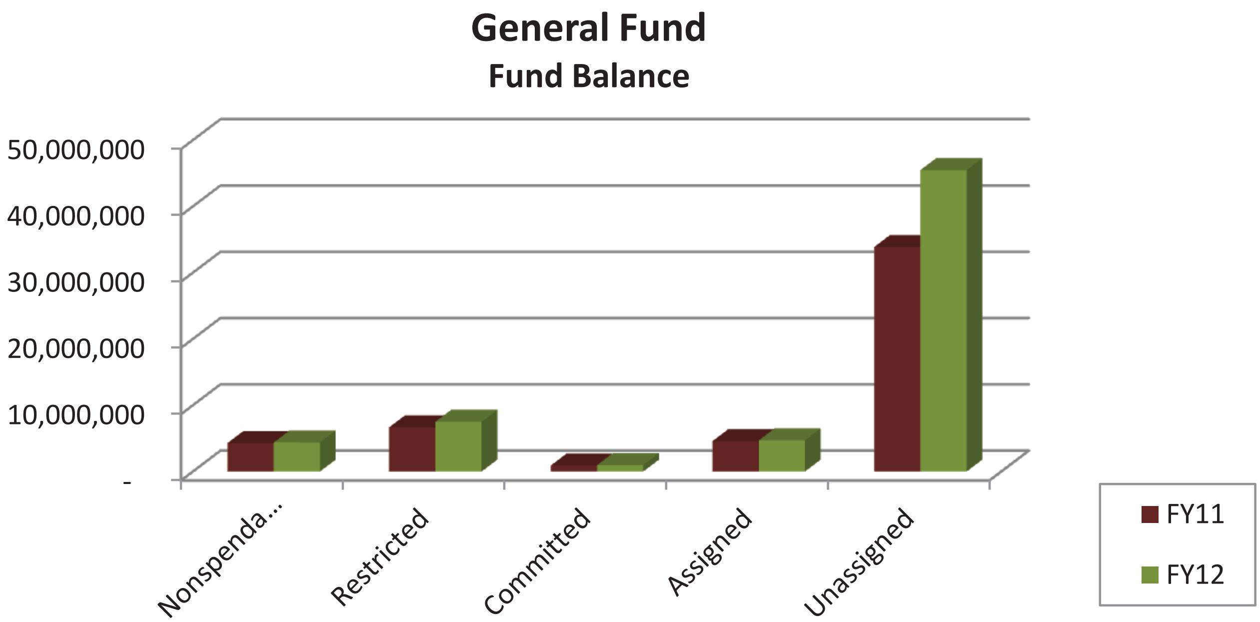
Governmental funds focus is on the near-term flow of resources and balance of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's resources available for discretionary use since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

The City's governmental funds reported a combined fund balance of $115.9 million at the end of the fiscal year. Over 39.2 percent of this amount, or $45.5 million, is available for spending at the City's discretion (unassigned fund balance). The remainder of fund balance is either nonspendable, restricted, committed or assigned.

- $9.8 million is in nonspendable form
- $50.9 million is restricted for particular purposes
- $4.4 million is committed for specific purposes
- $5.3 million is assigned for particular purposes

General Fund -- This is the chief operating fund of the City. Total fund balance of the General Fund increased by 25.3 percent or $12.7 million to $63.0 million during the fiscal year. Unassigned fund balance increased $11.6 million or 34.3 percent to $45.5 million.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to General Fund expenditures. Unassigned fund balance represents approximately 26.5 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 36.7 percent of that same amount.



Total revenues increased $15.9 million or 7.6 percent, from the prior year. The net increase is primarily comprised of a $12.3 million increase in local sales tax revenue, $10.0 of which results from the expiration of the local sales tax agreement with Hamilton County. In prior years Hamilton County received the City's allocation and dispersed the funds on our behalf. In fiscal year 2012 the City began receiving the full amount and allocating per our discretion. All major revenue sources are discussed as follows.

- During the current fiscal year property tax, along with payments in lieu of tax, increased $0.5 million, 0.5 percent over last year. This is inclusive of an aggressive payment-in-lieu of tax program targeting economic development. Franchise taxes increased 37.5 percent or $0.8 million while liquor and beer taxes increased $0.3 million or 3.6 percent.

- Licenses and permits are up $0.5 million or 10.6 percent. Construction related permits increased $0.7 million or 31.8 percent from the prior year. There is $247,000 decrease in fees as the City fully transitioned to a management agreement with Friends of the Zoo whereby these fees will no longer flow through the City.

- Intergovernmental revenues increased $12.8 million or 20.3 percent over the prior year. The driving force behind this is a $12.3 million or 33.2 percent, increase in local option sales tax. Approximately $10 million of the increased sales tax were previously allocated through the County as intergovernmental revenues in special revenue funds and jointly funded agencies. Other increases include a $1.0 million or 9.2 percent, in state sales tax and a $0.3 million in incremental sales state taxes for the Tourist Development Zone (TDZ). No TDZ payments were received in the prior year. These increases are partially offset by decrease in state grant revenue. Intergovernmental revenue in the prior fiscal year included FEMA reimbursements for severe tornado damage.

- Charges for services increased 9.3 percent or $0.5 million. The major increases include $282,000 in court costs and $119,000 in golf course revenues.

- Fines, forfeitures and penalties are down $0.6 million or 20.8 percent. While city court fines increased $184,000, the automated traffic safety program revenue decreased by $760,000 or 37.8 percent due to inactivity while transitioning providers.

- Interest income increased $122,000 or 18.6 percent. Miscellaneous revenue includes an additional $734,000 increase in indirect costs to other programs as a result of an updated cost study.

Total expenditures increased $17.0 million or 9.5 percent, from the previous year. Major changes during fiscal year 2012 are discussed below:

- The largest single component, $6.2 million or 9.0 percent increase in employee salaries consisted of: 1) a 3.0 percent increase for civilian personnel, 2) continued implementation of the career ladder program for sworn personnel and 3) six additional full time employees.

- Employee benefit costs increased by $6.7 million or 17.8 percent. This is largely due to $3.1 million increase in pension costs and $2.5 million increase in medical costs for active employees. OPEB costs have begun to stabilize showing only a $0.8 million or 6.9 percent increase as a result of the City's decision to fully fund the annual required contributions beginning in fiscal year 2011.

- Agencies received an additional $1.3 million or 15.2 percent in appropriations.

- Resources dedicated to paving doubled from $1.0 million to $2.0 million.

- An additional $1.1 million in funding was restored for the capital recovery component of the fleet lease cost which had been suspended in the prior fiscal year due to limited resources.

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 $38.0 million in fund balance; of that amount $1.7 million is nonspendable for long-term note receivables leaving $36.3 million restricted for completion of capital projects. Fund balance for this fund fluctuates from year-to-year based on debt issued and project expenditures; new debt increases fund balance while construction decreases it. For fiscal year 2012 there was a $14.6 million increase in fund balance. Analysis of project income and expenditures follows.

Project inflows for the year of $58.8 million include $3.2 million in intergovernmental revenue, contributions, interest, and sale of property. Transfers in include $4.1 million of General Fund appropriation (including $1.8 million of economic development money) and $2.4 million transferred from special revenue funds. General obligation and refunding bonds issued during the year were $26.5 million and $17.5 million, respectively, plus $3.2 million in premiums on bonds.

Current year project outflows of $44.3 million include $2.0 million for the mesh network (which recently won the "Coolest Broadband Community App" from the Intelligent Community Forum), $5.5 million for improvements at Enterprise South Industrial Park, $7.5 million for street improvements, $1.4 million for fire hall renovations, and $2.3 million for parks and greenways. There was an $18.6 million payment to an escrow agent for the refunding bonds.

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 $592.2 million. Over $545.0 million is invested in capital assets with an additional $30.7 million restricted for future use, leaving $16.2 million available to meet on-going obligations.

Enterprise Funds -- Total net assets of the enterprise funds increased $19.0 million or 3.5 percent. Details for each fund are presented as follows:

- **Electric Power Board** -- The largest enterprise fund is EPB, which has both an electric and a fiber optic division; total net assets increased $11.4 million or 4.6 percent. Total revenues are up $29.0 million mainly due to increased fiber optic sales of $19.7 million or 48.4 percent as the customer base continues to grow. Total operating expenses decreased $1.9 million or 0.3 percent. Electric operating expenses decreased $20.3 million; this decrease is primarily due to nine tornados that struck the system in one 16 hour period in 2011 and less power purchased from TVA as a result of a mild winter. These decreases are offset by an increase in fiber optic expenses of $9.8 million.

- **Interceptor Sewer System** -- Net assets of the Interceptor Sewer System increased $2.2 million or 1.0 percent, to $257.8 million. Operating revenues rose $3.4 million or 6.9 percent with an increase in sewer fees while operating expenses increased $2.7 million or 6.1 percent. Personnel, utility and chemical costs increased while interest for long-term debt decreased. Unrestricted net assets (those available to finance on-going operations) decreased $8.3 million or 23.4 percent to $27.2 million. An additional $15.2 million is restricted for future capital spending, an increase of $8.8 million. The system has already issued contracts to begin compliance with an Environmental Protection Agency (EPA) order; please refer to Note 15 for additional information.

- **Solid Waste** -- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the 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 the fiscal year net assets increased $1.6 million following a continual improvement trend. To date the City has accrued liabilities of $7.0 million for closure and post closure care costs for which over $9.0 million is included in investments. The major customer of the landfill is the City itself; during the current fiscal year tipping fees from the City were $5.8 million, 92.1 percent of total tipping fees.

- **Water Quality Management** -- The Water Quality Fund, established to comply with EPA guidelines, now has $46.0 million in net assets, an increase of $3.8 million or 9.1 percent, from last year. This includes the second of four annual increases to the non-residential rate adopted in April 2010. Net assets invested in capital are $33.8 million as a result of the aggressive capital campaign designed to continually improve drainage and discharge within the City. This is a $2.4 million or 7.5 percent increase. The amount available to fund day-to-day operations (unrestricted) increased from $8.9 million to $9.5 million, a 7.0 percent increase.

- o **Housing Management** -- The Housing Management Fund reported $883,000 in rental income, an increase of 5.2 percent from last year. During the same period operating expenses decreased 0.9 percent.

Internal Service Fund -- The internal service fund is used to account for the City's vehicle operation and maintenance program, employee medical benefits program and third party liability claims. Net assets for this fund increased $9.5 million or 45.8 percent. This change is primarily due to increases in net assets for the City's fleet leasing program ($4.4 million) and medical benefits program ($3.8 million).

General Fund Budgetary Highlights

Original Budget Compared to Final Budget

The City's budget ordinance provides for the basic functions of City government, encompassing all major funds and appropriations to agencies. The budget ordinance authorizes the City Finance Officer to make reallocations within the General Fund between original and final budgets. During 2012 the budget was amended to include $2.1 million of pay-as-you-go capital.

Final Budget Compared to Actual Results

Actual revenues exceed budget for the year by $9.3 million. The most significant variance is in intergovernmental revenue. All major revenue categories are addressed below.

- o Total tax revenue for the year fell short of budget expectations by $784,000 or 0.6 percent. Property taxes were down by $2.3 million or 2.0 percent. Over $1.0 million of the reduction is the result of the City's decision to waive 100 percent of taxes under two current and future payment in lieu of tax (PILOT) agreements to be used for education. An additional $1 million reduction can be attributed to a net reduction in property assessments. Property tax reductions were offset by a 14.3 percent or $0.5 million increase over budget for gross receipts.

- o Licenses and permits are $0.9 million or 19.6 percent above budget primarily related to building permits.

- o The largest variance, intergovernmental revenue, is $7.6 million or 11.2 percent more than budget. Federal and state grants received increased by $3.2 million or 80.0 percent over budget. Other increases in state and local taxes include Hall income tax of $0.8 million or 47.3 percent, over budget and state sales tax of $0.9 or 8.6 percent, over budget. Local sales tax is $1.8 million or 3.7 percent over budget. The City received $308,000 in tourist development zone incremental tax, which was not budgeted. The remainder is primarily related to multi-year grants budgeted in the prior year.

- o Charges for services are $0.4 million over budget or 7.7 percent. Court revenues are over budget by 21.0 percent or $231,000, due to a higher number of citations written than in the prior year. Civic facility revenue was budgeted lower because of the remodeling of the community theatre; however, they came in $115,000 or 40.5 percent, over budget.

- o Fines and forfeitures are $0.6 million or 23.1 percent below estimates as a result of fewer citations while transitioning the automated traffic safety program to a new provider.

- o Investment income is $0.3 million or 58.9 percent over budget.

- o Miscellaneous revenue is up $1.5 million or 48.3 percent. Included is $0.7 million or 26.1 percent over budget for indirect cost as a result of updating the indirect cost allocation plan. The remaining miscellaneous revenue, which fluctuates from year to year, is $0.8 million above budget.

Expenditures were less than budgetary estimates by $7.2 million. Personnel costs, which are budgeted at 100.0 percent of authorized positions, are $6.0 million below budget. Lease payments for the Southside capital lease are $1.8 million under budget due to higher than expected revenues from the operation of The Chattanoogan Conference Center. Minimal expenditures were made from the $1.1 million of contingency funding.

The General Fund budget anticipated use of $5.4 million of fund balance during the year; instead $12.7 million was added to fund balance.

