

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, 2013. 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

- o Assets and deferred outflow of resources for the primary government exceeded liabilities and deferred inflow of resources by \$1.9 billion (net position), an increase of \$37.8 million, or 2.0 percent, at the close of the fiscal year. Of this amount, \$81.9 million may be used to meet the City's ongoing obligations to citizens and creditors (unrestricted net position); this is a \$19.1 million or 30.3 percent, decrease over last year.
- o Net position of governmental activities at June 30 was \$1.3 billion, an increase of \$17.9 million, or 1.4 percent. A \$17.6 million prior period adjustment was made for economic development loans not deferred in prior years and a \$2.3 million prior period adjustment was made for a change in accounting principal.
- o Business-type activities reported ending net position of \$571.7 million, an increase of \$19.9 million, or 3.6 percent. Over \$14 million or 70.0 percent of the increase is from EPB electric and fiber operations. Fiber operations increased by \$12.4 million or 20.6 percent. Electric sales decreased by \$8.2 million while expenses decreased by \$11.4 million.
- o Long-term liabilities for the City's primary government increased \$77.5 million or 9.8 percent, during the current fiscal year. Reporting for the CDRC changed from a discretely presented component unit to a blended component unit as part of the primary government. As a result a \$100.6 million capital lease in governmental activities was replaced with a \$118.8 million lease rental revenue bond in business-type activities. At year end the EPB fiber optics includes a \$51.8 million liability for funds borrowed to pay off an intercompany note.
- o At the end of the current fiscal year, unassigned fund balance for the General Fund is \$55.6 million, up \$10.1 million or 22.2 percent from prior year. This represents 24.0 percent of total General Fund expenditures and transfers out exceeding the City's debt management policy benchmark of 15 percent.



Overview of the Financial Statements

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

Government-wide Financial Statements

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

There are two government-wide financial statements:

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

Statement of Activities -- This statement presents information showing how the City's net position changed during the most recent fiscal year. All current year revenues and expenses are reported as soon as the underlying event giving rise to the change occurs. Thus revenues and expenses are reported in this statement for 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 vacation 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 of their costs. Included are electric, sewer and water quality systems, as well as solid waste disposal and housing management operations. Beginning in FY2013 business-type activities also include The Chattanooga Downtown Redevelopment Corporation, a legally separate entity that functions for all practical purposes as an enterprise of the City and therefore has been included as an integral part of the primary government. Governmental activities and business-type activities combine to comprise the primary government.

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

Governmental activities and business-type activities combine to comprise the primary government. The government-wide financial statements begin on page A-1 of this report.



Fund Financial Statements

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

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

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

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

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

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

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

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



- o **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Chattanooga accounts for maintenance of City vehicles and risk financing (including health costs) in the internal service fund. The internal service funds are combined into a single column in the proprietary fund statements. Because these services predominantly benefit governmental rather than business-type functions, they have been included as part of governmental activities in the government-wide financial statements.

Proprietary 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 of Chattanooga maintains a pension trust fund and an Other Post-Employment Benefits (OPEB) trust 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 accounting used for fiduciary funds is much like that used for proprietary funds.

Fiduciary fund financial statements begin on page A-15 of this report.

Notes to the Financial Statements

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

The notes to the financial statements begin on page A-19 of this report.

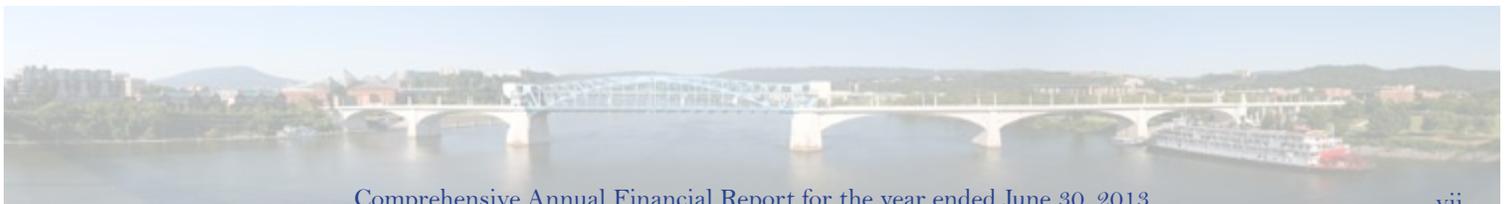
Other Information

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

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

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

- o Combining statements for nonmajor governmental fund
- o Combining statements for discretely presented component units
- 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 position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$1.9 billion at the close of the most recent fiscal year, an increase of \$37.8 million, or 2.0 percent, from last year. At the end of the fiscal year, the City of Chattanooga is once again able to report a positive net position for the government as a whole, as well as for its governmental and business-type activities.

City of Chattanooga's Net Position

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 230,432	\$ 307,905	\$ 408,820	\$ 236,912	\$ 639,252	\$ 544,817
Capital assets	1,505,803	1,515,927	911,100	910,556	2,416,903	2,426,483
Total assets	<u>1,736,235</u>	<u>1,823,832</u>	<u>1,319,920</u>	<u>1,147,468</u>	<u>3,056,155</u>	<u>2,971,300</u>
Total deferred outflows of resources	2,788	-	4,124	-	6,912	-
Long-term liabilities outstanding	251,442	362,657	615,380	426,671	866,822	789,328
Other liabilities	24,972	146,234	136,942	169,004	161,914	315,238
Total liabilities	<u>276,414</u>	<u>508,891</u>	<u>752,322</u>	<u>595,675</u>	<u>1,028,736</u>	<u>1,104,566</u>
Total deferred inflows of resources	129,764	-	-	-	129,764	-
Net position:						
Net investment in capital assets	1,212,457	1,203,908	537,001	527,584	1,749,458	1,731,492
Restricted	28,150	41,687	45,015	30,684	73,165	72,371
Unrestricted	92,238	69,346	(10,294)	(6,475)	81,944	62,871
Total net position	<u>\$ 1,332,845</u>	<u>\$ 1,314,941</u>	<u>\$ 571,722</u>	<u>\$ 551,793</u>	<u>\$ 1,904,567</u>	<u>\$ 1,866,734</u>

During the year, the City implemented new accounting pronouncements which required the restatement of prior year net position. These changes are reflected in the changes in net position found later in this discussion.

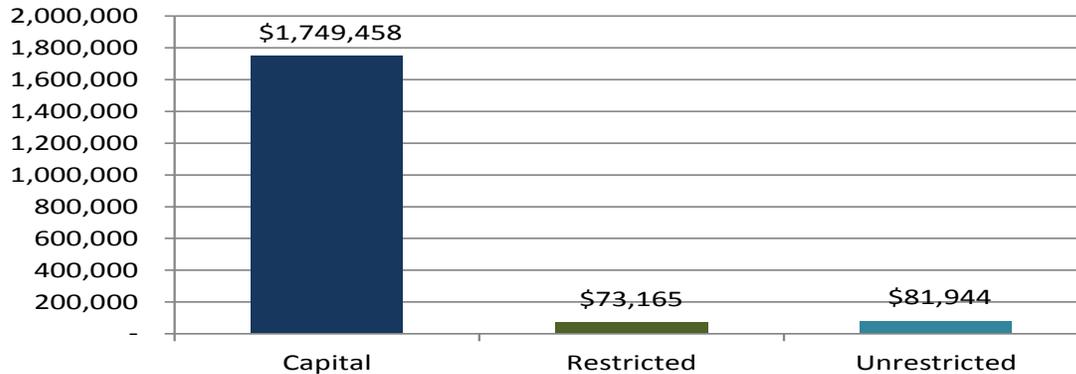
By far the largest portion of the City's net position \$1.7 billion or 92.0 percent reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc.), less any related outstanding debt that was issued to acquire those assets. While capital assets are used to provide services to citizens, these assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$73.2 million or 3.8 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$81.9 million or 4.3 percent is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.



Government-wide Net Position

(in thousands)



Governmental Activities

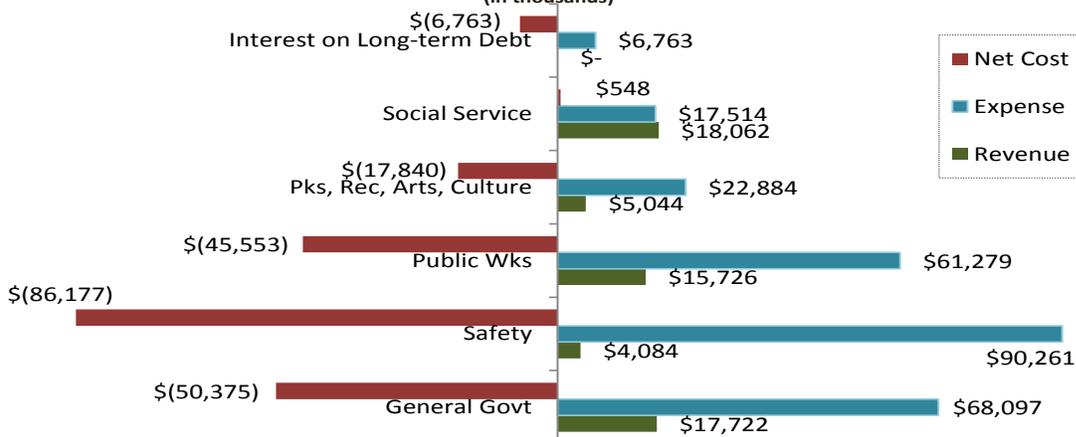
During the current fiscal year, net position of the City's governmental activities increased \$17.9 million from the prior year for an ending balance of \$1.3 billion. Overall revenue increased \$1.7 million or 0.6 percent. There was a reallocation of \$5.9 million of unearned revenue adjustments erroneously included as property tax in fiscal year 2012 which has been allocated to other areas. Other revenue increases include \$1.9 million in county wide sales tax, \$1.7 million in state income tax, \$1.2 million of franchise taxes and \$0.8 million in gross receipts

Expenses for the current year decreased \$9.6 million or 3.5 percent. This is primarily due an \$8.0 million decrease in public works. Prior fiscal year expenditures included \$2.1 million for storm clean up related to a tornado and a \$4.8 million payment for railroad enhancements at Enterprise South Industrial Park.

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

Expenses and Program Revenues Governmental Activities

(in thousands)



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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 20,740	\$ 19,489	\$ 722,157	\$ 693,928	\$ 742,897	\$ 713,417
Operating grants	38,425	38,546	-	101	38,425	38,647
Capital grants	1,473	2,254	19,983	39,217	21,456	41,471
General revenues:						
Property taxes	129,150	133,455	-	-	129,150	133,455
Other taxes	21,028	19,891	-	-	21,028	19,891
Investment income	1,069	874	1,056	804	2,125	1,678
Miscellaneous	891	374	388	148	1,279	522
Unrestricted grants	70,563	66,731	-	-	70,563	66,731
Total revenues	<u>283,339</u>	<u>281,614</u>	<u>743,584</u>	<u>734,198</u>	<u>1,026,923</u>	<u>1,015,812</u>
Expenses						
Governmental activities:						
General government	68,097	64,752	-	-	68,097	64,752
Public safety	90,261	91,997	-	-	90,261	91,997
Public works	61,279	69,322	-	-	61,279	69,322
Parks, rec, ed & culture	22,884	22,807	-	-	22,884	22,807
Social services	17,514	19,330	-	-	17,514	19,330
Interest on long-term debt	6,763	7,087	-	-	6,763	7,087
Business-type activities:						
Electric utility	-	-	630,133	640,201	630,133	640,201
Sewer	-	-	51,883	50,174	51,883	50,174
Solid waste	-	-	6,458	5,108	6,458	5,108
Water quality	-	-	12,869	12,387	12,869	12,387
Housing management	-	-	4,753	1,028	4,753	1,028
Downtown Redevelopment	-	-	16,196	-	16,196	-
Total expenses	<u>266,798</u>	<u>275,295</u>	<u>722,292</u>	<u>708,898</u>	<u>989,090</u>	<u>984,193</u>
Excess (deficiency) before extraordinary item and transfer	16,541	6,319	21,292	25,300	37,833	31,619
Transfers	1,363	6,344	(1,363)	(6,344)	-	-
Increase (decrease) in net position	17,904	12,663	19,929	18,956	37,833	31,619
Net position, beginning	1,314,941	1,322,175	551,793	542,831	1,866,734	1,865,006
Change in Accounting Principal	-	(19,897)	-	(9,994)	-	(29,891)
Net position, ending	<u>\$ 1,332,845</u>	<u>\$ 1,314,941</u>	<u>\$ 571,722</u>	<u>\$ 551,793</u>	<u>\$ 1,904,567</u>	<u>\$ 1,866,734</u>

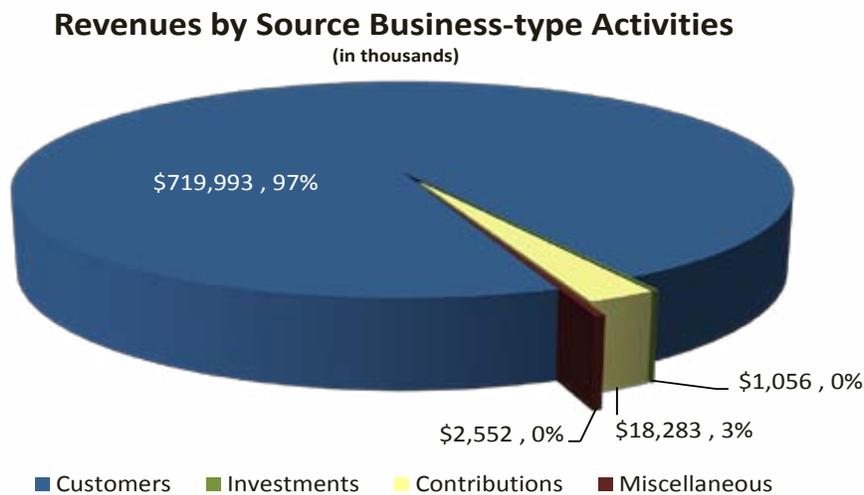


Business-type Activities

During the current year net position of the business-type activities increased \$19.9 million or 3.6 percent to \$571.7 million. Over \$14 million or 70.0 percent of the increase is from EPB electric and fiber operations. This net position is dedicated solely to finance the continuing operations of the electric, sewer, water quality systems, solid waste disposal and downtown redevelopment operations. The Housing Management Fund was dissolved during the year due to the transfer of Dogwood Manor.

Revenues for the City's business-type activities were \$741.9 million for the year just completed; this is a \$7.7 million or 1.0 percent increase. Expenses increased \$13.5 million of 1.9 percent resulting in total expense of \$722.4 million.

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	Downtown Revelopment	Housing	Total
Expenses	\$ 630,133,000	\$51,882,717	\$ 6,457,957	\$12,868,856	\$16,332,772	\$ 4,753,392	\$ 722,428,694
Revenues	644,361,000	52,833,624	6,450,338	17,280,367	18,291,532	2,667,646	741,884,507
Transfers In (Out)	-	-	473,432	-	-	-	473,432
Change in net position	\$ 14,228,000	\$ 950,907	\$ 465,813	\$ 4,411,511	\$ 1,958,760	\$ (2,085,746)	\$ 19,929,245



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

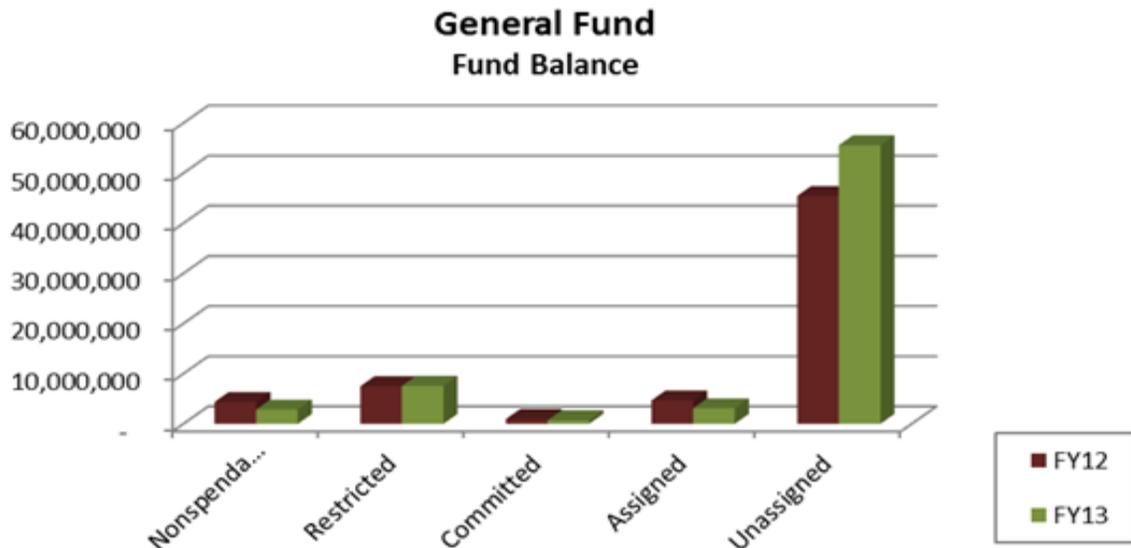
Governmental funds focus is on the near-term flow of resources and balance of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's resources available for discretionary use since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

The City's governmental funds reported a combined fund balance of \$113.9 million at the end of the fiscal year. 48.8 percent of this amount, or \$55.6 million, is available for spending at the City's discretion (unassigned fund balance). Total fund balance is made up of the following:

- o \$55.6 million is unassigned
- o \$8.4 million is in nonspendable form
- o \$39.6 million is restricted for particular purposes
- o \$6.2 million is committed for specific purposes
- o \$4.1 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 10.9 percent or \$6.8 million to \$69.8 million during the fiscal year. Unassigned fund balance increased \$10.1 million or 22.2 percent to \$55.6 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 24.0 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 30.2 percent of that same amount.



Total revenues increased \$14.2 million or 6.3 percent, from the prior year. The primary increases are a \$6.8 million reclassification of EPB tax equivalent payments from transfers in to revenue, \$1.5 million increase in property taxes, \$1.5 million increase in state income tax and \$2.0 million local sales tax. All major revenue sources are discussed as follows.

- o During the current fiscal year property tax, along with payments in lieu of tax, increased \$7.5 million, 6.5 percent over last year. As mentioned above this includes reclassification \$6.1 million from transfers for payment in lieu of tax for the EPB. Franchise taxes increased 32.8 percent or \$1.0 million; \$0.7 million of this is a reclassification of franchise fees from transfers. Gross receipts increased \$0.8 million or 19.6 percent.
- o Licenses and permits are up \$0.1 million or 2.2 percent. Construction related permits decreased \$0.2 million or 6 percent due to permits for a major hospital campus expansion in the prior year while parking meter revenues increased \$0.2 million or 19.5 percent from prior year.
- o Intergovernmental revenues increased \$3.8 million or 5.0 percent over the prior year. The primary increases consist of \$3.5 million for congestion mitigation grant from the State of Tennessee, \$2.0 million or 4.0 percent increase in local sales tax and \$1.5 million or 58.4 percent increase in allocation of state income tax. These are offset by decreases of \$1.6 million from FEMA relating to the storms in 2011 and \$1.3 million in an ARRA sustainability grant.
- o Charges for services increased 9.2 percent or \$0.5 million. The primary increase is a result of a reimbursement from Hamilton County for supplies and training for the Metropolitan Medical Response System grant.
- o Fines, forfeitures and penalties are down \$0.7 million or 34.5 percent primarily relating to a transition period with providers of the automated traffic enforcement system.
- o Interest income decreased \$170,000 or 21.9 percent. Miscellaneous revenue includes an additional \$1.3 million increase or 29.0 percent. Major changes include an increase in indirect costs of \$0.6 million and \$0.4 million for sale of city owned property.

Total expenditures increased \$9.9 million or 5.1 percent, from the previous year. Major changes during fiscal year 2013 are discussed below:

- o \$1.7 million or 2.2 percent, was for employee compensation. Final leave payout increased \$0.8 million or 85.1 percent due to an administration transition with an additional \$0.5 million or 50.9 percent as longevity increased from \$50 to \$75 per year.
- o Employee benefit costs increased by \$1.5 million or 3.3 percent. This is due to an increase in pension costs of \$2.0 million or 13.7 percent and a 5.3 percent or \$0.8 million increase as a result of employee health options. This is offset by an 11.4 percent or \$1.4 million decrease in OPEB costs as a result of funding the annual required contribution and the impact of plan changes in prior years.
- o Increases in operations include \$2.2 million appropriated from contingency to terminate the City's ownership of Dogwood Manor, an apartment complex and a \$3.0 million increase in traffic lights and equipment related to the congestion mitigation grant.