Capital Assets and Debt Administration

Capital Assets

At the end of this year, the City had $2.4 billion invested in capital assets (net of accumulated depreciation), an increase of $23.7 million or 1.0 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	
	2012	2011	2012	2011	2012	2011
Non-depreciable:						
Land & Easements	$ 1,037,882	$ 1,035,729	$ 19,604	$ 17,147	$ 1,057,486	$ 1,052,876
Construction in progress	41,384	29,131	53,622	50,449	95,006	79,580
Depreciable:						
Buildings & Improvements	118,773	123,686	84,201	81,805	202,974	205,491
Vehicles & Machinery	33,746	35,344	180,511	147,347	214,257	182,691
Infrastructure	284,141	305,926	572,618	576,163	856,759	882,089
Total	$ 1,515,926	$ 1,529,816	$ 910,556	$ 872,911	$ 2,426,482	$ 2,402,727

Major capital asset events during the year included the following:

- Land additions include $2.1 million in donated roadbeds and the purchase of $2.0 million of land for construction of combined sewer overflow facilities.

- Construction-in-progress additions include $1.7 million for the wireless mesh network, $0.5 million for computer hydraulic modeling, $0.7 million for an intelligent traffic system, $1.2 million pump station upgrades at East Brainerd Road, $1.5 million road improvements at Shallowford and Jenkins, $0.8 million for sidewalks and $0.6 million for greenways.

- Buildings and improvement additions include $1.3 million for the pump station at Airport Road and $1.4 million for the fire station on Cummings Highway. EPB added $4.9 million in buildings and improvements primarily for a new field operations headquarters for utility at the Cavalier site.

- The increase in equipment includes $4.0 million of new vehicles as part of the fleet leasing program in addition to $0.9 million for camera installations in police vehicles. EPB added $64.7 million of electric system equipment, primarily for the expansion of the Smart Grid.

- Infrastructure decreased $2.5 million as there was more depreciation expense than new infrastructure capitalized. Major additions include $1.3 million in sewer construction, $1.3 million in drainage improvements at Chapman Road, and $1.9 million in capitalized road improvements. EPB added $52.0 million of infrastructure.

- 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 $44.5 million including $27.6 million on infrastructure assets. Business-type activities recognized depreciation expense of $58.3 million.

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

Debt Administration

Total long-term debt outstanding at June 30 is $709.6 million. This is a $0.4 million decrease or 0.1 percent, from last year. Detail is provided in the table and narrative that follow.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds (backed by the City)	$ 182,678	$ 165,969	$ 54,342	$ 62,441	$ 237,020	$ 228,410
Revenue bonds (backed by specific revenues)	-	-	279,930	282,680	279,930	282,680
Notes payable and other	25,814	28,548	66,141	66,591	91,955	95,139
Capital leases	100,625	103,678	68	96	100,693	103,774
Total	$ 309,117	$ 298,195	$ 400,481	$ 411,808	$ 709,598	$ 710,003

The City of Chattanooga maintains an "AA+" rating from both Standard & Poor's and Fitch Inc. for general obligation debt. The Charter limits the City's amount of net general obligation debt to 10.0 percent of the assessed value of all taxable property within its corporate limits. The City's general obligation debt, net of self-supporting debt of $154.8 million, is 32.1 percent of its current limit of $482.1 million. As of year-end, EPB Electric System had $279.9 million in revenue bond outstanding compared to $282.7 million last year. The EPB revenue bonds are rated AA by both Fitch and Standard & Poor's.

During the year the City issued the following new debt:

- Governmental activities issued $26.5 million in bonds to fund various capital projects in the 2011 and 2012 capital improvement programs. Another $17.5 million in bonds was issued to refinance a portion of both the General Obligation Bonds Series 2002 and General Obligation Bonds Series 2003A. There was also a drawdown of $75,201 from the 2004 Tennessee Municipal Bond Fund.

- EPB secured a $7.5 million bank note for the benefit of the fiber optic division to repay the electric division for an intercompany loan. This is reported as a business-type activity.

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

Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the budget for 2013:

- Anticipated revenues in the General Fund are $233.8 million, up 7.2 percent, from the 2012 budget.

- The City conservatively forecasts property tax at 95.0 percent of the tax levy. While assessments have not declined as a result of the recession, the City has continued to enter into PILOT agreements that promote economic development under which no property tax is receive. The 2013 estimate of $106.8 million represents 55.5 percent of the total undesignated General Fund budget.

- Other revenues are reflective of improving economic conditions at the state and local level. Estimated state and local sales taxes are up over 11.0 percent which is indicative of increased consumer spending. Gross receipt taxes, a steady source of General Fund revenue, increased 12.0 percent.

- Expenditures, balanced to revenues at the same $233.8 million, reflect our continued efforts to maintain and preserve a level of high quality core services.

- The budget provides a 5.0 percent or $5.8 million increase in employee compensation. Major components include: fifteen additional firefighters to staff a new fire station providing service to newly annexed areas of the City; continued funding for career ladder programs for sworn personnel and a 3.0 percent increase for civilian employees. The City is committed to fully fund the increased cost of employee benefits such as pension and medical insurance for active employees and retirees.

- Next year's budget continues to support the City's commitment to street improvements through its pavement management program which incorporates a long-term strategy that prioritizes paving requirements. Also included is $2.0 million of pay-as-you-go capital from General Fund.

- The City's business-type activities are expected to have modest increases in operations during 2013. The Interceptor Sewer System and Water Quality programs include approximately a 9.0 percent rate increase to address requirements imposed by EPA.

- The capital budget for fiscal year 2013 includes $96.6 million for the following capital projects: $23.4 million for paving, street improvements and sidewalks; $2.0 million toward the fleet leasing program; $7.4 million for additions to a regional intelligent traffic system; $2.0 million toward the completion a new health and center; $2.6 million for expansion and upgrade of the City's parks and park facilities; $8.0 million for riverfront hardedge repairs; $1.9 million for technology; $3.2 for police firing range and building upgrades; and $44.2 million for various interceptor sewer, water quality system, and landfill upgrades. $47.6 million in bonds and notes are anticipated to finance a portion of these projects. The interceptor sewer system, as discussed in Note 15 of the financial statements, is upgrading the system to comply with EPA consent decree.

Requests for Information

This financial report is designed to provide 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

Complete financial statements of the component units may 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 East 11th Street; Suite 101
Chattanooga, Tennessee 37402.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 50,883,726	$ 105,296,390	$ 156,180,116	$ 14,615,016
Investments	45,530,000	30,350,000	75,880,000	-
Receivables, net of allowance for uncollectibles	168,555,236	76,340,701	244,895,937	5,448,076
Net investment in capital lease	-	-	-	100,531,341
Internal balances	6,141,000	(6,141,000)	-	-
Due from component units	1,093,204	-	1,093,204	-
Deferred charges	2,285,251	5,990,784	8,276,035	1,363,272
Inventories	2,498,864	14,550,604	17,049,468	550,084
Prepaid items	1,781,214	8,346,000	10,127,214	898,948
Other assets	-	375,000	375,000	-
Restricted assets:				
Cash and cash equivalents	10,337,744	10,146,983	20,484,727	3,993,654
Investments	22,178,583	1,637,589	23,816,172	9,756,000
Endowment investments	3,239,658	-	3,239,658	-
Receivables	128,971	12,895	141,866	253,960
Other	80,823	-	80,823	-
Net pension assets	5,463,343	-	5,463,343	-
Equity interest in joint venture	7,605,065	-	7,605,065	-
Land and other nondepreciable assets	1,079,266,382	73,226,155	1,152,492,537	29,763,306
Other capital assets, net of accumulated depreciation	436,660,110	837,329,882	1,273,989,992	83,887,180
Total assets	1,843,729,174	1,157,461,983	3,001,191,157	251,060,837
LIABILITIES				
Accounts payable and accrued liabilities	28,728,104	128,442,658	157,170,762	5,853,404
Customer deposits	-	23,124,496	23,124,496	-
Due to primary government	-	-	-	593,204
Line of credit	-	-	-	500,000
Contracts payable	354,888	192,552	547,440	138,948
Unearned revenue	117,151,386	-	117,151,386	30,432
Other liabilities	-	17,244,475	17,244,475	388,384
Long-term liabilities:				
Due within one year	22,828,674	20,188,249	43,016,923	4,662,341
Due in more than one year	339,827,660	406,482,535	746,310,195	125,711,840
Total liabilities	508,890,712	595,674,965	1,104,565,677	137,878,553
NET ASSETS				
Invested in capital assets, net of related debt	1,203,907,660	527,583,854	1,731,491,514	107,240,043
Restricted for:				
Capital projects	37,958,070	-	37,958,070	-
Debt service	-	-	-	13,920,483
Renewal and replacement	-	30,684,020	30,684,020	624,412
Permanent endowments:				
Expendable	3,716,415	-	3,716,415	-
Nonexpendable	13,005	-	13,005	-
Unrestricted	89,243,312	3,519,144	92,762,456	(8,602,654)
Total net assets	$ 1,334,838,462	$ 561,787,018	$ 1,896,625,480	$113,182,284

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 64,751,775	$ 11,045,632	$ 4,583,685	$ 1,396,973
Public safety	91,995,943	654,680	2,631,167	64,231
Public works	69,321,709	3,314,133	11,617,419	144,186
Parks, recreation, education, arts & culture	22,807,242	3,728,321	1,384,336	648,199
Social services	19,329,779	746,120	18,328,982	-
Interest on long-term debt	7,087,446	-	-	-
Total governmental activities	275,293,894	19,488,886	38,545,589	2,253,589
Business-type activities:				
Electric utility, including fiber optics	640,200,589	618,552,000	-	39,206,000
Sewer	50,173,707	52,051,115	-	-
Solid waste	5,108,430	6,317,708	76,124	-
Water quality management	12,386,648	16,123,965	24,695	11,000
Housing management	1,028,404	882,897	-	-
Total business-type activities	708,897,778	693,927,685	100,819	39,217,000
TOTAL PRIMARY GOVERNMENT	$ 984,191,672	$ 713,416,571	$ 38,646,408	$ 41,470,589
COMPONENT UNITS				
Airport authority	$ 11,826,412	$ 9,640,967	$ -	$ 9,037,489
Transportation authority	21,349,936	6,336,805	7,455,064	6,524,086
Downtown redevelopment	16,732,730	17,643,116	-	-
TOTAL COMPONENT UNITS	$ 49,909,078	$ 33,620,888	$ 7,455,064	$ 15,561,575

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

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
$ (47,725,485)	$ -	$ (47,725,485)	$ -
(88,645,865)	-	(88,645,865)	-
(54,245,971)	-	(54,245,971)	-
(17,046,386)	-	(17,046,386)	-
(254,677)	-	(254,677)	-
(7,087,446)	-	(7,087,446)	-
(215,005,830)	-	(215,005,830)	-
-	17,557,411	17,557,411	-
-	1,877,408	1,877,408	-
-	1,285,402	1,285,402	-
-	3,773,012	3,773,012	-
-	(145,507)	(145,507)	-
-	24,347,726	24,347,726	-
(215,005,830)	24,347,726	(190,658,104)	-
6,852,044	-	-	6,852,044
-	(1,033,981)	-	(1,033,981)
-	-	910,386	910,386
6,852,044	(1,033,981)	910,386	6,728,449
133,455,222	-	133,455,222	-
7,614,837	-	7,614,837	-
5,001,504	-	5,001,504	-
4,276,496	-	4,276,496	-
2,915,030	-	2,915,030	-
83,017	-	83,017	-
49,419,935	-	49,419,935	-
11,313,906	-	11,313,906	-
2,651,353	-	2,651,353	-
308,833	-	308,833	-
3,037,086	-	3,037,086	-
873,653	804,118	1,677,771	553,541
-	147,914	147,914	2,435,855
4,554	-	4,554	-
370,285	-	370,285	-
6,344,311	(6,344,311)	-	-
227,670,022	(5,392,279)	222,277,743	2,989,396
12,664,192	18,955,447	31,619,639	9,717,845
1,322,174,270	542,831,571	1,865,005,841	103,464,439
$ 1,334,838,462	$ 561,787,018	$ 1,896,625,480	$ 113,182,284

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 9,596,319	$ 15,742,969	$ 11,811,111	$ 37,150,399
Investments	45,530,000	21,803,701	3,614,539	70,948,240
Receivables, net of allowance for uncollectibles:				
Property taxes	115,840,250	-	-	115,840,250
Accounts receivable	4,624,315	128,971	1,037,639	5,790,925
Notes	3,609,506	1,693,088	16,221,118	21,523,712
Other	1,391,004	9,367	-	1,400,371
Due from other funds	745,900	4,317,418	323,822	5,387,140
Due from component units	260,123	333,081	-	593,204
Due from other governments	19,905,482	67,844	4,076,809	24,050,135
Inventories	826,741	-	-	826,741
Prepaid items	8,000	1,764,000	9,214	1,781,214
Total assets	$ 202,337,640	$ 45,860,439	$ 37,094,252	$ 285,292,331
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 8,303,532	$ 1,818,123	$ 2,839,162	$ 12,960,817
Due to other funds	4,113,000	1,069,722	204,418	5,387,140
Due to other governments	362,921	4,767,527	-	5,130,448
Deferred revenue	126,543,397	-	19,107,309	145,650,706
Contracts payable	11,398	246,997	-	258,395
Total liabilities	139,334,248	7,902,369	22,150,889	169,387,506
Fund Balances:				
Nonspendable	4,377,659	1,693,088	3,725,629	9,796,376
Restricted	7,502,063	36,264,982	7,157,431	50,924,476
Committed	967,538	-	3,456,211	4,423,749
Assigned	4,686,118	-	604,092	5,290,210
Unassigned	45,470,014	-	-	45,470,014
Total fund balances	63,003,392	37,958,070	14,943,363	115,904,825
Total liabilities and fund balances	$ 202,337,640	$ 45,860,439	$ 37,094,252	$ 285,292,331