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 \$24.0 million in fund balance; of that amount \$1.6 million is nonspendable for long-term note receivables leaving \$22.4 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 2013 there was a \$13.9 million decrease in fund balance. Analysis of project income and expenditures follows.

Project inflows for the year of \$8.3 million include \$1.9 million in intergovernmental revenue, contributions, interest, and sale of property. Transfers of \$6.3 million include \$2.6 million of economic development funding, \$2.6 million from general fund, \$0.6 million from community development and \$0.4 million from the library.

Current year project outflows of \$22.2 million include \$5.3 million for street and sidewalk projects, \$2.7 million for energy efficient outdoor lighting, \$2.7 million for park improvements and \$2.4 million for safety building improvements and equipment. Transfers out of \$4.0 million are primarily comprised of \$3.5 million to fund the fleet leasing program.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, have combined net position of \$612.0 million. \$553.5 million is net investment in capital assets with an additional \$45.0 million restricted for future use, leaving \$13.5 million available to meet on-going obligations.

Enterprise Funds -- Total net assets of the enterprise funds increased \$19.9 million or 3.6 percent. Details for each fund are presented as follows:

- o **Electric Power Board** -- The largest enterprise fund is EPB, which has both an electric and a fiber optic division. Total net position increased \$14.2 million or 5.5 percent. Operating revenues are up \$6.9 million mainly due to increased fiber optic sales. Total operating expenses increased \$2.2 million or 0.4 percent. Electric operating expenses decreased \$11.4 million due to milder weather. These decreases are offset by an increase in fiber optic expenses of \$9.6 million.
- o **Interceptor Sewer System** -- Net position of the Interceptor Sewer System increased \$1.0 million or 0.4 percent, to \$258.3 million. Operating revenues rose \$0.7 million or 1.2 percent due to a 9% two phase increase in rates offset by a \$0.3 million refund of advance payments made by the previous billing contractor. Operating expenses increased \$2.1 million or 4.5 percent primarily as a result of consulting services costs to monitor compliance with the consent decree and a new contract for billing and collection service. Unrestricted net position (available to finance on-going operations) decreased \$8.5 million or 31.1 percent to \$18.7 million. An additional \$22.7 million is restricted for future capital spending, an increase of \$7.5 million; this increase is the result of contracts issued in compliance with an Environmental Protection Agency (EPA) order; please refer to Note 12 for additional information.
- o **Solid Waste** -- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the EPA issued a 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 position increased \$0.5 million following a continual improvement trend. For fiscal year 2013 the fund recognized a special item for actual costs that exceeded closure accruals. To date the City has accrued liabilities of \$5.8 million for closure and post closure care costs.



- o **Water Quality Management** -- The Water Quality Fund, established to comply with EPA guidelines, now has \$50.3 million in net position, an increase of \$4.4 million or 9.6 percent from last year. This includes the third of four annual adjustments to the non-residential rate adopted in April 2010. Net position invested in capital is \$29.2 million. The amount available to fund day-to-day operations (unrestricted) increased from \$9.4 million to \$18.8 million, a 99.5 percent increase.
- o **Housing Management** -- The Housing Management Fund was closed in fiscal year 2013 with the transfer of Dogwood Manor.
- o **Chattanooga Downtown Redevelopment Corporation** -- The CDRC Fund, a blended component unit of the City, accounts for redevelopment financing, operations of The Chattanooga Hotel and the Southside Parking Garage. Net position is a negative \$7.2 million from the termination of a swaption agreement in prior years. The CDRC fund reported \$18.3 million in total revenues with total expenses of \$16.3 million; this was a \$2.0 million change in net position.

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 position for this fund increased \$9.9 million or 32.5 percent. This change is primarily due to accruing replacement funds for the City's fleet leasing program (\$5.0 million) and self-funding reserves for the medical benefits program (\$4.4 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. During 2013 the budget was amended to include \$5.3 million of pay-as-you-go capital.

Final Budget Compared to Actual Results

Actual revenues exceed budget for the year by \$7.4 million. Most revenue categories exceeded expectations with the most significant variance being intergovernmental revenue. All major revenue categories are addressed below.

- o Total tax revenue for the year was higher than budget expectations by \$2.4 million or 1.8 percent. Property taxes, inclusive of payments in lieu of tax, were slightly over budget, \$0.6 million or 0.5 percent. Franchise tax is over budget \$0.7 million or 21.7 percent. Gross receipts are also up \$1.0 million or 24.1 percent over budget.
- o Licenses and permits are \$0.3 million or 5.2 percent above budget primarily related to street cut-in and mechanical code permits.
- o The largest variance, intergovernmental revenue, is \$3.1 million or 4.0 percent more than budget. This is mainly attributed to state income tax being over budget \$2.0 million or 90.9 percent.
- o Charges for services are \$1.0 million over budget or 21.0 percent. This is due to \$0.3 million received for services related to the Metropolitan Medical Response System. We also received \$0.1 million over budget for public works technology fees. The remaining is many smaller charges coming in over budget.



- o Fines and forfeitures are \$0.9 million or 39.1 percent below estimates as a result of fewer citations while transitioning the automated traffic safety program to a new provider.
- o Miscellaneous revenue is up \$1.3 million or 27.5 percent. Included is \$0.5 million over budget for sale of city owned property. The remaining miscellaneous revenue and donations, which fluctuates from year to year, is \$0.7 million above budget.

Expenditures were less than budgetary estimates by \$7.4 million. Personnel costs, which are budgeted at 100 percent of authorized positions, are \$7.5 million below budget. Additionally the City budgeted \$5.7 million for contingencies but only spent \$2.9 million. These are partially offset by equipment of \$0.9 million associated with the congestion mitigation grant and \$1.1 million mixed drink tax allocated for education.

The General Fund budget anticipated use of \$7.3 million of fund balance during the year; instead \$6.8 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 net investment in capital assets, a decrease of \$12 million or 0.5 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The following table shows the net 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	
	2013	2012	2013	2012	2013	2012
Non-depreciable:						
Land & Easements	\$ 1,039,530	\$ 1,037,882	\$ 19,863	\$ 19,604	\$ 1,059,393	\$ 1,057,486
Construction in progress	64,660	41,384	68,594	53,622	133,254	95,006
Depreciable:						
Buildings & Improvements	111,559	118,076	82,211	84,815	193,770	202,891
Vehicles & Machinery	32,088	33,746	25,856	182,251	57,944	215,997
Infrastructure	257,966	284,141	714,576	572,618	972,542	856,759
Total	<u>\$ 1,505,803</u>	<u>\$ 1,515,229</u>	<u>\$ 911,100</u>	<u>\$ 912,910</u>	<u>\$ 2,416,903</u>	<u>\$ 2,428,139</u>

Major capital asset events during the year included the following:

- o Construction-in-progress additions include \$4.9 million for paving/sidewalks/road improvements, \$1.0 million for the Main Terrain park, \$0.8 million for a new police station, \$2.6 million for energy efficient street lighting,



\$1.0 million to renovate the Community Theatre, \$2.5 million for the new wellness center, \$1.0 million in park improvements, \$0.4 million for the Wilcox Tunnel, \$0.4 million for waterfront improvements, \$0.2 million for the police firing range, \$1.7 million on land transitioning for economic development, \$12.4 million for the sewer consent decree, \$2.3 million for EPB and \$1.2 million for water quality system improvements.

- o The decrease in vehicles and machinery is the result of includes \$3.8 million of a \$153.1 million reclassification of machinery to infrastructure by EPB which is offset by new fleet leasing vehicles, \$0.6 million for a new fire pumper, \$0.8 million to refurbish rooms in the conference center.
- o The infrastructure increase is primarily due to EPB’s electric system reclassification from vehicles and machinery. EPB also had \$16.1 million in communication infrastructure added along with depreciation of \$32.1 million. The City had \$38.7 million of depreciation.
- o The Housing Management Fud was dissolved during 2013 with \$4.3 million in assets.
- o 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 \$44.1 million including \$27.1 million on infrastructure assets. Business-type activities recognized depreciation expense of \$62.6 million.

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

Debt Administration

At June 30 the City had \$691.0 million in long-term debt outstanding. This is an \$18.6 million decrease or 2.6 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	
	2013	2012	2013	2012	2013	2012
General obligation bonds (backed by the City)	\$ 171,740	\$ 182,678	\$ 45,960	\$ 54,342	\$ 217,700	\$ 237,020
Revenue bonds (backed by specific revenues)		-	391,500	279,930	391,500	279,930
Notes payable and other	23,951	25,814	57,543	66,141	81,494	91,955
Capital leases	288	100,625	37	68	325	100,693
Total	\$ 195,979	\$ 309,117	\$ 495,040	\$ 400,481	\$ 691,019	\$ 709,598

The City of Chattanooga maintains a “AAA” rating from Standard & Poor’s and “AA+” from Fitch Inc. for general obligation debt. The Charter limits the City’s amount of net general obligation debt to 10 percent of the assessed value of all taxable property within its corporate limits. The City’s general obligation debt, net of self-supporting debt, is \$143.1 million; this is 29.4 percent of its current limit of \$487.5 million. As of year-end, EPB Electric System had \$277.0 million in revenue bond debt outstanding compared to \$279.9 million last year. These bonds are rated “AA+” by Standard & Poor’s and “AA” by Fitch.



During the year the City issued the following new debt:

- o Governmental activities made a drawdown of \$128,416 from the 2004 Tennessee Municipal Bond Fund and entered into a capital lease of \$301,493 for golf course equipment.
- o The City implemented GASB 61 which reclassified the CDRC from a discretely presented component unit to a blended component unit reported as a business-type activity. As a result, the capital lease payable in governmental activities of \$100.5 million and the offsetting capital lease receivable in the business-type activities have been eliminated and replaced with \$118.8 million of lease rental revenue bonds.
- o EPB repaid outstanding short-term notes of \$21.7 million and secured an \$11.5 million bank note for the Telecom System. They also entered into a \$51.8 million line of credit during the year replacing a \$45.8 intercompany note which was eliminated upon consolidation in prior years. The Interceptor Sewer System had a drawdown of \$5.3 million for State Revolving Fund Loan. These are reported as business-type activities.

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 2014:

- o Anticipated revenues in the General Fund are \$237.0 million, up 1.35 percent, from the 2013 budget.
- o The City conservatively forecasts property tax at 95 percent of the tax levy. Fiscal year 2014 reflects a new property tax appraisal which would have required the property tax be raised \$0.0049 per \$100 assessed value. The budget was set without the increase and provides sufficient revenue to meet the City's financial obligations and fiscal policies. Major increases include property tax revenue of \$1.1 million or 0.9 percent and gross receipts of \$0.8 million or 18.7 percent.
- o Expenditures, balanced to revenues at the same \$237.0 million, reflect our continued efforts to preserve a level of high quality core services while beginning to focus on a priority based budgetary process. This new process supports four key priorities: safer streets; stronger neighborhoods; smarter students and stronger families; innovative, effective and efficient government.

The 2014 budget funds 486 police officers providing the availability of 40 more officers on the streets of Chattanooga and a full-time Federal prosecutor while providing new fire apparatus technology. Neighborhoods are strengthened by a plan to attract new employers to neighborhoods and by developing comprehensive transportation planning. The City will partner with private industry to turn unproductive lots into affordable housing. The newly created Youth and Family Development Department has begun a focus in the recreation centers for reading skill development.



- o The budget provides a 1.5 percent pay raise for city employees. The City is committed to fund the cost of employee benefits such as medical insurance for active and retirees and pension while reviewing current plans for changes.
- o The City's business-type activities are expected to have modest increases in operations during 2014. The Interceptor Sewer System includes a 9.8 percent rate increase and the Water Quality program has the final adjustment to the non-residential rate. Both of these increases address requirements imposed by EPA.
- o The capital budget for fiscal year 2014 reflects the commitment to public safety, economic development, and long-term sustainability for infrastructure of the City. In addition to the operating budget, over \$59 million was

Requests for Information

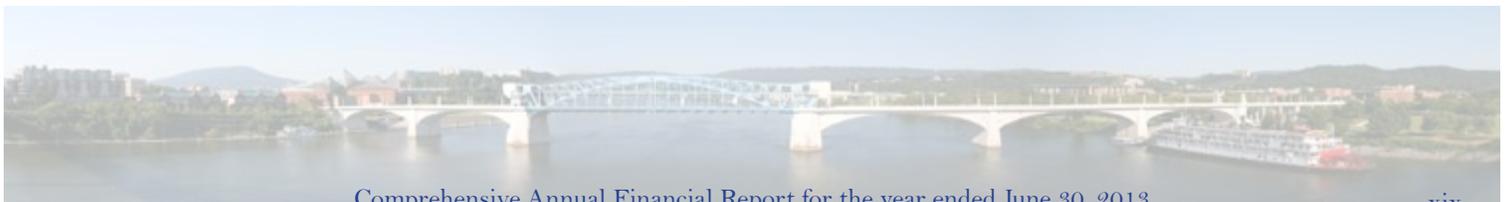
This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the assets it receives. If you have questions about this report or need additional financial information, contact:

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

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

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

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406



CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 83,901,704	\$ 158,976,447	\$ 242,878,151	\$ 13,256,363
Investments	25,551,977	26,372,912	51,924,889	-
Receivables, net of allowance for uncollectibles	177,224,754	78,083,746	255,308,500	6,589,826
Internal balances	(97,367,183)	97,367,183	-	-
Due from component units	1,711,658	-	1,711,658	-
Inventories	2,783,383	13,431,744	16,215,127	592,692
Prepaid items	981,288	8,092,986	9,074,274	1,136,838
Other assets	-	5,018,000	5,018,000	-
Restricted assets:				
Cash and cash equivalents	18,767,032	11,803,657	30,570,689	3,809,411
Investments	-	9,669,909	9,669,909	-
Endowment investments	3,956,828	-	3,956,828	-
Receivables	96,609	-	96,609	202,566
Other	-	3,874	3,874	-
Net pension assets	5,405,084	-	5,405,084	-
Other post employment benefit assets	-	-	-	94,017
Equity interest in joint venture	7,418,651	-	7,418,651	-
Land and other nondepreciable assets	1,104,190,438	88,456,729	1,192,647,167	40,638,981
Other capital assets, net of accumulated depreciation	401,612,478	822,643,110	1,224,255,588	76,469,390
Total assets	1,736,234,701	1,319,920,297	3,056,154,998	142,790,084
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	2,787,617	4,124,193	6,911,810	17,489
Total deferred outflows of resources	2,787,617	4,124,193	6,911,810	17,489
LIABILITIES				
Accounts payable and accrued liabilities	24,730,609	135,730,972	160,461,581	3,161,013
Due to primary government	-	-	-	1,711,658
Contracts payable	241,299	658,769	900,068	3,532,681
Net pension obligations	-	-	-	570,273
Other liabilities	-	552,566	552,566	-
Long-term liabilities:				
Due within one year	19,483,964	27,019,049	46,503,013	686,120
Due in more than one year	231,957,651	588,360,829	820,318,480	5,405,133
Total liabilities	276,413,523	752,322,185	1,028,735,708	15,066,878
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	129,763,666	-	129,763,666	14,251
Total deferred inflows of resources	129,763,666	-	129,763,666	14,251
NET POSITION				
Net investment in capital assets	1,212,457,120	537,001,543	1,749,458,663	110,505,460
Restricted for:				
Capital projects	24,038,313	-	24,038,313	-
Debt service	-	-	-	4,011,977
Renewal and replacement	-	45,014,643	45,014,643	-
Permanent endowments:				
Expendable	3,956,828	-	3,956,828	-
Nonexpendable	155,023	-	155,023	-
Unrestricted	92,237,845	(10,293,881)	81,943,964	13,209,007
Total net position	\$ 1,332,845,129	\$ 571,722,305	\$ 1,904,567,434	\$ 127,726,444

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 68,097,422	\$ 11,696,397	\$ 5,653,659	\$ 371,989
Public safety	90,260,439	1,854,727	2,211,639	17,361
Public works	61,278,623	3,195,233	11,447,353	1,083,188
Parks, recreation, education, arts & culture	22,884,259	3,649,255	1,394,484	-
Social services	17,513,922	344,385	17,718,269	-
Interest on long-term debt	6,763,002	-	-	-
Total governmental activities	<u>266,797,667</u>	<u>20,739,997</u>	<u>38,425,404</u>	<u>1,472,538</u>
Business-type activities:				
Electric utility, including fiber optics	630,133,000	625,486,000	-	18,283,000
Sewer	51,882,717	52,708,135	-	-
Solid waste	6,457,957	6,343,124	-	-
Water quality management	12,868,856	17,245,533	-	-
Housing management	602,886	2,667,646	-	1,700,000
Downtown redevelopment	16,196,291	17,706,905	-	-
Total business-type activities	<u>718,141,707</u>	<u>722,157,343</u>	<u>-</u>	<u>19,983,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 984,939,374</u>	<u>742,897,340</u>	<u>\$ 38,425,404</u>	<u>\$ 21,455,538</u>
COMPONENT UNITS				
Airport authority	\$ 13,051,583	\$ 10,115,038	\$ -	\$ 9,508,125
Transportation authority	22,484,344	6,916,655	7,518,673	6,102,555
TOTAL COMPONENT UNITS	<u>\$ 35,535,927</u>	<u>\$ 17,031,693</u>	<u>\$ 7,518,673</u>	<u>\$ 15,610,680</u>

General revenues:

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

Transfers

- Total general revenues and transfers

Change in net position

- Net position - beginning, as previously reported
- Prior period adjustment
- Net position, as restated
- Net position, ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (50,375,377)	\$ -	\$ (50,375,377)	\$ -
(86,176,712)	-	(86,176,712)	-
(45,552,849)	-	(45,552,849)	-
(17,840,520)	-	(17,840,520)	-
548,732	-	548,732	-
(6,763,002)	-	(6,763,002)	-
(206,159,728)	-	(206,159,728)	-
-	13,636,000	13,636,000	-
-	825,418	825,418	-
-	(114,833)	(114,833)	-
-	4,376,677	4,376,677	-
-	3,764,760	3,764,760	-
-	1,510,614	1,510,614	-
-	23,998,636	23,998,636	-
(206,159,728)	23,998,636	(182,161,092)	-
-	-	-	6,571,580
-	-	-	(1,946,461)
-	-	-	4,625,119
129,150,158	-	129,150,158	-
7,606,723	-	7,606,723	-
5,004,320	-	5,004,320	-
4,231,661	-	4,231,661	-
4,115,338	-	4,115,338	-
69,598	-	69,598	-
51,317,413	-	51,317,413	-
11,589,961	-	11,589,961	-
4,399,313	-	4,399,313	-
3,256,513	-	3,256,513	-
1,069,002	1,055,895	2,124,897	75,109
-	388,268	388,268	2,005,586
890,681	(4,150,506)	(3,259,825)	-
1,363,048	(1,363,048)	-	-
224,063,729	(4,069,391)	219,994,338	2,080,695
17,904,001	19,929,245	37,833,246	6,705,814
1,334,838,462	561,787,018	1,896,625,480	121,020,630
(19,897,334)	(9,993,958)	(29,891,292)	-
1,314,941,128	551,793,060	1,866,734,188	121,020,630
<u>\$ 1,332,845,129</u>	<u>\$ 571,722,305</u>	<u>\$ 1,904,567,434</u>	<u>\$ 127,726,444</u>

CITY OF CHATTANOOGA, TENNESSEE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 31,798,057	\$ 24,655,636	\$ 16,241,988	\$ 72,695,681
Investments	25,551,977	-	3,956,828	29,508,805
Receivables, net of allowance for uncollectibles:				
Property taxes	117,724,963	-	-	117,724,963
Other taxes	11,176,072	-	985,684	12,161,756
Accounts receivable	-	15,785	-	15,785
Notes	1,909,584	1,618,931	16,132,472	19,660,987
Other	2,263,989	73,973	105,965	2,443,927
Due from other funds	-	204,418	242,565	446,983
Due from component units	224,243	-	-	224,243
Due from other governments	22,671,701	12,025	3,478,597	26,162,323
Inventories	934,888	-	-	934,888
Prepaid items	8,000	961,613	11,675	981,288
	<u>\$ 214,263,474</u>	<u>\$ 27,542,381</u>	<u>\$ 41,155,774</u>	<u>\$ 282,961,629</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable	\$ 4,543,202	\$ 3,035,306	\$ 1,365,177	\$ 8,943,685
Accrued payroll	4,475,387	-	463,487	4,938,874
Due to other funds	-	242,565	204,418	446,983
Due to other governments	621,007	34,898	-	655,905
Contracts payable	-	191,299	-	191,299
Unearned grants revenue	11,642	-	721,066	732,708
	<u>9,651,238</u>	<u>3,504,068</u>	<u>2,754,148</u>	<u>15,909,454</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	116,169,486	-	-	116,169,486
Unavailable revenue - other local taxes	10,197,686	-	546,728	10,744,414
Unavailable revenue - shared tax revenue	8,252,465	-	404,407	8,656,872
Unavailable revenue - loans	147,000	-	17,403,653	17,550,653
	<u>134,766,637</u>	<u>-</u>	<u>18,354,788</u>	<u>153,121,425</u>
FUND BALANCES				
Nonspendable	2,852,473	1,618,932	3,968,503	8,439,908
Restricted	7,567,786	22,419,381	9,657,950	39,645,117
Committed	733,927	-	5,466,410	6,200,337
Assigned	3,111,037	-	953,975	4,065,012
Unassigned	55,580,376	-	-	55,580,376
	<u>69,845,599</u>	<u>24,038,313</u>	<u>20,046,838</u>	<u>113,930,750</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 214,263,474</u>	<u>\$ 27,542,381</u>	<u>\$ 41,155,774</u>	<u>\$ 282,961,629</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2013