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, 2012

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

Fund balances - total governmental funds		$ 115,904,825
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		1,502,845,580
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and are deferred in the funds.		28,499,320
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds		6,141,000
The City's pension plans have been funded in excess of annual required contributions creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.		5,463,343
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial resource and is not reported in the funds.		7,605,065
The internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		30,385,930
The City's other post-employment benefit plan has not been funded to meet annual required contributions. This accrued liability and the pollution remediation obligations are considered long-term obligations and are not reported in the funds.		(32,843,239)
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due. All liabilities, both due in one year and due in more than one year, are reported in the statement of net assets. This item consists of:		
General obligation serial bonds	$ (182,677,809)	
Add net deferred refunding, issue premiums and discounts	(2,901,715)	
Less deferred issue costs	2,285,251	
Notes payable	(25,814,209)	
Capital leases	(100,625,099)	
Compensated absences	(17,376,602)	
Accrued interest payable	(2,053,179)	
		(329,163,362)
Net assets of governmental activities		$ 1,334,838,462

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, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 130,221,929	$ -	$ 5,001,504	$ 135,223,433
Licenses and permits	5,184,028	-	554,723	5,738,751
Intergovernmental	75,902,885	2,154,474	25,621,717	103,679,076
Charges for services	5,347,148	-	698,491	6,045,639
Fines, forfeitures and penalties	2,105,600	-	43,352	2,148,952
Investment income	777,377	211,910	181,384	1,170,671
Contributions and donations	221,687	445,358	172,554	839,599
Sale of property	177,829	424,040	16,625	618,494
Miscellaneous	4,323,860	7,754	780,719	5,112,333
Total revenues	224,262,343	3,243,536	33,071,069	260,576,948
EXPENDITURES				
Current:				
General government	47,137,930	-	5,791,355	52,929,285
Finance and administration	4,418,397	-	-	4,418,397
Public safety	90,063,876	-	423,055	90,486,931
Public works	34,479,915	-	4,803,415	39,283,330
Parks and recreation	16,982,982	-	-	16,982,982
Education, arts and culture	2,476,913	-	-	2,476,913
Social services	-	-	19,123,591	19,123,591
Capital outlay/capital assets	-	24,674,873	-	24,674,873
Debt service:				
Principal retirement	-	-	11,846,305	11,846,305
Interest and fiscal charges	-	616,865	7,067,048	7,683,913
Total expenditures	195,560,013	25,291,738	49,054,769	269,906,520
Excess (deficiency) of revenues over (under) expenditures	28,702,330	(22,048,202)	(15,983,700)	(9,329,572)
OTHER FINANCING SOURCES (USES)				
Transfers in	7,756,422	8,331,325	17,842,550	33,930,297
Transfers out	(23,735,489)	(469,816)	(7,445,681)	(31,650,986)
Refunding bonds issued	-	17,545,000	-	17,545,000
General obligation bonds issued	-	26,495,000	-	26,495,000
Premium on refunding bonds issued	-	1,372,466	-	1,372,466
Premium on general obligation bonds issued	-	1,800,288	-	1,800,288
Notes issued	-	75,201	-	75,201
Payments to refunded bonds escrow agent	-	(18,574,740)	-	(18,574,740)
Total other financing sources (uses)	(15,979,067)	36,574,724	10,396,869	30,992,526
Net change in fund balances	12,723,263	14,526,522	(5,586,831)	21,662,954
FUND BALANCES, beginning	50,280,129	23,431,548	20,530,194	94,241,871
FUND BALANCES, ending	$ 63,003,392	$ 37,958,070	$ 14,943,363	$ 115,904,825

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, 2012

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

Net change in fund balances - total governmental funds		$ 21,662,954
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.		20,175,901
Depreciation expense for governmental capital assets are included in the governmental activities.		(41,613,957)
Contributions of capital assets are not reflected in the governmental funds but are reported in the statement of activities. This item consists primarily of streets contributed by developers.		3,205,800
The net effect of various transactions involving capital assets is to decrease net assets.		(255,049)
The loss of equity interest in joint venture is reported in the statement of activities. This loss does not use current financial resources and is not reflected in the governmental funds.		(72,934)
Bond proceeds and notes issues provide financial resources to governmental funds while repayment of principal consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and deferred amounts on refundings when debt is first issued; these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt is as follows:		
Principal paid	$ 11,846,306	
Payment of capital lease	2,986,987	
Bonds issued	(44,040,000)	
Premiums on bonds issued	(3,172,754)	
Note issued	(75,201)	
Defer bond issue costs and escrow payment	19,189,101	
Amortization	(13,573)	
Change in accrued interest payable	(96,936)	(13,376,070)
Net revenues of the internal service fund are reported with governmental activities.		9,543,558
Certain items reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. This item consists of:		
Change in personal leave liability	(631,662)	
Change in pension assets	(223,771)	
Change in OPEB and pollution remediation liability	(4,181,252)	(5,036,685)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources. This item consists of:		
Accrual of EPB PILOT for the next fiscal year	308,000	
Change in deferred revenue to earned revenue	18,122,674	18,430,674
Change in net assets of governmental activities		$ 12,664,192

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
REVENUES				
Taxes	$ 131,006,160	$ 131,006,160	$ 130,221,929	$ (784,231)
Licenses and permits	4,336,223	4,336,223	5,184,028	847,805
Intergovernmental	68,261,555	68,261,555	75,902,885	7,641,330
Charges for services	4,963,630	4,963,630	5,347,148	383,518
Fines, forfeitures and penalties	2,739,600	2,739,600	2,105,600	(634,000)
Investment income	428,339	428,339	777,377	349,038
Miscellaneous	3,250,429	3,250,429	4,723,376	1,472,947
Total revenues	214,985,936	214,985,936	224,262,343	9,276,407
EXPENDITURES				
General government	44,604,897	43,101,744	38,910,705	(4,191,039)
Executive	1,555,320	1,555,320	1,437,459	(117,861)
Finance and administration	5,131,342	5,131,342	4,418,397	(712,945)
General services	2,963,499	2,963,499	2,757,238	(206,261)
Personnel	1,983,346	1,983,346	1,730,244	(253,102)
Neighborhood services	2,282,626	2,302,284	2,302,284	-
Police	55,038,506	55,038,506	53,760,208	(1,278,298)
Fire	37,237,345	37,237,345	36,303,668	(933,677)
Public works	33,818,617	33,818,617	34,479,915	661,298
Parks and recreation	17,079,307	17,079,307	16,982,982	(96,325)
Education, arts and culture	2,558,701	2,558,701	2,476,913	(81,788)
Total expenditures	204,253,506	202,770,011	195,560,013	(7,209,998)
Excess of revenues over expenditures	10,732,430	12,215,925	28,702,330	16,486,405
OTHER FINANCING SOURCES (USES)				
Transfers in	6,139,300	6,133,192	7,756,422	1,623,230
Transfers out	(20,115,445)	(23,726,065)	(23,735,489)	(9,424)
Total other financing sources (uses)	(13,976,145)	(17,592,873)	(15,979,067)	1,613,806
Net change in fund balances	(3,243,715)	(5,376,948)	12,723,263	18,100,211
FUND BALANCES, beginning	50,280,129	50,280,129	50,280,129	-
FUND BALANCES, ending	$ 47,036,414	$ 44,903,181	$ 63,003,392	$ 18,100,211

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
ASSETS	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
CURRENT ASSETS							
Cash and cash equivalents	$ 80,442,000	$ 9,389,047	$ 2,929,300	$ 12,371,937	$ 164,106	$ 105,296,390	$ 24,071,072
Investments	-	30,350,000	-	-	-	30,350,000	-
Receivables							
Customer service	62,019,000	4,938,134	24,464	2,392,127	-	69,373,725	610,552
Other	-	24,481	6,586	22,595	6,800	60,462	-
Less allowance for doubtful accounts	(1,222,000)	(500)	(100)	(1,394,264)	-	(2,616,864)	-
Inventories	13,872,000	678,606	-	-	-	14,550,606	1,672,122
Prepaid items	8,346,000	-	-	-	-	8,346,000	-
Due from other governments	8,099,000	1,255,695	98,309	70,374	-	9,523,378	49,089
Total current assets	171,556,000	46,635,463	3,058,559	13,462,769	170,906	234,883,697	26,402,835
NONCURRENT ASSETS							
Restricted assets:							
Cash and cash equivalents	-	-	10,110,099	-	36,884	10,146,983	-
Investments	-	1,637,589	-	-	-	1,637,589	-
Accounts receivable	-	9,099	3,796	-	-	12,895	-
Total restricted assets	-	1,646,688	10,113,895	-	36,884	11,797,467	-
Capital assets:							
Land	6,098,000	10,095,817	1,517,514	1,865,986	27,000	19,604,317	-
Construction in progress	43,215,000	9,304,319	-	1,102,519	-	53,621,838	2,223,120
Buildings	60,806,000	55,569,530	1,921,659	10,601,459	6,804,461	135,703,109	627,799
Equipment	234,186,000	31,152,406	3,798,862	1,140,836	9,420	270,287,524	2,842,707
Vehicles	-	3,267,005	1,778,311	2,268,204	-	7,313,520	18,623,396
Infrastructure	496,961,000	417,487,714	9,520,509	38,913,370	-	962,882,593	-
	841,266,000	526,876,791	18,536,855	55,892,374	6,840,881	1,449,412,901	24,317,022
Less accumulated depreciation	(275,511,000)	(238,558,357)	(7,816,895)	(14,419,795)	(2,550,817)	(538,856,864)	(11,236,110)
Net capital assets	565,755,000	288,318,434	10,719,960	41,472,579	4,290,064	910,556,037	13,080,912
Other assets:							
Deferred charges	5,178,000	514,492	212,551	85,741	-	5,990,784	-
Discounted energy units	375,000	-	-	-	-	375,000	-
Total other assets	5,553,000	514,492	212,551	85,741	-	6,365,784	-
Total noncurrent assets	571,308,000	290,479,614	21,046,406	41,558,320	4,326,948	928,719,288	13,080,912
Total assets	$ 742,864,000	$ 337,115,077	$ 24,104,965	$ 55,021,089	$ 4,497,854	$ 1,163,602,985	$ 39,483,747

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

(Continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	$ 6,788,000	$ 9,244,983	$ 2,901,338	$ 1,253,928	$ -	$ 20,188,249	$ 171,343
Accounts payable and accrued liabilities	129,788,000	5,030,800	1,905,202	685,526	12,478	137,422,006	967,823
Accrued claims	-	-	-	-	-	-	7,615,821
Customer deposits	2,202,000	-	-	-	35,497	2,237,497	-
Contracts payable	-	66,332	126,220	-	-	192,552	96,492
Due to other governments	-	-	-	-	-	-	19
Other current liabilities	-	-	-	-	2,364,133	2,364,133	-
Total current liabilities	138,778,000	14,342,115	4,932,760	1,939,454	2,412,108	162,404,437	8,851,498
LONG-TERM LIABILITIES							
Notes, capital leases and other obligations	18,112,000	40,822,288	590,326	-	-	59,524,614	-
Compensated absences	610,000	458,207	39,237	296,336	-	1,403,780	246,319
Customer deposits	20,887,000	-	-	-	-	20,887,000	-
Accrued closure and postclosure care	-	-	5,734,327	-	-	5,734,327	-
Revenue bonds payable	276,965,000	-	-	-	-	276,965,000	-
Original issue premium	7,559,000	-	-	-	-	7,559,000	-
General obligation bonds payable	-	23,619,279	15,645,457	6,694,976	-	45,959,712	-
Original issue premium	-	1,132,585	681,425	360,445	-	2,174,455	-
Deferred refunding	-	(1,093,389)	(436,796)	(263,173)	-	(1,793,358)	-
Other noncurrent liabilities	12,042,000	-	-	-	-	12,042,000	-
Accrued postemployment benefits	8,955,000	-	-	-	-	8,955,000	-
Total long-term liabilities	345,130,000	64,938,970	22,253,976	7,088,584	-	439,411,530	246,319
Total liabilities	483,908,000	79,281,085	27,186,736	9,028,038	2,412,108	601,815,967	9,097,817
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	278,266,000	215,464,384	2,749,518	33,803,403	1,925,931	532,209,236	13,080,912
Restricted for renewal and replacement	-	15,163,929	12,817,281	2,702,810	-	30,684,020	-
Unrestricted	(19,310,000)	27,205,679	(18,648,570)	9,486,838	159,815	(1,106,238)	17,305,018
Total net assets (deficit)	$ 258,956,000	$ 257,833,992	$ (3,081,771)	$ 45,993,051	$ 2,085,746	$ 561,787,018	$ 30,385,930