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

Fund balances - total governmental funds \$ 113,930,750

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 1,489,305,112

Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and are deferred in the funds. 24,090,467

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. 5,405,084

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. 7,418,651

The internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 40,250,557

The City's other post-employment benefit plan has not been fully funded. This OPEB obligation is considered a long-term obligation and is not reported in the funds. (31,381,724)

The City's pollution remediation obligation is considered a long-term obligation and is not reported in the funds. (1,320,542)

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due. All liabilities, both due in one year and due in more than one year, are reported in the statement of net position. This item consists of:

General obligation serial bonds	\$ (171,740,285)	
Add net deferred refunding, issue premiums and discounts	(2,710,189)	
Notes payable	(23,950,370)	
Capital leases	(287,958)	
Capital lease payable to CDRC - reported as internal balance	(97,367,183)	
Compensated absences	(16,852,307)	
Accrued interest payable	(1,944,934)	
		<u>(314,853,226)</u>

Net position of governmental activities \$ 1,332,845,129

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, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 139,684,383	\$ -	\$ 4,970,247	\$ 144,654,630
Licenses and permits	5,300,519	-	529,735	5,830,254
Intergovernmental	79,709,572	1,522,476	26,184,919	107,416,967
Charges for services	5,837,249	73,973	422,579	6,333,801
Fines, forfeitures and penalties	1,378,817	-	43,739	1,422,556
Investment income	607,357	51,317	526,505	1,185,179
Contributions and donations	128,020	66,925	23,083	218,028
Sale of property	539,553	186,690	24,062	750,305
Miscellaneous	5,267,187	13,733	309,226	5,590,146
Total revenues	238,452,657	1,915,114	33,034,095	273,401,866
EXPENDITURES				
Current:				
General government	52,658,431	-	6,690,225	59,348,656
Finance and administration	4,651,767	-	-	4,651,767
Public safety	91,704,948	-	418,941	92,123,889
Public works	36,574,245	-	4,280,693	40,854,938
Parks and recreation	17,244,974	-	-	17,244,974
Education, arts and culture	2,627,103	-	-	2,627,103
Social services	-	-	16,515,906	16,515,906
Capital outlay/capital assets	-	18,236,057	-	18,236,057
Debt service:				
Principal retirement	-	-	13,037,072	13,037,072
Interest and fiscal charges	-	-	7,178,691	7,178,691
Total expenditures	205,461,468	18,236,057	48,121,528	271,819,053
Excess (deficiency) of revenues over (under) expenditures	32,991,189	(16,320,943)	(15,087,433)	1,582,813
OTHER FINANCING SOURCES (USES)				
Transfers in	9,349	6,269,596	25,278,569	31,557,514
Transfers out	(26,459,824)	(3,996,826)	(5,087,656)	(35,544,306)
Notes issued	-	128,416	-	128,416
Capital lease	301,493	-	-	301,493
Total other financing sources (uses)	(26,148,982)	2,401,186	20,190,913	(3,556,883)
Net change in fund balances	6,842,207	(13,919,757)	5,103,480	(1,974,070)
FUND BALANCES, beginning	63,003,392	37,958,070	14,943,358	115,904,820
FUND BALANCES, ending	<u>\$ 69,845,599</u>	<u>\$ 24,038,313</u>	<u>\$ 20,046,838</u>	<u>\$ 113,930,750</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds		\$ (1,974,070)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net position.		21,512,807
Depreciation expense for governmental capital assets are included in the governmental activities.		(39,208,832)
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.		1,861,471
The net effect of various transactions involving capital assets is to increase net position.		2,294,088
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.		(186,414)
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	\$ 13,037,072	
Payment of capital lease	3,164,158	
Debt issued	(429,909)	
Amortization	191,525	
Change in accrued interest payable	<u>108,237</u>	
		16,071,083
Net revenues of the internal service fund are reported with governmental activities.		9,864,627
Expenses in the statement of activities that do not consume current financial resources are not reported as expenditures in the funds		(6,141,000)
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	524,295	
Change in pension assets	(58,259)	
Change in OPEB liability	118,565	
Change in pollution remediation liability	<u>22,408</u>	
		607,009
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources. This item consists of:		
Change in deferred inflows to earned revenue		<u>13,203,232</u>
Change in net position of governmental activities		<u>\$ 17,904,001</u>

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

CITY OF CHATTANOOGA, TENNESSEE

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

Year Ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 137,250,150	\$ 137,250,150	\$ 139,684,383	\$ 2,434,233
Licenses and permits	3,558,850	5,037,361	5,300,519	263,158
Intergovernmental	78,613,923	76,624,295	79,709,572	3,085,277
Charges for services	4,826,115	4,826,115	5,837,249	1,011,134
Fines, forfeitures and penalties	2,264,100	2,264,100	1,378,817	(885,283)
Investment income	445,000	445,000	607,357	162,357
Miscellaneous	4,655,201	4,655,201	5,934,760	1,279,559
Total revenues	231,613,339	231,102,222	238,452,657	7,350,435
EXPENDITURES				
General government	43,664,622	47,507,266	43,866,815	(3,640,451)
Executive	1,935,361	1,935,361	1,763,951	(171,410)
Finance and administration	5,420,127	5,420,127	4,651,767	(768,360)
General services	3,058,780	3,058,780	2,891,197	(167,583)
Personnel	2,135,945	2,135,945	1,961,367	(174,578)
Neighborhood services	2,278,925	2,278,925	2,175,101	(103,824)
Police	56,865,165	56,900,796	55,050,619	(1,850,177)
Fire	37,370,445	37,370,445	36,654,329	(716,116)
Public works	38,314,138	36,288,879	36,574,245	285,366
Parks and recreation	16,960,580	16,960,580	17,244,974	284,394
Education, arts and culture	2,665,621	2,685,427	2,627,103	(58,324)
Total expenditures	210,669,709	212,542,531	205,461,468	(7,081,063)
Excess of revenues over expenditures	20,943,630	18,559,691	32,991,189	14,431,498
OTHER FINANCING SOURCES (USES)				
Transfers in	23,498	23,498	9,349	(14,149)
Transfers out	(25,844,796)	(25,844,796)	(26,459,824)	(615,028)
Capital leases	-	-	301,493	301,493
Total other financing sources (uses)	(25,821,298)	(25,821,298)	(26,148,982)	(327,684)
Net change in fund balances	(4,877,668)	(7,261,607)	6,842,207	14,103,814
FUND BALANCES, beginning	63,003,392	63,003,392	63,003,392	-
FUND BALANCES, ending	\$ 58,125,724	\$ 55,741,785	\$ 69,845,599	\$ 14,103,814

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund	
	Major Funds				Other Fund			
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Housing Management		Total
ASSETS								
Current Assets:								
Cash and cash equivalents	\$ 124,488,000	\$ 13,830,266	\$ -	\$ 15,576,547	\$ 5,081,634	\$ -	\$ 158,976,447	\$ 29,973,055
Investments	-	26,372,912	-	-	-	-	26,372,912	-
Receivables:								
Customer service	61,558,000	6,303,478	41,792	2,831,863	-	-	70,735,133	599,546
Other	-	12,587	37	219	939,565	-	952,408	-
Less allowance for doubtful accounts	(1,157,000)	(288,392)	(100)	(1,734,508)	(55,005)	-	(3,235,005)	-
Inventories	12,478,000	821,270	-	-	132,474	-	13,431,744	1,848,495
Due from other governments	7,739,000	1,748,722	73,114	70,374	-	-	9,631,210	39,490
Prepaid items	7,977,000	-	-	-	115,986	-	8,092,986	-
Total current assets	213,083,000	48,800,843	114,843	16,744,495	6,214,654	-	284,957,835	32,460,586
Noncurrent Assets:								
Restricted Assets:								
Cash and cash equivalents	-	1,653,107	10,150,550	-	-	-	11,803,657	-
Investments	-	-	-	-	9,669,909	-	9,669,909	-
Investment in capital lease	-	-	-	-	97,367,183	-	97,367,183	-
Other	-	1,201	2,673	-	-	-	3,874	-
Total restricted assets	-	1,654,308	10,153,223	-	107,037,092	-	118,844,623	-
Capital Assets:								
Land	6,098,000	10,381,178	1,517,514	1,865,986	-	-	19,862,678	-
Construction in progress	44,533,000	21,709,629	-	2,351,422	-	-	68,594,051	4,683,843
Buildings	66,606,000	55,569,530	1,921,659	10,601,459	806,434	-	135,505,082	627,799
Equipment	-	31,187,540	3,813,487	1,280,640	3,933,597	-	40,215,264	2,947,898
Vehicles	-	3,037,368	1,698,578	2,042,751	23,465	-	6,802,162	22,320,220
Infrastructure	763,512,000	417,632,438	9,520,509	38,934,462	-	-	1,229,599,409	-
	880,749,000	539,517,683	18,471,747	57,076,720	4,763,496	-	1,500,578,646	30,579,760
Less accumulated depreciation	(310,858,000)	(252,885,680)	(8,268,002)	(15,242,445)	(2,224,680)	-	(589,478,807)	(14,081,956)
Net capital assets	569,891,000	286,632,003	10,203,745	41,834,275	2,538,816	-	911,099,839	16,497,804
Other Assets:								
Bond issues costs	5,018,000	-	-	-	-	-	5,018,000	-
Total other assets	5,018,000	-	-	-	-	-	5,018,000	-
Total assets	\$ 787,992,000	\$ 337,087,154	\$ 20,471,811	\$ 58,578,770	\$ 115,790,562	\$ -	\$ 1,319,920,297	\$ 48,958,390
DEFERRED OUTFLOWS OF RESOURCES								
Deferred refunding	\$ -	\$ 825,301	\$ 361,551	\$ 214,721	\$ 2,722,620	\$ -	\$ 4,124,193	\$ -
Total deferred outflows of resources	-	825,301	361,551	214,721	2,722,620	-	4,124,193	-