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

CITY OF CHATTANOOGA, TENNESSEE

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

Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
OPERATING REVENUES							
Charges for sales and services							
Electric sales	$544,177,000	$ -	$ -	$ -	$ -	$544,177,000	$ -
Fiber optic revenues	60,427,000	-	-	-	-	60,427,000	-
Sewer charges	-	51,118,786	-	-	-	51,118,786	-
Waste disposal fees	-	-	6,272,156	-	-	6,272,156	-
Water quality fees	-	-	-	15,974,655	-	15,974,655	-
Property rental	-	-	-	-	882,897	882,897	-
Other services	13,948,000		-	-	-	13,948,000	-
Other	-	939,268	136,515	174,704	22,879	1,273,366	56,168,070
Total operating revenues	618,552,000	52,058,054	6,408,671	16,149,359	905,776	694,073,860	56,168,070
OPERATING EXPENSES							
Power purchases	434,816,000	-	-	-	-	434,816,000	-
Other electric operations	64,165,000	-	-	-	-	64,165,000	-
Fiber optic operations	37,317,000	-	-	-	-	37,317,000	-
Sewer plant operations	-	32,650,371	-	-	-	32,650,371	-
Waste disposal operations	-	-	3,092,187	-	-	3,092,187	-
Closure/postclosure costs	-	-	550,010	-	-	550,010	-
Water quality operations	-	-	-	10,921,490	-	10,921,490	-
Housing operations	-	-	-	-	771,492	771,492	-
Fleet operations	-	-	-	-	-	-	14,394,575
Liability insurance	-	-	-	-	-	-	236,134
Health services	-	-	-	-	-	-	33,040,431
Depreciation	41,713,000	14,634,118	532,997	1,145,679	245,401	58,271,195	2,844,399
Other	10,674,000	-	2,641	-	-	10,676,641	-
Total operating expenses	588,685,000	47,284,489	4,177,835	12,067,169	1,016,893	653,231,386	50,515,539
OPERATING INCOME (LOSS)	29,867,000	4,773,565	2,230,836	4,082,190	(111,117)	40,842,474	5,652,531
NONOPERATING REVENUES (EXPENSES)							
Investment income	398,000	352,284	53,834	-	-	804,118	-
Interest expense	(12,852,000)	(2,889,218)	(821,682)	(319,479)	(11,511)	(16,893,890)	-
Other income (expense)	(38,869,589)	-	(108,913)	-	-	(38,978,502)	134,027
Total nonoperating revenues (expenses)	(51,323,589)	(2,536,934)	(876,761)	(319,479)	(11,511)	(55,068,274)	134,027
INCOME (LOSS) BEFORE CONTRIBUTIONS, TRANSFERS AND SPECIAL ITEM	(21,456,589)	2,236,631	1,354,075	3,762,711	(122,628)	(14,225,800)	5,786,558
Capital contributions	39,206,000	-	-	11,558	-	39,217,558	-
Transfers in	-	-	290,000	49,100	-	339,100	3,757,000
Transfers out	(6,375,411)	-	-	-	-	(6,375,411)	-
CHANGE IN NET ASSETS	11,374,000	2,236,631	1,644,075	3,823,369	(122,628)	18,955,447	9,543,558
NET ASSETS (DEFICIT), beginning	247,582,000	255,597,361	(4,725,846)	42,169,682	2,208,374	542,831,571	20,842,372
NET ASSETS (DEFICIT), ending	$258,956,000	$257,833,992	$ (3,081,771)	$45,993,051	$ 2,085,746	$561,787,018	$ 30,385,930

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 640,474,000	$ 52,662,566	$ 6,286,849	$16,249,891	$ 905,664	$ 716,578,970	$ 55,886,060
Receipts from operating grants	-	-	81,866	-	-	81,866	-
Payments to suppliers	(518,966,000)	(23,205,858)	(847,580)	(4,456,265)	(776,255)	(548,251,958)	(47,095,588)
Payments to employees	(31,466,000)	(7,277,784)	(3,623,714)	(6,510,491)	-	(48,877,989)	(333,600)
Payments in lieu of taxes	(8,884,589)	-	-	-	-	(8,884,589)	-
Net cash from operating activities	81,157,411	22,178,924	1,897,421	5,283,135	129,409	110,646,300	8,456,872
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transers in	-	-	290,000	49,100	-	339,100	3,757,000
Transfers out	(6,375,411)	-	-	-	-	(6,375,411)	-
Net cash flows used in noncapital financing activities	(6,375,411)	-	290,000	49,100	-	(6,036,311)	3,757,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(7,432,000)	(8,879,445)	(1,538,719)	(977,260)	(35,781)	(18,863,205)	-
Interest paid on capital debt	(14,174,000)	(3,448,644)	(849,372)	(404,971)	(11,511)	(18,888,498)	-
Line of credit	360,000	-	-	-	-	360,000	-
Proceeds from capital debt	7,500,000	-	-	-	-	7,500,000	-
Capital grants and contributions	39,206,000	-	-	11,558	-	39,217,558	-
Additions to capital assts	(125,892,000)	(7,468,982)	(513,401)	(2,466,951)	-	(136,341,334)	(7,454,760)
Proceeds from the sale of capital assets	1,269,000	-	-	-	-	1,269,000	12,235
Net cash flows used in capital and related financing activities	(99,163,000)	(19,797,071)	(2,901,492)	(3,837,624)	(47,292)	(125,746,479)	(7,442,525)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investments	-	(90,087,589)	(14,984,883)	-	-	(105,072,472)	-
Proceeds from sales and maturities of investments	5,105,000	93,771,690	20,187,855	-	-	119,064,545	-
Interest	424,000	381,645	75,488	-	-	881,133	-
Net cash flows from investing activities	5,529,000	4,065,746	5,278,460	-	-	14,873,206	-
Net increase (decrease) in cash and cash equivalents	(18,852,000)	6,447,599	4,564,389	1,494,611	82,117	(6,263,284)	4,771,347
Cash and cash equivalents, beginning of year	99,294,000	2,941,448	8,475,010	10,877,326	118,873	121,706,657	19,299,725
Cash and cash equivalents, end of year	$ 80,442,000	$ 9,389,047	$13,039,399	$12,371,937	$ 200,990	$115,443,373	$ 24,071,072
CLASSIFIED AS:							
Current assets	$ 80,442,000	$ 9,389,047	$ 2,929,300	$12,371,937	$ 164,106	$105,296,390	$ 24,071,072
Restricted assets	-	-	10,110,099	-	36,884	10,146,983	-
	$ 80,442,000	$ 9,389,047	$13,039,399	$12,371,937	$ 200,990	$115,443,373	$ 24,071,072

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended June 30, 2012

(Continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 29,867,000	$ 4,773,565	$ 2,230,836	$ 4,082,190	$ (111,117)	$ 40,842,474	$ 5,652,531
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	41,713,000	14,634,118	532,997	1,145,679	245,401	58,271,195	2,844,399
Miscellaneous nonoperating expenses	1,016,000	-	-	-	-	1,016,000	134,027
Provision for uncollectible accounts	-	223,963	-	342,385	-	566,348	-
(Increase) decrease in:							
Accounts receivable	(10,201,000)	380,549	14,693	(406,963)	(112)	(10,212,833)	(281,373)
Due from other funds	-	-	-	-	-	-	83
Due from other governments	20,699,000	-	5,742	105,075	-	20,809,817	-
Inventory	(1,349,000)	(62,809)	-	-	-	(1,411,809)	(51,550)
Prepaid Items	4,397,000	-	-	-	-	4,397,000	-
Deferred charges	492,000	91,337	-	-	-	583,337	-
Increase (decrease) in:							
Accounts payable	(4,523,000)	1,677,012	1,666,799	(80,852)	(4,763)	(1,264,804)	857,762
Accrued claims	-	417,473	6,142	35,586	-	459,201	-
Claims liabilities	-	-	-	-	-	-	(553,237)
Other assets/liabilities	(953,589)	20,151	(2,567,188)	-	-	(3,500,626)	-
Compensated absences	-	23,565	7,400	60,035	-	91,000	(145,770)
Total adjustments	51,290,411	17,405,359	(333,415)	1,200,945	240,526	69,803,826	2,804,341
Net cash from operating activities	$ 81,157,411	$ 22,178,924	$ 1,897,421	$ 5,283,135	$ 129,409	$110,646,300	$ 8,456,872

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012

	Other Postemployment Benefits Trust Fund	Pension Trust Fund	Agency Fund
ASSETS			
Cash	$ -	$ -	$ (255,711)
Investments:			
U.S. Government securities	-	570,486	-
Corporate bonds and notes	-	9,175,875	-
Preferred securities	-	5,140,689	-
Corporate stocks	-	99,321,135	-
Foreign equity	-	5,165,309	-
Mutual funds - preferred securities	-	5,653,384	-
Mutual funds - equity	11,413,577	99,633,723	-
Mutual funds - fixed income	6,619,333	70,701,422	-
Real estate	-	32,918,036	-
Hedge funds	-	87,870,188	-
Other investments	-	6,348,176	-
Temporary investments	4,369,076	6,271,187	-
Receivables:			
Accrued income	24,781	471,652	-
Due from plan custodian	1,141,601	-	255,711
Total assets	23,568,368	429,241,262	-
LIABILITIES			
Accrued payable	-	183,406	-
Due to plan custodian	407,509	-	-
Total liabilities	407,509	183,406	-
NET ASSETS			
Held in trust for pension and other postemployment benefits	$ 23,160,859	$ 429,057,856	$ -

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year Ended June 30, 2012

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 17,636,696	$ 17,563,231
Plan member	-	4,312,966
Other	-	246,628
Total contributions	17,636,696	22,122,825
Investment income:		
Net appreciation (depreciation) in fair market value of investments	109,708	5,022,078
Interest	-	700,252
Dividends	144,410	5,947,552
	254,118	11,669,882
Less investment expense	(8,618)	(1,286,006)
Net investment income (loss)	245,500	10,383,876
Total additions	17,882,196	32,506,701
DEDUCTIONS		
Benefits paid to participants	11,989,538	36,591,972
Administrative expenses	29,069	929,311
Total deductions	12,018,607	37,521,283
CHANGE IN NET ASSETS	5,863,589	(5,014,582)
Net assets, beginning	17,297,270	434,072,438
Net assets, ending	$ 23,160,859	$ 429,057,856

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2012

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	$ 8,831,558	$ 1,093,797	$ 4,689,661	$ 14,615,016
Accounts receivable	2,019,936	2,415,821	1,012,319	5,448,076
Net investment in capital lease	-	-	100,531,341	100,531,341
Deferred charges	20,445	-	1,342,827	1,363,272
Inventories	69,907	372,535	107,642	550,084
Prepaid items	273,745	468,779	156,424	898,948
Restricted assets:				
Cash and cash equivalents	3,993,654	-	-	3,993,654
Investments	-	-	9,756,000	9,756,000
Receivables	253,960	-	-	253,960
Land and other nondepreciable assets	26,505,259	3,258,047	-	29,763,306
Other capital assets, net of accumlated depreciation	59,658,748	21,874,697	2,353,735	83,887,180
Total assets	101,627,212	29,483,676	119,949,949	251,060,837
LIABILITIES				
Accounts payable and accrued liabilities	852,054	1,770,018	3,231,332	5,853,404
Deferred revenue	30,432	-	-	30,432
Contracts payable	138,948	-	-	138,948
Due to primary government	-	593,204	-	593,204
Line of credit	-	500,000	-	500,000
Net pension obligations	-	388,384	-	388,384
Capital lease obligations	186,643	-	-	186,643
Revenue bonds payable	5,630,575	-	118,775,000	124,405,575
Original issue premium (discount)	-	-	8,690,583	8,690,583
Deferred refunding	-	-	(2,908,620)	(2,908,620)
Total liabilities	6,838,652	3,251,606	127,788,295	137,878,553
NET ASSETS				
Invested in capital assets (net of related debt)	80,346,789	24,539,519	2,353,735	107,240,043
Restricted for:				
Debt service	4,247,614	-	9,672,869	13,920,483
Renewal and replacement	-	-	624,412	624,412
Unrestricted	10,194,157	1,692,551	(20,489,362)	(8,602,654)
Total net assets	$ 94,788,560	$ 26,232,070	$ (7,838,346)	$ 113,182,284

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

CITY OF CHATTANOOGA, TENNESSEE

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS

Year Ended June 30, 2012

		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	$ 11,826,412	$ 9,640,967	$ -	$ 9,037,489	$ 6,852,044	$ -	$ -	$ 6,852,044
CARTA								
CARTA operations	21,349,936	6,336,805	7,455,064	6,524,086	-	(1,033,981)	-	(1,033,981)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	16,732,730	17,643,116	-	-	-	-	910,386	910,386
Total component units	$ 49,909,078	$ 33,620,888	$ 7,455,064	$ 15,561,575	6,852,044	(1,033,981)	910,386	6,728,449
General revenues:								
Investment income					16,561	1,922	535,058	553,541
Miscellaneous					1,830,919	292,103	312,833	2,435,855
Total general revenues					1,847,480	294,025	847,891	2,989,396
CHANGE IN NET ASSETS					8,699,524	(739,956)	1,758,277	9,717,845
Net assets, beginning					86,089,036	26,972,026	(9,596,623)	103,464,439
Net assets, ending					$ 94,788,560	$ 26,232,070	$ (7,838,346)	$ 113,182,284

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Description of government-wide financial statements

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

(B) Reporting Entity

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869 and operated under the Commission form of government, consisting of an elected Mayor and four elected Commissioners, each of whom served as the head of a city department. The City Charter was amended as of June 11, 1990 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 authority formerly vested in the Board of Commissioners. The Mayor is elected at-large and is not a member of the City Council; City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City.

The accompanying financial statements present the government and its component units. The primary government includes a separately administered organization, EPB, as an enterprise fund. It is not legally separate from the City since the City affirms all board member appointments and approves all disbursements of EPB funds. Component units, entities for which the City (the primary government) is financially accountable, are also included. Financial accountability is determined if the City appoints a voting majority of the organization’s governing board and it is able to impose its will on the organization or there is a potential for the organization to provide specific financial benefit to or burden on the City.

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, 2012. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize they are legally separate from the City. Each discretely presented component unit has a June 30 year-end and is presented as a proprietary type fund.

The City reports the following 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. Separately issued financial statements can be obtained from:

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

Chattanooga Area Regional Transit Authority (CARTA) - 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. Separately issued financial statements can be obtained from:

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

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. Separately issued financial statements can be obtained from:

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

(C) Basis of Presentation:

Government-wide Financial Statements

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

Resource flows between a primary government and its discretely presented component units are reported as external transactions, that is as revenues and expenses. Transfers within governmental activities and within business-type activities are eliminated 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."

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Because the emphasis of fund financial statements is on major governmental and enterprise funds, each major fund is displayed in a separate column. Remaining funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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.

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 may result 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.

(D) Measurement Focus and Basis of Accounting

The financial statements of the City have been prepared in accordance with accounting principles generally accepted 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.

Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

<u>Governmental Fund Financial Statements</u> 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.

Revenues are considered available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

<u>Proprietary, Pension and Other Postemployment Benefit Trust Funds</u> are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

(E) <u>Joint Ventures and Related Organizations</u>

<u>Joint Ventures</u> - 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 one joint venture, The Carter Street Corporation.

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

<u>Related Organizations</u> - 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.

(F) <u>Budget Policy and Budgetary Data</u>

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

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

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

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

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

Major capital facilities and improvements, which are accounted for by the City in 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.

Budgets are prepared on a basis consistent with generally accepted accounting principles. Encumbrance accounting, under which purchase orders for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Encumbrances do not constitute expenditures or liabilities. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Expenditures may not legally exceed appropriations at the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the final amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2012, Council approved amendments to operating budgets for pay-as-you go capital and use of fund balance for capital.

(G) Assets, Liabilities and Fund Balance/Net Assets

(1) Cash and Cash Equivalents

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

(2) Investments

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

(3) Inventories and Prepaid Items

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

(4) Restricted Assets

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

(5) Capital Assets

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

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

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

Interest is capitalized on assets acquired with tax-exempt debt for assets in the proprietary funds. 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 governmental activities in the government-wide financial statements, the difference between new debt and the net carrying value of 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) Compensated Absences

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to twenty (20) days for library employees and one hundred fifty (150) days for all other employees hired on or before March 27, 1990, and one hundred (100) days for all other employees hired thereafter. Compensated absences are reported in governmental funds only if they have matured (i.e., accrued leave outstanding following an employee's resignation or retirement). The liability for compensated absences attributable to the City's governmental activities is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable proprietary funds.

(9) Pollution Remediation Obligations

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

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

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

(11) Fund Balance

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

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

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

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

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

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

It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance (committed, assigned and unassigned). Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

(H) Revenues, Expenditures/Expenses

(1) Program Revenues

Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(2) 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 2011 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 2011 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, 2012.

(3) 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.

(4) 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.

(5) Indirect Costs

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

(6) Proprietary Funds Operating and Non-operating Revenues and Expenses

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

(7) Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) Compliance with Finance Related Legal and Contractual Provisions

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

(B) Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2012, the City had no material excess of expenditures over appropriations in individual funds.

(C) Net Assets Deficit

The Solid Waste Fund has a deficit in net assets of $3,081,771 at June 30, 2012. 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 $1,644,075 from the prior fiscal year.

NOTE 3. 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.

(A) Primary Government Investments (excluding Permanent, Pension Trust and Other Postemployment Benefits Trust Funds)

At June 30, 2012, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	1.92	$ 25,530,000
Certificates of deposit classified as investments	.56	20,000,000
Total	1.32	$ 45,530,000
Primary Government – Business-Type Activities:		
Certificates of deposit classified as investments	1.39	$ 31,987,589
Total	1.39	$ 31,987,589
Component Units:		
U.S. Treasury Notes	0.00	$ 83,835
U.S. Government agency securities	0.08	9,672,165
Total	0.08	$ 9,756,000

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio for the primary government. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

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

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. The City's investment policy includes specific policies involving credit risk. At June 30, 2012, the primary government's investments in U.S. Government agency securities consisted of Federal Home Loan Bank bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) and Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of $83,835 were securities of the Federal National Mortgage Association which was rated AAA by S & P and Moody's.

(B) Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Fund Investments

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

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

	S & P or Moody's Rating	Fair Value
Permanent Fund		
Mutual funds – equity	Not rated	$ 2,478,413
Mutual funds – fixed income	Not rated	1,045,107
Temporary investments	Not rated	91,019
		$ 3,614,539

	S & P or Moody's Rating	Fair Value
City of Chattanooga General Pension Plan		
Domestic corporate bonds	BBB	$ 128,355
Domestic corporate bonds	BBB-	292,968
Domestic corporate bonds	BB-	247,520
Domestic corporate bonds	B	2,296,994
Domestic corporate bonds	CCC	690,268
Domestic corporate bonds	Not rated	979,861
Corporate stocks	Not rated	67,780,585
Mutual funds – equity	Not rated	56,803,865
Mutual funds – fixed income	Not rated	51,352,347
Hedge funds	Not rated	36,759,573
Other investments	Not rated	3,584,993
Temporary investments	Not rated	4,118,480
		$ 225,035,809
Fire and Police Pension Fund		
Domestic corporate bonds	AAA	$ 147,031
Domestic corporate bonds	AA	359,837
Domestic corporate bonds	A	1,188,985
Domestic corporate bonds	BBB	924,811
Domestic corporate bonds	BBB-	150,035
Domestic corporate bonds	BB+	36,298
Domestic corporate bonds	Not rated	1,732,912
U.S. Government securities	Not rated	570,486
Preferred securities	Not rated	5,140,689
Corporate Stocks	Not rated	31,540,550
Foreign equity	Not rated	5,165,309
Mutual funds - preferred securities	Not rated	5,653,384
Mutual funds – equity	Not rated	42,829,858
Mutual funds - fixed income	Not rated	19,349,075
Real estate	Not rated	32,918,036
Hedge funds	Not rated	51,110,615
Other investments	Not rated	2,763,183
Temporary investments	Not rated	2,152,707
		$ 203,733,801
Other Postemployment Benefit Trust Fund		
Mutual funds – equity	Not rated	$ 11,413,577
Mutual funds – fixed income	Not rated	6,619,333
Temporary investments	Not rated	4,369,076
		$ 22,401,986

At June 30, 2012, the fair values of the City's investments in hedge funds totaling $87,870,188 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 4. RECEIVABLES

Receivables at June 30, 2012, consist of the following:

	Governmental Activities Funds					
	General	Capital Projects	Other Governmental	Internal Service	Business-Type Activities	Total
Primary Government						
Receivables:						
Taxes	$ 120,268,445	$ -	$ -	$ -	$ -	$120,268,445
Accounts	4,624,315	-	1,037,639	-	-	5,661,954
Notes	3,109,506	1,693,088	17,021,118	-	-	21,823,712
Customer service	-	-	-	610,552	69,373,725	69,984,277
Other	1,391,004	9,367	-	-	60,462	1,460,833
Restricted	-	128,971	-	-	12,895	141,866
Intergovernmental	19,905,482	67,844	4,076,809	49,089	9,523,378	33,622,602
Gross receivables	149,298,752	1,899,270	22,135,566	659,641	78,970,460	253,463,689
Less: Allowance for Uncollectibles	(4,428,199)	-	(800,000)	-	(2,616,864)	(7,845,063)
Net receivables	$ 144,870,553	$ 1,899,270	$ 21,335,566	$ 659,641	$ 76,353,596	$245,118,626

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, 2012.

(A) Note from Dogwood Manor, LLC

Notes include a receivable from Dogwood Manor, LLC. The City of Chattanooga paid the balance of their bank loan for capital improvements recorded as a portion of capital assets in the Housing Management Fund, an enterprise fund. The balance of the note is currently $2,364,133.

(B) Note from Friends of the Zoo

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

(C) Note from CARTA

In 2009 CARTA, a component unit of the City, entered into an $854,288 repayment agreement with the City for the costs of a downtown shuttle service and a parking garage on the North Shore. The loan agreements were for $375,000 and $479,288 respectively to be repaid over 120 months with an interest rate of 4% per annum. The current balances are $260,123 and $333,081, respectively.

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

(D) Community Development Loans

Included in the $17,021,118 notes receivables in the chart above are $15,242,083 of various loans made from community development funds received from HUD, including CDBG, HOME, and other special grants. These loans are provided to low income recipients for the purchase and repair of homes. Of this amount, $3,207,250 represent title transfer loans, which are payable only upon the transfer of title by the current loan recipient.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
PRIMARY GOVERNMENT				
Governmental Activities:				
Non-depreciable assets:				
Land and land improvements	$ 1,035,729,486	$ 2,407,789	$ 255,049	$ 1,037,882,226
Construction in progress	29,130,669	20,895,489	8,642,002	41,384,156
Total non-depreciable assets	1,064,860,155	23,303,278	8,897,051	1,079,266,382
Depreciable assets:				
Buildings and improvements	213,708,501	2,363,256	-	216,071,757
Vehicles and machinery	131,249,681	8,023,747	1,384,367	137,889,061
Infrastructure	681,880,539	5,806,079	-	687,686,618
Total depreciable assets	1,026,838,721	16,193,082	1,384,367	1,041,647,436
Less accumulated depreciation for:				
Buildings and improvements	90,022,552	7,275,918	-	97,298,470
Vehicles and machinery	95,906,130	9,591,436	1,354,746	104,142,820
Infrastructure	375,954,525	27,591,511	-	403,546,036
Total accumulated depreciation	561,883,207	44,458,865	1,354,746	604,987,326
Depreciable assets, net	464,955,514	(28,265,783)	29,621	436,660,110
Governmental activities capital assets, net	$ 1,529,815,669	$ (4,962,505)	$ 8,926,672	$ 1,515,926,492
Business-Type Activities:				
Non-depreciable assets:				
Land	$ 17,146,899	$ 2,457,418	$ -	$ 19,604,317
Construction in progress	50,449,353	4,618,485	1,446,000	53,621,838
Total non-depreciable assets	67,596,252	7,075,903	1,446,000	73,226,155
Depreciable assets:				
Buildings and improvements	129,968,576	6,346,533	612,000	135,703,109
Vehicles and machinery	196,901,629	66,166,270	21,483,856	241,584,043
Sewer system	415,978,366	1,509,348	-	417,487,714
Solid waste system	9,520,509	-	-	9,520,509
Water quality management system	36,600,744	2,312,626	-	38,913,370
Electric system	424,155,000	49,154,000	28,422,000	444,887,000
Communication system	85,883,000	2,880,000	672,000	88,091,000
Total depreciable assets	1,299,007,824	128,368,777	51,189,856	1,376,186,745
Less accumulated depreciation for:				
Buildings and improvements	48,163,351	3,950,534	612,000	51,501,885
Vehicles and machinery	49,554,693	17,201,634	5,683,857	61,072,470
Sewer system	179,448,199	10,477,998	-	189,926,197
Solid waste system	1,092,758	317,350	-	1,410,108
Water quality management system	7,656,524	775,679	-	8,432,203
Electric system	182,295,000	14,719,000	6,722,000	190,292,000
Communication system	25,482,000	10,829,000	89,000	36,222,000
Total accumulated depreciation	493,692,525	58,271,195	13,106,857	538,856,863
Depreciable assets, net	805,315,299	70,097,582	38,082,999	837,329,882
Business-type activities capital assets, net	$ 872,911,551	$ 77,173,485	$ 39,528,999	$ 910,556,037

Discretely Presented Component Units

Non-depreciable assets:				
Land	$ 7,101,608	$ -	$ -	$ 7,101,608
Construction in progress	21,452,844	5,013,150	3,804,296	22,661,698
Total non-depreciable assets	28,554,452	5,013,150	3,804,296	29,763,306
Depreciable assets:				
Buildings	122,877,233	6,598,537	374,746	129,101,024
Vehicle and machinery	63,396,194	5,691,735	68,793	69,019,136
Total depreciable assets	186,273,427	12,290,272	443,539	198,120,160
Less accumulated depreciation for:				
Buildings	54,687,791	6,298,454	-	60,986,245
Vehicles and machinery	50,648,121	2,666,922	68,308	53,246,735
Total accumulated depreciation	105,335,912	8,965,376	68,308	114,232,980
Depreciable assets, net	80,937,515	3,324,896	375,231	83,887,180
Component units capital assets, net	$ 109,491,967	$ 8,338,046	$ 4,179,527	$ 113,650,486