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund	
	Major Funds					Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Housing Management		Total
(continued from previous page)								
LIABILITIES								
Current liabilities:								
Current maturities of long-term liabilities:								
Bonds payable	6,000,000	5,129,185	1,600,298	876,971	4,395,000	-	18,001,454	-
Notes payable	3,833,000	3,882,188	70,023	-	-	-	7,785,211	-
Capital leases payable	-	32,138	-	-	-	-	32,138	-
Compensated absences	206,000	373,271	38,614	311,324	-	-	929,209	174,525
Landfill postclosure costs	-	-	271,037	-	-	-	271,037	-
Accounts payable and accrued liabilities:								
Accounts payable	123,877,000	7,113,553	492,844	542,979	1,136,479	-	133,162,855	8,159,892
Accrued payroll	-	252,471	26,564	207,007	227,454	-	713,496	87,276
Other accrued liabilities	-	436,803	217,929	110,390	944,425	-	1,709,547	-
Due to other governments	-	-	-	-	145,074	-	145,074	42
Contracts payable	-	404,301	254,468	-	-	-	658,769	50,000
Other	-	-	-	-	552,566	-	552,566	-
Total current liabilities	133,916,000	17,623,910	2,971,777	2,048,671	7,400,998	-	163,961,356	8,471,735
Long-term liabilities:								
Bonds payable	278,160,000	19,374,743	14,620,476	6,107,569	118,334,598	-	436,597,386	-
Notes payable	7,028,000	42,208,997	520,304	-	-	-	49,757,301	-
Capital leases payable	-	5,562	-	-	-	-	5,562	-
Compensated absences	580,000	428,836	45,788	318,430	-	-	1,373,054	236,098
OPEB liability	9,055,000	-	-	-	-	-	9,055,000	-
Landfill postclosure costs	-	-	5,503,526	-	-	-	5,503,526	-
Customer deposits	22,932,000	-	-	-	-	-	22,932,000	-
Other noncurrent liabilities	63,137,000	-	-	-	-	-	63,137,000	-
Total long-term liabilities	380,892,000	62,018,138	20,690,094	6,425,999	118,334,598	-	588,360,829	236,098
Total liabilities	514,808,000	79,642,048	23,661,871	8,474,670	125,735,596	-	752,322,185	8,707,833
NET POSITION								
Net investment in capital assets	285,731,000	216,824,493	2,729,214	29,178,020	2,538,816	-	537,001,543	16,497,804
Restricted for renewal and replacement	-	22,706,537	9,705,369	2,381,752	10,220,985	-	45,014,643	-
Unrestricted	(12,547,000)	18,739,377	(15,263,092)	18,759,049	(19,982,215)	-	(10,293,881)	23,752,753
Total net position	\$ 273,184,000	\$ 258,270,407	\$ (2,828,509)	\$ 50,318,821	\$ (7,222,414)	\$ -	\$ 571,722,305	\$ 40,250,557

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

CITY OF CHATTANOOGA, TENNESSEE

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

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund	
	Major Funds					Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Housing Management		Total
Charges for services:								
Electric	\$ 535,968,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 535,968,000	\$ -
Fiber optic	72,859,000	-	-	-	-	-	72,859,000	-
Sewer	-	51,800,837	-	-	-	-	51,800,837	-
Waste disposal	-	-	6,255,784	-	-	-	6,255,784	-
Water quality	-	-	-	17,243,346	-	-	17,243,346	-
Lease rental revenue	-	-	-	-	4,551,244	-	4,551,244	-
Conference center	-	-	-	-	12,396,680	-	12,396,680	-
Parking garage	-	-	-	-	758,981	-	758,981	-
Other services	16,659,000	657,325	87,066	-	-	494,134	17,897,525	53,908,049
Other	-	249,973	274	2,187	-	9,298	261,732	3,588,466
Total operating revenues	625,486,000	52,708,135	6,343,124	17,245,533	17,706,905	503,432	719,993,129	57,496,515
Power purchases	426,696,000	-	-	-	-	-	426,696,000	-
Other electric operations	60,892,000	-	-	-	-	-	60,892,000	-
Fiber optic operations	46,917,000	-	-	-	-	-	46,917,000	-
Sewer plant operations	-	34,851,175	-	-	-	-	34,851,175	-
Waste disposal operations	-	-	3,015,399	-	-	-	3,015,399	-
Water quality operations	-	-	-	11,355,952	-	-	11,355,952	-
Conference center operations	-	-	-	-	10,314,413	-	10,314,413	-
Parking garage operations	-	-	-	-	334,084	-	334,084	-
Housing operations	-	-	-	-	-	463,327	463,327	-
Fleet operations	-	-	-	-	-	-	-	14,580,050
Liability insurance	-	-	-	-	-	-	-	252,003
Health services	-	-	-	-	-	-	-	33,710,055
Depreciation	44,691,000	14,568,654	530,841	1,216,103	494,898	139,559	61,641,055	3,176,496
Other	11,664,000	-	-	-	78,737	-	11,742,737	-
Total operating expenses	590,860,000	49,419,829	3,546,240	12,572,055	11,222,132	602,886	668,223,142	51,718,604
Operating income (loss)	34,626,000	3,288,306	2,796,884	4,673,478	6,484,773	(99,454)	51,769,987	5,777,911

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

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

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund	
	Major Funds					Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment	Housing Management		Total
(Continued from previous page)								
Investment income	372,000	99,489	39,328	-	545,079	-	1,055,896	-
Interest expense	(14,599,000)	(2,462,888)	(721,242)	(296,801)	(4,974,159)	-	(23,054,090)	-
Tax equivalent	(6,391,000)	-	-	-	-	-	(6,391,000)	-
Other income	220,000	26,000	67,886	34,834	39,548	2,164,214	2,552,482	552,630
Loss on disposal of asset	-	-	-	-	-	(4,150,506)	(4,150,506)	-
Other expense	(18,283,000)	-	-	-	(136,481)	-	(18,419,481)	20,728
Total nonoperating revenues (expenses)	<u>(38,681,000)</u>	<u>(2,337,399)</u>	<u>(614,028)</u>	<u>(261,967)</u>	<u>(4,526,013)</u>	<u>(1,986,292)</u>	<u>(48,406,699)</u>	<u>573,358</u>
Income before transfers, capital contributions and special item	<u>(4,055,000)</u>	<u>950,907</u>	<u>2,182,856</u>	<u>4,411,511</u>	<u>1,958,760</u>	<u>(2,085,746)</u>	<u>3,363,288</u>	<u>6,351,269</u>
Capital contributions	18,283,000	-	-	-	-	-	18,283,000	-
Transfers in	-	-	473,432	-	-	-	473,432	3,513,358
Special item, closure cost overage	-	-	(2,190,475)	-	-	-	(2,190,475)	-
Change in net position	<u>14,228,000</u>	<u>950,907</u>	<u>465,813</u>	<u>4,411,511</u>	<u>1,958,760</u>	<u>(2,085,746)</u>	<u>19,929,245</u>	<u>9,864,627</u>
Net position, beginning, as previously reported	<u>258,956,000</u>	<u>257,833,992</u>	<u>(3,081,771)</u>	<u>45,993,051</u>	<u>-</u>	<u>2,085,746</u>	<u>561,787,018</u>	<u>30,385,930</u>
Change in accounting principle	<u>-</u>	<u>(514,492)</u>	<u>(212,551)</u>	<u>(85,741)</u>	<u>(9,181,174)</u>	<u>-</u>	<u>(9,993,958)</u>	<u>-</u>
Net position, as restated	<u>258,956,000</u>	<u>257,319,500</u>	<u>(3,294,322)</u>	<u>45,907,310</u>	<u>(9,181,174)</u>	<u>2,085,746</u>	<u>551,793,060</u>	<u>30,385,930</u>
Net position, ending	<u>\$ 273,184,000</u>	<u>\$ 258,270,407</u>	<u>\$ (2,828,509)</u>	<u>\$ 50,318,821</u>	<u>\$ (7,222,414)</u>	<u>\$ -</u>	<u>\$ 571,722,305</u>	<u>\$ 40,250,557</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

June 30, 2013

	Business-type Activities - Enterprise Funds							Governmental Activities - Internal Service Fund
	Major Funds					Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Housing Management	Total	
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers and users	\$ 636,029,000	\$ 51,151,069	\$ 6,231,736	\$ 17,210,574	\$ 17,834,664	\$ 510,231	\$ 728,967,274	\$ 57,519,246
Receipts from operating grants	-	-	125,803	-	-	-	125,803	-
Payments to suppliers	(513,754,000)	(23,557,001)	(945,495)	(7,043,623)	(10,847,841)	(511,301)	(556,659,261)	(3,361,874)
Payments to employees	(31,700,000)	(8,255,648)	(4,231,326)	(4,122,790)	-	-	(48,309,764)	(45,175,360)
Payments in lieu of taxes	(16,842,000)	-	-	-	-	-	(16,842,000)	-
Net cash from operating activities	<u>73,733,000</u>	<u>19,338,420</u>	<u>1,180,718</u>	<u>6,044,161</u>	<u>6,986,823</u>	<u>(1,070)</u>	<u>107,282,052</u>	<u>8,982,012</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	-	-	473,432	-	-	-	473,432	3,513,358
Special Item	-	-	(2,190,475)	-	-	-	(2,190,475)	-
Net cash flows used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>(1,717,043)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,717,043)</u>	<u>3,513,358</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Principal paid on capital debt	(25,329,000)	5,306,601	(1,602,987)	(962,664)	(4,240,000)	(2,364,133)	(29,192,183)	-
Interest paid on capital debt	(15,080,000)	(8,887,783)	(775,364)	(355,014)	(5,333,719)	-	(30,431,880)	-
Line of credit	49,716,000	-	-	-	-	-	49,716,000	-
Proceeds from capital debt	11,500,000	(2,608,337)	-	-	3,164,158	-	12,055,821	-
Capital grants and contributions	18,283,000	-	-	34,835	-	-	18,317,835	(4,113,868)
Additions to capital assts	(69,021,000)	(12,807,326)	(14,625)	(1,556,708)	-	4,150,505	(79,249,154)	(3,243,926)
Proceeds from the sale of capital assets	(99,000)	6,206	-	-	(816,460)	(1,986,292)	(2,895,546)	764,407
Net cash flows used in capital and related financing activities	<u>(30,030,000)</u>	<u>(18,990,639)</u>	<u>(2,392,976)</u>	<u>(2,839,551)</u>	<u>(7,226,021)</u>	<u>(199,920)</u>	<u>(61,679,107)</u>	<u>(6,593,387)</u>
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	-	(79,109,114)	(2,584,855)	-	(66,450,780)	-	(148,144,749)	-
Proceeds from sales and maturities of investments	-	84,723,791	2,584,855	-	66,536,872	-	153,845,518	-
Interest	343,000	131,868	40,452	-	545,079	-	1,060,399	-
Net cash flows from investing activities	<u>343,000</u>	<u>5,746,545</u>	<u>40,452</u>	<u>-</u>	<u>631,171</u>	<u>-</u>	<u>6,761,168</u>	<u>-</u>