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	$ 11,802,535
Public safety	2,240,745
Public works	26,677,701
Parks, recreation, education, arts & culture	3,643,518
Social services	94,366
Total	$ 44,458,865
Primary Government – Business-Type Activities:	
Sewer	$ 14,634,118
Solid Waste	532,997
Water Quality Management	1,145,679
Housing Management	245,401
Electric Utility	41,713,000
Total	$ 58,271,195
Discretely Presented Component Units:	
Transportation Authority	$ 4,307,765
Airport Authority	4,122,899
Downtown Redevelopment	534,712
Total	$ 8,965,376

NOTE 6. LONG-TERM LIABILITIES

(A) Governmental Activities

Debt related to governmental activities at June 30, 2012, consisted of the following:

(1) 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:

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2012
General Obligations Refunding Bonds, Series 1998	$ 7,292,600	5.25% - 5.50%	09/01/17	$ 1,999,700
General Obligations Refunding Bonds, Series 2002	15,390,900	4.38% - 5.38%	09/01/15	3,390,000
General Obligations Refunding Bonds, Series 2002 A	6,037,950	3.60% - 5.00%	09/01/14	678,855
General Obligations Refunding Bonds, Series 2005 A	17,436,520	3.50% - 5.00%	09/01/19	13,466,162
Hotel-Motel Tax Refunding Bonds, Series 2005 A	6,469,987	3.50% - 5.00%	09/01/19	5,378,495
General Obligations Bonds, Series 2006 A	20,732,796	4.00% - 5.00%	11/01/26	15,549,597
General Obligations Refunding Bonds, Series 2007 A	14,520,000	4.30% - 5.00%	03/01/26	14,520,000
General Obligations Bonds, Series 2009	45,415,000	3.00% - 4.63%	11/01/28	38,590,000
General Obligations Bonds, Series 2010 A	6,725,000	2.00% - 4.00%	02/01/30	6,045,000
General Obligation Refunding Bonds, Series 2010 B	4,707,460	2.00% - 4.00%	02/01/30	4,515,123
Hotel-Motel Tax Refunding Bonds, Series 2010 B	29,557,540	2.00% - 4.00%	02/01/30	28,349,877
General Obligation Bonds, Series 2010C	6,840,000	2.00% - 4.00%	02/01/30	6,155,000
General Obligation Bonds, Series 2011A	26,495,000	2.00% - 4.00%	10/01/26	26,495,000
General Obligation Refunding Bonds, Series 2011B	1,949,250	2.00% - 4.00%	10/01/27	1,949,250
Hotel-Motel Tax Refunding Bonds, Series 2011B	15,595,750	2.00% - 4.00%	10/01/27	15,595,750
Total payable from Debt Service Fund	$ 225,165,753			$ 182,677,809

(2) Notes and Loans Payable

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2012, is $2,746,001 of which $2,493,161 is due from Governmental Activities and $252,840 is due from Solid Waste Fund.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2012, is $16,954,319, of which $16,548,878 is due from Governmental Activities and $405,441 is due from Solid Waste Fund.

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 which bears interest at 9.5% is being repaid over a 15-year period. The balance at June 30, 2012, is $9,478.

Hennen Land Note - In December 2007, the City purchased the Narrow Bridge Property from Jenkins Road, LLC. The note is being repaid from 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, 2012, is $323,821. Negotiations are underway to extend this note another five years beginning January 2013; the fixed parking prices have not yet been agreed between City and Jenkins Road, LLC.

HUD Section 108 Loan - On June 12, 2008, the City received a loan from the U.S. Department of Housing and Urban Development for an aggregate principal amount of $4,576,000. A significant portion of the money was authorized to be used for repayment of the 2003 Fannie Mae Loan, with the remaining balance to be used for the Brownfields/Community Development Loan Fund and public infrastructure projects. The note bears an interest rate of 4% and is being amortized over 15 years with an optional redemption after 10 years. The balance at June 30, 2012 is $3,661,000.

IDB Foreign Trade Zone Note Payable - In July 2008, the City entered into an agreement with Volkswagen Group of America, Inc. to jointly cover the cost 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, 2012, is $27,871.

U.S. General Services Administration Land Note Payable - The City entered into an agreement with the U.S. General Services Administration to jointly purchase land with Hamilton County for economic development. The balance at June 30, 2012 of $2,750,000 is due in full in 2015.

(3) Capital Leases

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a non-cancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over $120 million. Facilities include (1) the Chattanoogan - a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semi-annual payments in amounts sufficient to meet the annual debt service requirements on $129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments are funded by the City's share of the 0.5% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanoogan, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of $9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City's lease payment for the year ended June 30, 2012, was $9,700,350, of which $2,986,987 was a reduction of principal. The recorded liability under this capital lease at June 30, 2012 is $100,531,340.

The debt service reserve fund held by the fiscal agent at June 30, 2012 is $9,756,000. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Golf Course Capital Lease - In December 2008, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling $323,028. The lease term is five years and provides for monthly payments which began December 1, 2008. The recorded liability under this capital lease at June 30, 2012 is $93,758.

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

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

(B) Business-type Activities

Debt related to business-type activities at June 30, 2012, consisted of the following:

(1) Revenue and General Obligation Bonds

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

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

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2012
Electric Power Board				
2006B Electric System Refunding Revenue Bonds	$ 23,430,000	4.00% - 4.25%	09/01/25	$ 23,430,000
2006A Electric System Revenue Bonds	40,000,000	4.00% - 5.00%	09/01/31	36,670,000
2008A Electric System Revenue Bonds	219,830,000	3.00% - 5.00%	09/01/33	219,830,000
Interceptor Sewer System				
General Obligations Refunding Bonds, Series 1998	13,612,700	5.25% - 5.50%	09/01/17	7,815,300
General Obligations Refunding Bonds, Series 2002	24,642,272	4.38% - 5.38%	09/01/14	7,183,792
General Obligations Refunding Bonds, Series 2002A	32,252,050	3.60% - 5.00%	09/01/14	3,626,145
General Obligations Refunding Bonds, Series 2005A	12,545,129	3.50% - 5.00%	09/01/19	11,008,029
Solid Waste Fund				
General Obligation Refunding Bonds, Series 2002	10,526,302	4.38% - 5.38%	09/01/15	2,095,351
General Obligation Refunding Bonds, Series 2005A	9,877,293	3.50% - 5.00%	09/01/19	8,354,735
General Obligation Bonds, Series 2006A	5,667,204	4.00% - 5.00%	11/01/26	4,250,404
General Obligation Refunding Bonds, Series 2007A	2,480,000	4.30% - 5.00%	03/01/26	2,480,000
Water Quality Fund				
General Obligation Refunding Bonds, Series 2002	7,570,526	4.38% - 5.38%	09/01/15	1,565,857
General Obligation Refunding Bonds, Series 2005A	6,046,071	3.50% - 5.00%	09/01/19	5,212,579
General Obligation Refunding Bonds, Series 2007A	750,000	24.30% - 5.00%	03/01/26	750,000
Total payable from Business-type Activities	$ 409,229,547			$ 334,272,192

(2) Notes and Loans Payable

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 is being repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2012 is shared equally by Interceptor Sewer Fund and Water Quality Fund of $258,413.

1998 Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga was authorized to incur indebtedness up to $7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The loan is being repaid over a 20-year period at 4% interest through 2020. In January 2012 Walker County fully paid their share of this debt of $328,946, which shortened the payment period from October 2019 to January 2019. The balance at June 30, 2012 to be paid from Interceptor Sewer Fund is $2,977,925.

State Revolving Loan 2003 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan is being repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2012 to be paid from Interceptor Sewer Fund is $27,889,153.

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a I5-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, 2012 is $2,746,001, of which $2,493,161 is due from Governmental Activities and $252,840 is due from Solid Waste Fund.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga was authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The loan is being repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2012 is $16,954,319, of which $16,548,878 is due from Governmental Activities and $405,441 is due from Solid Waste Fund.

State Revolving Loan 2007 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan is being repaid in monthly installments through September 2031 at 2.79% interest. The balance at June 30, 2012 to be paid from Interceptor Sewer Fund is $12,631,963.

2011 Secured (Telecom) Term Note – In March 2011, EPB obtained a bank loan for $19,500,000 million with principal and interest due in sixty monthly installments for the benefit of the Telecom System, which is guaranteed by the revenue and assets of the Telecom System. The balance of the loan of $15,000,000 million was amended in March 2012 with a new amortization schedule. The outstanding balance bears interest equal to 30 day LIBOR plus 1.75%, subject to a 1% floor of the LIBOR rate. The remaining balance at June 30, 2012 is $14,412,000 million.

2011 Secured (Internet) Term Note – In October 2011, EPB obtained a bank loan for $7,500,000 million with quarterly principal payments of $93,750 with a maturity of October 2012 for the benefit of the Video and Internet System which is guaranteed by the revenue of the Video and Internet System. In August 2012, the outstanding balance of the loan was retired in connection with the issuance of a three year credit facility. The outstanding balance bears an interest rate of 1.75% over the LIBOR rate. The remaining balance at June 30, 2012 is $7,313,000 million.

(3) Capital Lease

Collegedale Capital Lease - The City has a capital lease agreement with the City of Collegedale to 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, 2012 to be paid from Interceptor Sewer Fund is $67,833.

(C) Component Units

Component Units debt at June 30, 2012, consisted of the following:

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

Series	Original Principal	Interest Rates	Final Maturity	Principal June 30, 2012
Metropolitan Airport Authority				
Taxable Refunding Revenue Bonds, Series 2009	$ 6,600,000	3.54% - 5.41%	04/01/19	$ 5,630,575
Chattanooga Downtown Redevelopment Corporation				
2007 Chatt Lease Rental Rev Ref Bonds	56,110,000	4.00% - 5.00%	10/01/30	52,485,000
2010 Chatt Lease Rental Rev Ref Bonds	66,955,000	3.00% - 5.00%	10/01/24	66,290,000
Total payable from Component Units	$ 129,665,000			$ 124,405,575

(2) Capital Lease

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

(D) Refunding

The City issued $17,545,000 in General Obligation Refunding Bonds with interest rates ranging from 2.0% to 4.0%. The proceeds were used to refund $18,360,000 of outstanding General Obligation Bonds, Series 2002 and 2003A, which had interest rates ranging from 3.2% to 4.5%. The net proceeds, including a $1,372,466 premium and $342,727 in underwriting fees and other issue costs, were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by $193,779. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The City achieved an estimated $1,621,942 economic gain (difference between the present values of the debt service payments on the old and new debt).

In prior years, the City refunded certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements.

At June 30, 2012, the remaining liabilities for the bonds refunded were as follows:

Year Refunded	Primary Government	Component Units
1992	$ 4,590,000	$ -
1998	9,845,000	-
2002	14,760,000	-
2003	4,785,000	-
2005	44,035,000	-
2007	17,715,000	52,030,000
2010	31,485,000	-
2011	18,360,000	66,290,000

(E) Changes in Long-term Liabilities

Changes in long-term liabilities for the fiscal year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$ 165,968,711	$ 44,040,000	$ 27,330,902	$ 182,677,809	$ 10,937,524
Notes payable	28,547,882	75,201	2,808,874	25,814,209	2,250,690
Capital leases payable	103,678,615	-	3,053,517	100,625,098	3,233,918
Accrued pollution remediation costs	1,580,000	36,593	273,643	1,342,950	115,852
Accrued postemployment benefits	27,081,987	18,707,003	14,288,701	31,500,289	-
Compensated absences	17,137,030	11,020,769	10,363,535	17,794,264	6,290,690
Total governmental activities	$ 343,994,225	$ 73,879,566	$ 58,119,172	359,754,619	$ 22,828,674
Net deferred refunding and original issue premiums and discounts				2,901,715	
				$ 362,656,334	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$ 282,680,000	$ -	$ 2,750,000	$ 279,930,000	$ 2,965,000
Notes payable	18,907,000	7,500,000	4,682,000	21,725,000	3,613,000
Accrued postemployment benefits	8,830,000	1,888,000	1,763,000	8,955,000	-
Compensated absences	608,000	512,000	300,000	820,000	210,000
	311,025,000	9,900,000	9,495,000	311,430,000	6,788,000
Interceptor Sewer System:					
General obligation serial bonds	35,469,891	-	5,836,625	29,633,266	6,013,985
Notes payable	46,642,781	-	3,014,534	43,628,247	2,843,661
Capital leases payable	96,119	-	28,286	67,833	30,133
Compensated absences	791,847	659,232	635,668	815,411	357,204
	83,000,638	659,232	9,515,113	74,144,757	9,244,983
Solid Waste/Sanitation Fund					
General obligation serial bonds	18,653,205	-	1,472,715	17,180,490	1,535,033
Notes payable	724,284	-	66,003	658,281	67,955
Accrued landfill closure costs	9,458,837	550,010	3,008,285	7,000,562	1,266,235
Compensated absences	63,952	65,802	58,401	71,353	32,115
	28,900,278	615,812	4,605,404	24,910,686	2,901,338

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Water Quality/Management Fund:					
General obligation serial bonds	8,318,194	-	789,758	7,528,436	833,459
Notes payable	316,707	-	187,500	129,207	129,207
Compensated absences	527,564	637,571	577,536	587,599	291,262
	9,162,465	637,571	1,554,794	8,245,242	1,253,928
Total business-type activities	$ 432,088,381	$ 11,812,615	$ 25,170,311	418,730,685	$20,188,249
Net deferred refunding and original issue premiums and discounts				7,940,097	
				$ 426,670,782	
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bond	$ 5,955,989	$ -	$ 325,414	$ 5,630,575	$ 375,680
Capital lease	-	186,643	-	186,643	46,661
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	122,835,000	-	4,060,000	118,775,000	4,240,000
Total component units	$ 128,790,989	$ -	$ 4,385,414	124,592,218	$ 4,662,341
Net deferred refunding and original issue premiums and discounts and swaption derivative				5,781,963	
				$ 130,374,181	

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 $2,986,987 to Chattanooga Downtown Redevelopment Corporation (CDRC), which is budgeted in general government expenditures.

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

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2013	$ 13,188,214	$ 7,063,560	$ 18,001,299	$ 17,524,506
2014	12,827,048	6,654,922	20,190,665	16,782,354
2015	15,905,178	6,300,307	21,624,364	15,967,551
2016	13,262,248	5,888,953	27,783,992	14,925,404
2017	11,754,211	5,491,239	18,924,623	14,079,005
2018-2022	60,786,395	21,575,059	83,016,978	58,820,180
2023-2027	58,168,724	10,475,181	81,702,813	41,018,374
2028-2032	22,600,000	1,925,188	88,813,193	21,210,477
2033-2037	-	-	40,355,000	2,042,375
	$ 208,492,018	$ 65,374,409	$ 400,412,927	$ 202,370,226

	Component Units	
Year	Principal	Interest
2013	$ 4,662,341	$ 5,532,420
2014	4,838,629	5,353,153
2015	4,977,912	5,204,245
2016	5,147,708	5,027,599
2017	5,331,378	4,791,784
2018-2022	31,869,250	19,492,966
2023-2027	34,775,000	12,204,338
2028-2032	32,990,000	3,438,250
	$ 124,592,218	$ 61,044,755

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

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2013	$ 3,233,918	$ 6,522,599	$ 30,133	$ 3,520
2014	3,384,017	6,314,687	32,138	1,515
2015	3,570,878	6,096,546	5,562	46
2016	3,797,017	5,864,967	-	-
2017	4,039,430	5,618,723	-	-
2018-2022	24,325,515	23,821,510	-	-
2023-2027	33,010,861	14,876,548	-	-
2028-2032	25,263,462	3,344,220	-	-
	$ 100,625,098	$ 72,459,800	$ 67,833	$ 5,081

NOTE 7. PENSION AND OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Fire and Police Pension Fund, and EPB Pension Plan) and another postemployment benefit plan. All permanent employees are eligible to participate in one of these retirement benefit pension plans. The City acts as Trustee for the General Pension Plan and the Fire and Police Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City also acts as Trustee for the Other Postemployment Benefits Trust, which is included in the accompanying financial statements as another 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:

(A) Plans Administered by the City of Chattanooga

Significant Accounting Policies:

Basis of Accounting

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

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 12.95 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) <u>Fire and Police Pension Fund</u>

The City maintains a single-employer defined benefit pension plan for the firefighters and police officers employed by the City. The Plan is designed for each plan participant to contribute 8 or 9 percent of base salary. The City is currently contributing 27.74 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 normal retirement benefit is 68.75 percent of average base salary, calculated as the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year up to 30 years of service, up to a maximum of 75% of final average monthly salary.

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

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

A deferred retirement option plan provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service. A deferred retirement option plan (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.

(3) <u>Other Postemployment Benefits</u>

The City maintains a single-employer defined benefit postemployment healthcare plan for retirees and their dependents. Substantially all of the City's employees may become eligible for benefits if they reach normal retirement age or certain service requirements while working for the City. Employees who did not meet eligibility requirements by July 1, 2010 will no longer be eligible to receive post-employment healthcare benefits upon attaining Medicare eligibility.

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

The City established an Other Postemployment Benefits Trust (the Trust) in 2008 to partially pre-fund benefits. Beginning in 2011, the City began funding the Trust based on an actuarial calculation in which all unfunded prior service costs as well as normal costs are allocated to various funds based on applicable payroll. The City is currently contributing 14.9 percent of the total covered payroll of participants. All obligations are liquidated from the OPEB trust.

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 substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

Current membership in each of these plans was comprised of the following as of June 30, 2012:

Group	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Retirees and beneficiaries currently receiving benefits	842	706	1,038
Vested terminated employees	97	9	-
Active employees	1,431	820	1,991
Actuarial update	1/1/2012	1/1/2012	1/1/2012

Annual Pension Cost and Net Pension Obligation:

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

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Annual required contribution	$ 7,203,000	$ 9,692,292	$ 14,288,701
Interest on net pension/OPEB obligation (asset)	(100,906)	(339,846)	2,371,488
Adjustment to annual required contribution	112,937	262,696	(2,490,461)
Annual pension/OPEB cost	7,215,031	9,615,142	14,169,688
Adjustment to NPO prior contributions	-	-	-
Contributions made	(6,682,722)	(9,923,681)	(14,288,701)
Increase in net pension/OPEB obligation (asset)	532,309	(308,539)	(119,013)
Net pension/OPEB obligation (asset) at beginning of year	(1,302,008)	(4,385,105)	31,619,302
Net pension/OPEB obligation (asset at end of year	$ (769,699)	$ (4,693,644)	$ 31,500,289

The city's Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (Assets) for the plan for the current year and each of the two preceding years were as follows:

	Year Ended	Annual Pension/OPEB Cost (APC)	Percentage of APC Contributed	Net Pension/ OPEB Obligation (Assets)
General Pension Plan	6/30/12	$ 7,215,031	92.62%	$ (769,699)
	6/30/11	6,340,774	69.02%	(1,302,008)
	6/30/10	3,817,842	99.01%	(4,100,566)
Fire and Police Pension Fund	6/30/12	9,615,142	103.21%	(4,693,644)
	6/30/11	8,526,415	96.58%	(4,385,105)
	6/30/10	7,818,280	107.01%	(4,677,104)
Other Postemployment Benefits	6/30/12	14,169,688	100.84%	31,500,289
	6/30/11	13,718,933	100.87%	31,619,302
	6/30/10	18,190,921	57.30%	27,201,450

Funded Status and Progress

For the General Pension Plan, the Unfunded Actuarial Accrued Liability and Funded Ratio as of the most recent Actuarial Valuation Date of January 1, 2012, were $43,238,126 and 85.08% respectively.

For the Fire and Police Pension Plan, the Unfunded Actuarial Accrued Liability and Funded Ratio as of the most recent Actuarial Valuation Date of January 1, 2012, were $131,792,588 and 66.23% respectively.

For the Other Postemployment Benefit Plan, the Unfunded Actuarial Accrued Liability and Funded Ratio as of the most recent Actuarial Valuation Date of January 1, 2012 were $126,894,926 and 13.53% respectively.

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

Funding Policy and Other Information:

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

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Contribution rates for employer	12.95%	27.74%	14.9%
Contribution rates for plan members	2.00%	8.00%-9.00%	Varies
Annual pension/OPEB cost	$7,215,031	$9,615,142	$14,169,688
Contributions made by employer	6,682,722	9,784,174	14,288,701
Contributions made by plan members	1,255,397	3,177,386	-
Actuarial valuation date for current contributions	January 1, 2012	January 1, 2012	January 1, 2012
Actuarial cost methods	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	27 Years Remaining	30 Years Open
Asset valuation method	Market Value, As Adjusted	Market Value, As Adjusted	Market Value
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	7.50%
Projected salary increases	4.50%-5.50%	3.25%-7.50%	3.25%-7.50%
Inflation rate	3.00%	3.25%	3.00%

In the January 1, 2012, actuarial valuation for the City's OPEB Plan, the investment rate of return above is the assumed rate of return on trust fund assets. The actuarial valuation also uses an annual healthcare cost trend rate of 9%, reducing incrementally to an ultimate rate of 5.0%.

Financial Reports:

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

Combining Statement of Pension Trust Net Assets:

	General Pension Plan	Fire and Police Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	$ 318,006	$ 153,646	$ 471,652
Total receivables	318,006	153,646	471,652
Investments, at fair value:			
U.S. Government securities	-	570,486	570,486
Corporate bonds and notes	4,635,966	4,539,909	9,175,875
Preferred securities	-	5,140,689	5,140,689
Corporate stocks	67,780,585	31,540,550	99,321,135
Foreign equity	-	5,165,309	5,165,309
Mutual funds – preferred securities	-	5,653,384	5,653,384
Mutual funds – equity	56,803,865	42,829,858	99,633,723
Mutual funds – fixed income	51,352,347	19,349,075	70,701,422
Real estate	-	32,918,036	32,918,036
Hedge funds	36,759,573	51,110,615	87,870,188
Other investments	3,584,993	2,763,183	6,348,176
Temporary investments	4,118,480	2,152,707	6,271,187
Total investments	225,035,809	203,733,801	428,769,610
Total assets	225,353,815	203,887,447	429,241,262
LIABILITIES			
Accrued expenses	106,806	76,600	183,406
Total liabilities	106,806	76,600	183,406
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 225,247,009	$ 203,810,847	$ 429,057,856

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Fire and Police Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 7,170,684	$ 10,392,547	$ 17,563,231
Employee	1,117,385	3,195,581	4,312,966
Other	-	246,628	246,628
Total contributions	8,288,069	13,834,756	22,122,825
Investment income:			
Net appreciation in fair market value of investments	(1,312,998)	6,335,076	5,022,078
Interest	420,127	280,125	700,252
Dividends	1,991,902	3,955,650	5,947,552
	1,099,031	10,570,851	11,669,882
Less investment expense	(576,236)	(709,770)	(1,286,006)
Net investment income (loss)	522,795	9,861,081	10,383,876
Total additions	8,810,864	23,695,837	32,506,701

DEDUCTIONS			
Benefits paid to participants	13,443,646	23,148,326	36,591,972
Administrative expenses	194,485	734,826	929,311
Total deductions	13,638,131	23,883,152	37,521,283
NET INCREASE	(4,827,267)	(187,315)	(5,014,582)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	230,074,275	203,998,163	434,072,438
End of year	$ 225,247,008	$ 203,810,848	$ 429,057,856

(4) 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, 2011	$ 19,291,044
Deferrals of compensation	1,558,823
Earnings (losses)	15,938
Withdrawals	(1,173,973)
Administrative expenses	(8,105)
Asset balance at June 30, 2012	$ 19,683,727

(B) Plans not Administered by the City of Chattanooga

(1) EPB Pension Plan

The Electric Power Board of Chattanooga Retirement Plan (the "Plan") is a single-employer defined benefit pension 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. A stand-alone financial report is not issued for this plan.

Contribution requirements of Plan members and EPB are established and may 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 9.83 percent of annual covered payroll.

EPB's annual pension cost of the Plan for the current year was approximately $2,796,000. EPB has no net pension obligation at June 30, 2012, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2011, using the cost method. The cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 3.0% per year compounded annually, (c) no postemployment benefit increases, and (d) a discount rate of 7.5% for preretirement and a blend of 7.5% and 4.0% for post-employment.

Funded Status and Progress:

The Unfunded Actuarial Accrued Liability and Funded Ratio as of the most recent Actuarial Valuation Date of August 1, 2011, were $8,090,000 and 79.18% respectively. Complete funded status and funding progress may be found on page B-1.

Trend Information:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	$ 2,796,000	100.0%	$ -
6/30/11	2,726,000	100.0%	-
6/30/10	2,048,000	100.0%	-

(2) EPB Other Postemployment Benefits

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

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 2012, 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.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each evaluation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long term perspective of the calculators.

	Pension Plan	Other Post Employment Benefits
Contribution rates for employer	9.83%	7.1%
Contribution rates for plan members	-	Varies
Annual pension/OPEB cost	$2,796,000	$ 1,888,000
Contributions made by employer	2,796,000	1,763,000
Contributions made by plan members	-	-
Actuarial valuation date for current contributions	August 1, 2011	July 1, 2011
Actuarial cost methods	Aggregate Cost Method	Projected Unit Credit
Amortization method	N/A	Level Dollar
Remaining amortization method	N/A	20 years open
Asset valuation method	Market Value	3 Year Smoothed Market
Actuarial assumptions:		
Investment rate of return	7.50%	6.50%
Projected salary increases	3.00%	-
Inflation rate	3.00%	3.00%

Funded Status and Progress:

The Unfunded Actuarial Accrued Liability and Funded Ratio as of the most recent Actuarial Valuation Date of July 1, 2011, were $10,063,000 and 59.2% respectively. Complete funded status and funding progress may be found on page B-1.

Trend Information:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	$ 1,888,000	93%	$ 8,955,000
6/30/11	1,764,000	125%	8,830,000
6/30/10	1,766,000	93%	9,272,000

In the July 1, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .25% per year to an ultimate rate of 5.5% in 2019. 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, 2011, was twenty years.

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

	Pension Plan	Other Post Employment Benefits
Annual required contribution	$ 2,796,000	$ 1,888,000
Interest on net pension/OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual pension/OPEB cost	2,796,000	1,888,000
Contributions made	(2,796,000)	(1,763,000)
Increase in net pension/OPEB obligation	-	125,000
Net pension/OPEB obligation at beginning of year	-	8,830,000
Net pension/OPEB obligation at end of year	$ -	$ 8,955,000

(3) 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. Participating employees are immediately fully vested. For the year ended June 30, 2012, EPB contributions were approximately $1.0 million while employee contributions were approximately $2.4 million.