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

June 30, 2013

	Business-type Activities - Enterprise Funds							Governmental Activities - Internal Service Fund
	Major Funds					Other Fund		
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Housing Management	Total	
(Continued from previous page)								
Net increase (decrease) in cash and cash equivalents	44,046,000	6,094,326	(2,888,849)	3,204,610	391,973	(200,990)	50,647,070	5,901,983
Cash and cash equivalents, beginning of year	80,442,000	9,389,047	13,039,399	12,371,937	4,689,661	200,990	120,133,034	24,071,072
Cash and cash equivalents, end of year	<u>\$ 124,488,000</u>	<u>\$ 15,483,373</u>	<u>\$ 10,150,550</u>	<u>\$ 15,576,547</u>	<u>\$ 5,081,634</u>	<u>\$ -</u>	<u>\$ 170,780,104</u>	<u>\$ 29,973,055</u>
CLASSIFIED AS:								
Current assets	\$ 124,488,000	\$ 13,830,266	\$ -	\$ 15,576,547	\$ 5,081,634	\$ -	\$ 158,976,447	\$ 29,973,055
Restricted assets	-	1,653,107	10,150,550	-	-	-	11,803,657	-
	<u>\$ 124,488,000</u>	<u>\$ 15,483,373</u>	<u>\$ 10,150,550</u>	<u>\$ 15,576,547</u>	<u>\$ 5,081,634</u>	<u>\$ -</u>	<u>\$ 170,780,104</u>	<u>\$ 29,973,055</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES								
OPERATING INCOME (LOSS)	\$ 34,626,000	\$ 3,288,306	\$ 2,796,884	\$ 4,673,478	\$ 6,484,773	\$ (99,454)	\$ 51,769,987	\$ 5,777,911
ADJUSTMENTS NOT AFFECTING CASH								
Depreciation and amortization	44,691,000	14,568,654	530,841	1,216,103	494,898	139,559	61,641,055	3,176,496
Miscellaneous nonoperating expenses	1,358,000	-	-	-	-	-	1,358,000	573,358
Provision for uncollectible accounts	(6,391,000)	289,774	-	340,244	3,098	-	(5,757,884)	-
(Increase) decrease in:								
Accounts receivable	396,000	(1,872,840)	(10,780)	(417,359)	124,661	6,800	(1,773,518)	20,605
Due from other funds	-	-	-	-	-	-	-	23
Due from other governments	360,000	-	25,195	-	-	-	385,195	-
Inventory	1,394,000	(142,664)	-	-	(24,832)	-	1,226,504	(176,374)
Prepaid Items	398,000	-	-	-	-	-	398,000	-
Deferred charges	524,000	-	-	-	-	-	524,000	-
Increase (decrease) in:								
Accounts payable	(3,323,000)	3,194,054	(1,012,768)	174,137	(213,889)	(47,975)	(1,229,441)	81,625
Acerued claims	-	(19,712)	(3,591)	15,402	(11,445)	-	(19,346)	-
Claims liabilities	-	-	-	-	-	-	-	(635,936)
Other assets/liabilities	(300,000)	46,152	(1,158,113)	-	129,559	-	(1,282,402)	-
Compensated absences	-	(13,304)	13,050	42,156	-	-	41,902	164,304
Total adjustments	<u>39,107,000</u>	<u>16,050,114</u>	<u>(1,616,166)</u>	<u>1,370,683</u>	<u>502,050</u>	<u>98,384</u>	<u>55,512,065</u>	<u>3,204,101</u>
Net cash from operating activities	<u>\$ 73,733,000</u>	<u>\$ 19,338,420</u>	<u>\$ 1,180,718</u>	<u>\$ 6,044,161</u>	<u>\$ 6,986,823</u>	<u>\$ (1,070)</u>	<u>\$ 107,282,052</u>	<u>\$ 8,982,012</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

June 30, 2013

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
ASSETS	<u>Fund</u>	<u>Fund</u>
Investments:		
U.S. Government securities	\$ -	\$ 405,253
Corporate bonds and notes	-	17,415,562
Preferred securities	-	5,011,312
Corporate stocks	-	111,224,192
Foreign equity	-	5,938,394
Mutual funds - preferred securities	-	2,421,408
Mutual funds - equity	18,993,582	113,351,506
Mutual funds - fixed income	8,274,497	72,231,079
Real estate	-	24,239,550
Hedge funds	-	94,083,370
Other investments	-	10,046,099
Temporary investments	743,176	8,776,859
Receivables:		
Accrued income	9,448	395,892
Due from plan custodian	1,182,273	-
	<u>29,202,976</u>	<u>465,540,476</u>
Total assets		
	<u>29,202,976</u>	<u>465,540,476</u>
LIABILITIES		
Accounts payable and accrued liabilities:		
Accrued payable	-	164,533
Due to plan custodian	271,052	-
	<u>271,052</u>	<u>164,533</u>
Total liabilities		
	<u>271,052</u>	<u>164,533</u>
NET POSITION		
Held in trust for pension and other postemployment benefits	<u>\$ 28,931,924</u>	<u>\$ 465,375,943</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

For the Year Ended June 30, 2013

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
	<u>Fund</u>	<u>Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 12,631,912	\$ 19,957,276
Plan member	2,343,843	4,381,835
Other	-	171,398
	<u>14,975,755</u>	<u>24,510,509</u>
Investment income:		
Net appreciation (depreciation) in fair market value of investments	2,875,488	47,203,289
Interest	-	662,838
Dividends	255,775	6,327,122
	<u>3,131,263</u>	<u>54,193,249</u>
Less investment income (loss)	-	<u>(1,035,947)</u>
Net investment income (loss)	<u>3,131,263</u>	<u>53,157,302</u>
Total additions	<u>18,107,018</u>	<u>77,667,811</u>
DEDUCTIONS		
Benefits paid to participants	12,322,032	40,700,214
Administrative expenses	13,921	649,510
	<u>12,335,953</u>	<u>41,349,724</u>
CHANGE IN NET POSITION	5,771,065	36,318,087
NET POSITION - beginning	<u>23,160,859</u>	<u>429,057,856</u>
NET POSITION - ending	<u>\$ 28,931,924</u>	<u>\$ 465,375,943</u>

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

CITY OF CHATTANOOGA, TENNESSEE

**COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS**

June 30, 2013

	Chattanooga Metropolitan Airport Authority	CARTA	Total
ASSETS			
Cash and cash equivalents	\$ 11,564,741	\$ 1,691,622	\$ 13,256,363
Accounts receivable	4,786,886	1,802,940	6,589,826
Inventories	129,011	463,681	592,692
Prepaid items	367,599	769,239	1,136,838
Other post employment benefit assets	-	94,017	94,017
Restricted assets:			
Cash and cash equivalents	3,809,411	-	3,809,411
Receivables	202,566	-	202,566
Land and other nondepreciable assets	37,380,934	3,258,047	40,638,981
Other capital assets, net of accumulated depreciation	55,350,307	21,119,083	76,469,390
Total assets	<u>113,591,455</u>	<u>29,198,629</u>	<u>142,790,084</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	17,489	-	17,489
Total deferred outflows of resources	<u>17,489</u>	<u>-</u>	<u>17,489</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,522,660	1,638,353	3,161,013
Contracts payable	3,532,681	-	3,532,681
Due to primary government	-	1,711,658	1,711,658
Net pension obligations	-	570,273	570,273
Capital lease obligations	151,010	-	151,010
Notes payable	-	690,372	690,372
Revenue bonds payable	5,249,871	-	5,249,871
Total liabilities	<u>10,456,222</u>	<u>4,610,656</u>	<u>15,066,878</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	14,251	-	14,251
Total deferred inflows of resources	<u>14,251</u>	<u>-</u>	<u>14,251</u>
NET POSITION			
Net investment in capital assets	87,330,360	23,175,100	110,505,460
Restricted for debt service	4,011,977	-	4,011,977
Unrestricted	11,796,134	1,412,873	13,209,007
Total net position	<u>\$ 103,138,471</u>	<u>\$ 24,587,973</u>	<u>\$ 127,726,444</u>

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, 2013

	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Total
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY							
Airport operations	\$ 13,051,583	\$ 10,115,038	\$ -	\$ 9,508,125	\$ 6,571,580	\$ -	\$ 6,571,580
CARTA							
CARTA operations	22,484,344	6,916,655	7,518,673	6,102,555	-	(1,946,461)	(1,946,461)
Total component units	<u>\$ 35,535,927</u>	<u>\$ 17,031,693</u>	<u>\$ 7,518,673</u>	<u>\$ 15,610,680</u>	<u>6,571,580</u>	<u>(1,946,461)</u>	<u>4,625,119</u>
			General revenues:				
			Investment income		66,576	8,533	75,109
			Miscellaneous		1,711,755	293,831	2,005,586
			Total general revenues		<u>1,778,331</u>	<u>302,364</u>	<u>2,080,695</u>
			CHANGE IN NET POSITION		8,349,911	(1,644,097)	6,705,814
			Net position, beginning		<u>94,788,560</u>	<u>26,232,070</u>	<u>121,020,630</u>
			Net position, ending		<u>\$ 103,138,471</u>	<u>\$ 24,587,973</u>	<u>\$ 127,726,444</u>

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

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

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CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

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

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

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

The City reports the following blended component unit:

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

The City reports the following discretely presented component units:

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

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

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

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

(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.

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt; these transactions are generally reflected as transfers. Any residual balances outstanding at year end are reported as due to/due from other funds or component units.

(D) Measurement Focus and Basis of Accounting

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

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

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

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

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

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

(E) **Budgetary Information**

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

The appropriated budget is approved by fund and department. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the fund level. The City Finance Officer may make transfers within the General Fund.