(C) 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:			
6/30/12	$816,672	100.0%	$ -
6/30/11	931,980	100.0%	-
6/30/10	686,159	100.0%	-
Defined Benefit Plan:			
6/30/12	$160,995	0.0%	$ 383,541
6/30/11	89,461	0.0%	222,546
6/30/10	79,922	62.6%	133,085

NOTE 8. FUND BALANCE

The City Council has adopted a policy to maintain a minimum level of unrestricted fund balance (the total of committed, assigned and unassigned components of fund balance) in the General Fund. The target level is a balance equal to a minimum of 15% of General Fund revenues and transfers in. This amount is intended to provide for one-time capital needs or for emergency expenditures which meet specific guidelines. If fund balance falls below the minimum target level, the policy provides for actions to replenish the amount to the minimum target level within a three-year period. For the year ended June 30, 2012, the minimum fund balance per policy is $34.8 million. The current unrestricted fund balance is $51.1 million.

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund Balances:				
Nonspendable				
Endowments	$ -	$ -	$ 3,716,415	$ 3,716,415
Inventory	826,741	-	-	826,741
Long-term notes receivable	3,542,918	1,693,088	-	5,236,006
Prepaid expenses	8,000	-	9,214	17,214
Restricted				
Law enforcement	67,393	-	918,761	986,154
Economic development	4,774,067	-	11,780	4,785,847
African-American Museum	42,794	-	-	42,794
Special programs	2,617,809	-	-	2,617,809
Capital projects	-	36,264,982	-	36,264,982
Library Endowment	-	-	13,055	13,055
Human services program	-	-	821,962	821,962
State street aid	-	-	1,102,499	1,102,499
Community development	-	-	1,249,441	1,249,441
Hotel-Motel tax revenue pledge	-	-	2,340,079	2,340,079
Regional Planning Agency	-	-	75,844	75,844
Air Pollution Control Bureau	-	-	624,010	624,010
Committed				
Law enforcement	529,218	-	-	529,218
Economic development	234,706	-	-	234,706
Free Public Library	160,820	-	-	160,820
African-American Museum	42,794	-	-	42,794
Regional Planning Agency	-	-	2,075,878	2,075,878
Air Pollution Control Bureau	-	-	449,790	449,790
Scenic Cities Beautiful Commission	-	-	231,988	231,988
Tennessee Valley Regional Communications	-	-	45,855	45,855
Debt service	-	-	652,700	652,700
Assigned				
Public Library	1,595,053	-	-	1,595,053
Special programs	1,232,974	-	-	1,232,974
Human services program	-	-	126,789	126,789
River Pier garage	-	-	477,303	477,303
Other purposes	1,858,091	-	-	1,858,091
Unassigned	45,470,014	-	-	45,470,014
Total fund balances	$ 63,003,392	$ 37,958,070	$ 14,943,363	$115,904,825
Summary for Governmental Funds Balance Sheet (page A - 4):				
Nonspendable	$ 4,377,659	$ 1,693,088	$ 3,725,629	$ 9,796,376
Restricted	7,502,063	36,264,982	7,157,431	50,924,476
Committed	967,538	-	3,456,211	4,423,749
Assigned	4,686,118	-	604,092	5,290,210
Unassigned	45,470,014	-	-	45,470,014
Total fund balances	$ 63,003,392	$ 37,958,070	$ 14,943,363	$115,904,825

NOTE 9. INTERFUND BALANCES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2012, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Project Fund	$ 745,900
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	323,822
Capital Projects Fund	General Fund	4,113,000
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	204,418
		$ 5,387,140

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 10. INTERFUND TRANSFERS

	Transfers In:						
	General Fund	Capital Projects	Nonmajor Governmental	Solid Waste	Water Quality Management	Internal Service Fund	Total
Transfer out:							
General Fund	$ -	$ 5,938,819	$ 14,039,670	$ -	$ -	$ 3,757,000	$ 23,735,489
Capital Projects Fund	48,660	-	131,156	290,000	-	-	469,816
Nonmajor Governmental Funds:							
Bicentennial Library	1,308,852	-	-	-	-	-	1,308,852
Narcotics Program	-	600,000	-	-	-	-	600,000
Community Development	23,499	512,285	478,505	-	49,100	-	1,063,389
Hotel/Motel Tax	-	1,200,000	3,193,219	-	-	-	4,393,219
TN Valley Regional Communications	-	80,221	-	-	-	-	80,221
Electric Power Board	6,375,411	-	-	-	-	-	6,375,411
Total	$ 7,756,422	$ 8,331,325	$ 17,842,550	$ 290,000	$ 49,100	$ 3,757,000	$ 38,026,397

Transfers are used to (1) move revenues from the General Fund, the Capital Projects Fund, the Community Development Fund, and the Hotel/Motel Tax Fund to the Debt Service Fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the Capital Projects Fund and the Debt Service Fund as required, (3) move unrestricted revenues from the General Fund to other funds for various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, (4) record payments in lieu of taxes from the Electric Power Board to the General Fund.

NOTE 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; certain retiree medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City maintains property and casualty insurance coverage against property loss above the deductible amount which is ranging from $25,000 to $75,000 depending on the type of damage. The Internal Service Fund accounts for all exposures, except on-the-job-injury claims. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program.

As of June 30, 2012, there were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years. The City has a self-funded medical benefits plan that is administered by Blue Cross/Blue Shield of Tennessee with the City's exposure limited by a stop-loss policy.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The liability does not include nonincremental claims adjustment expenses. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

At June 30, 2012, the Internal Service Fund liability consists of $4,733,000 related to torts and $2,882,821 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, 2010	$ 350,753	$ 9,457,322
Incurred claims, including IBNRs/reduction in estimated liabilities	1,664,939	19,734,084
Claim payments	(1,731,124)	(21,325,372)
Unpaid claims, June 30, 2011	284,568	7,866,034
Incurred claims, including IBNRs/reduction in estimated liabilities	1,466,033	23,944,066
Claim payments	(1,503,458)	(24,194,279)
Unpaid claims, June 30, 2012	$ 247,143	$ 7,615,821
Due within one year	$ 247,143	$ 7,615,821

NOTE 12. COMMITMENTS AND CONTINGENCIES

(A) Construction Commitments

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and water quality systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2012. The total contractual commitments outstanding as of June 30, 2012, aggregated approximately $31,105,393.

(B) Airport Debt

The Chattanooga Metropolitan Airport Authority, a component unit of the City, issued bonds in 1990 to build a new terminal. The original bonds were subsequently refunded to achieve economic savings. The bonds are collateralized through an Airport Operations Service Contract with the City. The City is obligated for any shortfall between Airport revenues and the principal and interest payments due on the debt. Since inception of the original bonds, assistance of the City has not been required.

(C) Landfill Closure and Postclosure Care Costs

The Solid Waste Fund accounts for all aspects of solid waste disposal, including the city's municipal landfill; operations include a current landfill as well as closure and postclosure care costs of landfills closed in prior years. State and federal regulations require the City to place a final cover on all landfills after closure and perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability is based on 6.6 percent of the City Landfill Area III capacity and 100 percent usage of the Summit Landfill and the City Landfill Area II. At the current yield of utilization rate, we expect the landfill to have a remaining life of 20 years. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2012, are as follows:

Estimated liability, June 30, 2011	$ 9,458,837
Expenses recognized	550,010
Costs incurred	(3,008,285)
Estimated liability, June 30, 2012	$ 7,000,562
Due within one year	$ 1,266,235

The estimated costs of closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2012. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

(D) Pollution Remediation

Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB does not require the City to search for pollution, it does require the City to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

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

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

During the fiscal year, the City spent $273,643 in pollution remediation obligation related activities. At June 30, 2012, the City had an outstanding pollution remediation liability of $3,705,971 with an estimated $2,363,021 in grant revenue and donated services to offset these costs leaving a net pollution remediation obligation of $1,342,949.

Site investigation, planning, cleanup and site monitoring are typical remediation activities underway across the City. One Brownfield remediation site had been identified last fiscal year for remediation activities to address contamination from hazardous substances. Cleanup activities at an old construction landfill on 36th Street and dumping at a railroad overpass on Tennessee Avenue is nearing completion.

Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) site list, is an old construction landfill site. The park was closed in 2003 when methane gas leaks were found. The City is in the process of re-capping a small area in compliance with TDEC; work is being done by volunteer contractors leaving City resources to pay for cover topsoil and erosion control. Eventually the entire area will be remediated for use as athletic fields and a sculpture garden. Total costs are estimated at $4,000,000 for the entire project but are not currently divided into remediation and construction costs. The reasonable range of potential outlays was estimated and multiplied by the probability of occurrence. This estimate was reduced by anticipated volunteer participation for a total estimate of $1,272,098 at the end of fiscal year 2012.

(E) 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.

(F) Conduit Debt Obligations

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

The Industrial Development Board currently has twenty-one (21) outstanding bond issues, the original amounts of which were $266,170,000. The Health, Educational and Housing Facility Board currently has forty (40) bond issues, the original amount of which were $628,255,727. The Boards have no means of determining the outstanding amount of these bonds.

NOTE 13. SEGMENT INFORMATION

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

CONDENSED STATEMENT OF NET ASSETS

	Electric Division	Fiber Optics Division	Eliminations	Total
Assets:				
Current assets	$ 166,573,000	$ 6,280,000	$ (1,297,000)	$ 171,556,000
Due from other division	45,874,000	-	(45,874,000)	-
Restricted assets	5,403,000	150,000	-	5,553,000
Capital assets	498,594,000	67,161,000	-	565,755,000
Total assets	716,444,000	73,591,000	(47,171,000)	742,864,000
Liabilities:				
Current liabilities	125,196,000	14,879,000	(1,297,000)	138,778,000
Due to other division	-	45,874,000	(45,874,000)	-
Noncurrent liabilities	323,346,000	21,784,000	-	345,130,000
Total liabilities	448,542,000	82,537,000	(47,171,000)	483,908,000
Net assets:				
Invested in capital assets, net of related debt	211,105,000	67,161,000	-	278,266,000
Restricted	-	-	-	-
Unrestricted	56,797,000	(76,107,000)	-	(19,310,000)
Total net assets	$ 267,902,000	$ (8,946,000)	$ -	$ 258,956,000

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

	Electric Division	Fiber Optics Division	Eliminations	Total
Customer charges	$ 560,996,000	$ 66,502,000	$ (8,946,000)	$ 618,552,000
Depreciation expense	(30,884,000)	(10,829,000)	-	(41,713,000)
Other operating expense	(509,048,000)	(46,870,000)	8,946,000	(546,972,000)
Operating income	21,064,000	8,803,000	-	29,867,000
Nonoperating revenues (expenses):				
Investment earnings	1,471,000	-	(1,073,000)	398,000
Interest expense	(12,370,000)	(1,555,000)	1,073,000	(12,852,000)
Other nonoperating	336,411	-	-	336,411
Transfer to General Fund	(5,752,411)	(623,000)	-	(6,375,411)
Change in net assets	4,749,000	6,625,000	-	11,374,000
Beginning net assets	263,153,000	(15,571,000)	-	247,582,000
Ending net assets	$ 267,902,000	$ (8,946,000)	$ -	$ 258,956,000

CONDENSED STATEMENT OF CASH FLOWS

	Electric Division	Fiber Optics Division	Eliminations	Total
Net cash provided (used) by:				
Operating activities	$ 58,340,000	$ 16,442,000	$ -	$ 74,782,000
Capital and related financing activities	(85,634,000)	(15,576,000)	2,047,000	(99,163,000)
Investing activities	7,576,000	-	(2,047,000)	5,529,000
Net increase (decrease)	(19,718,000)	866,000	-	(18,852,000)
Beginning cash and cash equivalents	98,520,000	774,000	-	99,294,000
Ending cash and cash equivalents	$ 78,802,000	$ 1,640,000	$ -	$ 80,442,000

NOTE 14. JOINT VENTURE

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

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

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

Total net assets	$11,407,597
Multiplied by two-thirds	x 2/3
City's equity interest	$ 7,605,065

Condensed financial information for Carter Street Corporation as of June 30, 2012, is as follows:

ASSETS

Cash	$ 1,623,550
Accounts receivable, net	124,478
Prepaid expenses	36,053
Inventories	51,228
Other current assets	5,750
Capital assets, net	10,013,236
Total assets	$ 11,854,295

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	$ 105,214
Accrued expenses	108,314
Advanced deposits	233,170
Total liabilities	446,698
NET ASSETS	
Invested in capital assets, net of related debt	10,013,236
Restricted	95,169
Unrestricted	1,299,192
Total net assets	11,407,597
Total liabilities and net assets	$ 11,854,295

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	$ 5,879,250
Total operating expenses	6,500,578
Loss from operations	(621,328)
Nonoperating revenues	511,927
Capital contributions	-
Net decrease	(109,401)
Net assets, beginning of year	11,516,998
Net assets, end of year	$ 11,407,597

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

NOTE 15. SUBSEQUENT EVENTS

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

On July 17, 2012, the City announced it had reached an agreement with the U.S. Environmental Protection Agency (EPA), the State of Tennessee and the Tennessee Clean Water Network on a multi-year program to significantly minimize, and eliminate where possible, sanitary sewer overflows and improve the operation of the sewer system. This is a comprehensive, two-phase plan expected to cost $250 million over a 15 year period which will be paid through user fees. Over $55 million is included in the capital budget for the year ended June 30, 2013 to implement the plan. Chattanooga is the last of the large cities in Tennessee to address these issues through a settlement with EPA.