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

Appropriations for capital projects do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

At June 30, 2013, General Fund expenditures exceeded budgeted appropriations within the public works and parks and recreation functions by \$285,366 and \$284,394, respectively.

(F) **Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

(1) Cash and Cash Equivalents

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

(2) Investments

Investments are reported at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. 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. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The costs of inventories and prepaid items are recorded as expenditures/expenses at the time individual inventory items are consumed (consumption method).

(4) Capital Assets

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

The initial capitalization of infrastructure assets reported by governmental activities was based on replacement cost deflated to the acquisition year. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

The reported value excludes normal maintenance and repairs. Donated capital assets are recorded at their estimated fair value at the date of contribution.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets construction. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

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

	<u>Useful Life</u>
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

(5) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City only has one item that qualifies for reporting in this category: deferred gains on refunding reported in the statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and will not be recognized as in inflow of resources (revenue) until that period. The City has three items that qualify for reporting in this category: (1) Unavailable revenue for property taxes recorded as receivables for the current calendar year tax levy which is not due until October 1. This amount, reported on the governmental funds balance sheet, will be recognized as revenue next year as it is received. (2) Unavailable revenue received after the availability period. This includes property taxes received after 60 days plus other local taxes and intergovernmental revenues received after 30. They are reported as deferred inflows on the governmental funds balance sheet and will be recognized as revenue next year. (3) Unavailable revenue relating to loans.

(6) Net Position Flow Assumption

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

(7) Fund Balance Flow Assumptions

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

(8) Fund Balance Policies

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

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

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

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

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

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

(G) 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. All taxes and other internally dedicated resources are reported as general revenues rather than program revenues.

(2) Property Taxes

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

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

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

(3) Functional Expenses

Functional expenses include direct costs of the functions as well as indirect costs for centralized services such as administration of personnel, procurement and financial services.

(4) Compensated Absences

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

Expenditures for compensated absences are reported in governmental funds as they mature (i.e., accrued leave outstanding following an employee's resignation or retirement). The liability for compensated absences attributable to the City's governmental activities is recorded in the government-wide financial statements. In prior years general fund and special revenue funds have been used to liquidate this liability. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable proprietary funds.

(5) 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.

(6) 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

Deficit Net Position

The Solid Waste Fund, a major enterprise fund, has a deficit in net position of \$2,828,509 at June 30, 2013. This deficit resulted from the recognition of cumulative landfill closure and post-closure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by \$465,813 from the prior fiscal year. In addition, the Solid Waste Fund reported a special item as of June 30, 2013. The accrual for closure costs at Birchwood Landfill Area 2 exceeded the estimated amounts accrued. The excess costs were recognized as a special item; closure costs will not occur until Area 3 closes which is estimated at 45 years.

The Downtown Redevelopment Fund, a major enterprise fund, has a deficit in net position of \$7,222,414 at June 30, 2013. This deficit resulted from the settlement of a swap option in fiscal year 2011. The deficit decreased by \$1,958,760 from the prior fiscal year.

NOTE 3. CASH AND INVESTMENTS

(A) Cash deposits with financial institutions

The City utilizes a pooled cash concept for its funds which are collateralized. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third-party agents.

(B) Investments

The City utilizes a pooled investment concept. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. At June 30, 2013, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and component units consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value or Carrying Amount</u>
Primary Government – Governmental Activities:		
U.S. Government agency securities	1.42	<u>\$ 25,551,977</u>
Primary Government – Business-Type Activities:		
Certificates of deposits classified as investments	2.08	\$ 26,372,912
Mutual funds – U.S. Government agency securities	0.00	<u>9,669,909</u>
		<u>\$ 36,042,821</u>
Component Units:		
Mutual funds – U.S. Government agency securities	0.00	<u>\$ 9,668,319</u>

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio 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, 2013, 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 mutual funds holding U.S. treasury securities of \$9,668,319 were securities of J.P. Morgan 100% U.S. Treasury Securities Money Market Fund, which was rated AAA by S & P and Moody's.

(C) Permanent Fund, Pension Trust Fund 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 position.

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

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

	<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
<u>Permanent Fund</u>		
Mutual funds – equity	Not rated	\$ 2,755,159
Mutual funds – fixed income	Not rated	1,176,294
Temporary investments	Not rated	<u>25,374</u>
		<u>\$ 3,956,828</u>
<u>City of Chattanooga General Pension Plan</u>		
Domestic corporate bonds	BBB	\$ 398,876
Domestic corporate bonds	BB-	148,838
Domestic corporate bonds	BB	148,720
Domestic corporate bonds	B+	664,639
Domestic corporate bonds	B	413,280
Domestic corporate bonds	B-	624,040
Domestic corporate bonds	CCC+	720,435
Domestic corporate bonds	CCC	797,433
Domestic corporate bonds	CCC-	252,170
Domestic corporate bonds	Not rated	715,717
Corporate stocks	Not rated	80,359,516
Mutual funds – equity	Not rated	63,980,056
Mutual funds – fixed income	Not rated	51,030,138
Hedge funds	Not rated	38,335,305
Other investments	Not rated	4,767,952
Temporary investments	Not rated	<u>5,742,779</u>
		<u>\$ 249,099,894</u>
<u>Fire and Police Pension Fund</u>		
Domestic corporate bonds	AA+	\$ 89,079
Domestic corporate bonds	AA	17,307
Domestic corporate bonds	AA-	24,729
Domestic corporate bonds	A+	108,455
Domestic corporate bonds	A	302,710
Domestic corporate bonds	A-	412,060
Domestic corporate bonds	BBB+	476,651
Domestic corporate bonds	BBB	500,324
Domestic corporate bonds	BBB-	99,771
Domestic corporate bonds	BB+	10,601
Domestic corporate bonds	Not rated	8,502,727
Mortgage Bank Securities	Not rated	1,987,000

	<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
<u>Fire and Police Pension Fund (continued)</u>		
U.S. Government securities	Not rated	405,253
Preferred securities	Not rated	5,011,312
Corporate Stocks	Not rated	30,864,676
Foreign equity	Not rated	5,938,394
Mutual funds - preferred securities	Not rated	2,421,408
Mutual funds – equity	Not rated	49,371,450
Mutual funds - fixed income	Not rated	21,200,941
Real estate	Not rated	24,239,550
Hedge funds	Not rated	55,748,065
Other investments	Not rated	5,278,147
Temporary investments	Not rated	<u>3,034,080</u>
		<u>\$ 216,044,690</u>
<u>Other Postemployment Benefit Trust Fund</u>		
Mutual funds – equity	Not rated	\$ 18,993,582
Mutual funds – fixed income	Not rated	8,274,497
Temporary investments	Not rated	<u>743,176</u>
		<u>\$ 28,011,254</u>

At June 30, 2013, the fair values of the City's investments in hedge funds totaling \$55,748,065 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 4. RECEIVABLES

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

	<u>Governmental Activities Funds</u>					<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Internal Service</u>	<u>Business-Type Activities</u>	
Primary Government						
Receivables:						
Taxes	\$ 121,643,912	\$ -	\$ -	\$ -	\$ -	\$ 121,643,912
Accounts	11,176,072	-	985,684	-	-	12,161,756
Notes	1,909,584	1,618,931	17,198,841	-	-	20,727,356
Customer service	-	-	-	599,546	70,735,133	71,334,679
Other	2,263,989	73,973	105,965	-	952,408	3,396,335
Restricted	-	15,785	-	-	-	15,785
Intergovernmental	<u>22,671,701</u>	<u>12,025</u>	<u>3,478,597</u>	<u>39,490</u>	<u>9,631,210</u>	<u>35,833,023</u>
Gross receivables	159,665,258	1,720,714	21,769,087	639,036	81,318,751	265,112,846
Less:						
Allowance for uncollectibles	<u>(3,918,949)</u>	<u>-</u>	<u>(1,066,369)</u>	<u>-</u>	<u>(3,235,005)</u>	<u>(8,220,323)</u>
Net receivables	<u>\$ 155,746,309</u>	<u>\$ 1,720,714</u>	<u>\$ 20,702,718</u>	<u>\$ 639,036</u>	<u>\$ 78,083,746</u>	<u>\$ 256,892,523</u>

(A) Taxes Receivable

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes of \$3,918,949 is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2013.

(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. Current balance is \$1,062,209.

(C) Notes 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 \$224,243 and \$287,415 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 \$1,200,000.

(D) Community Development Loans

Notes receivable of \$17,198,841 represent various loans made from community development funds received from HUD, including CDBG, HOME, and other special grants. These loans are provided to low income recipients for the purchase and repair of homes. Of this amount, \$277,084 represents forgivable loans and \$1,850,124 represents title transfer loans, which are payable only upon the transfer of title by the current loan recipient. The allowance for uncollectable loans is \$1,066,369.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Non-depreciable assets:				
Land and land improvements	\$1,037,882,226	\$ 1,662,679	\$ 14,419	\$1,039,530,486
Construction in progress	<u>41,384,156</u>	<u>23,286,356</u>	<u>10,560</u>	<u>64,659,952</u>
Total non-depreciable assets	<u>1,079,266,382</u>	<u>24,949,035</u>	<u>24,979</u>	<u>1,104,190,438</u>
Depreciable assets:				
Buildings and improvements	216,071,757	846,088	-	216,917,845
Vehicles and machinery	137,889,061	6,396,545	4,162,723	140,122,883
Infrastructure	<u>687,686,619</u>	<u>910,372</u>	<u>-</u>	<u>688,596,991</u>
Total depreciable assets	<u>1,041,647,437</u>	<u>8,153,005</u>	<u>4,162,723</u>	<u>1,045,637,719</u>

	Beginning Balance	Additions	Deductions	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	97,995,985	7,362,949	-	105,358,934
Vehicles and machinery	104,142,820	7,937,289	4,044,928	108,035,181
Infrastructure	403,546,036	27,085,090	-	430,631,126
Total accumulated depreciation	<u>605,684,841</u>	<u>42,385,328</u>	<u>4,044,928</u>	<u>644,025,241</u>
Depreciable assets, net	<u>435,962,596</u>	<u>(34,232,323)</u>	<u>117,795</u>	<u>401,612,478</u>
Governmental activities capital assets, net	<u>\$1,515,228,978</u>	<u>\$ (9,283,288)</u>	<u>\$ 142,774</u>	<u>\$1,505,802,916</u>
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 19,604,317	\$ 285,361	\$ 27,000	\$ 19,862,678
Construction in progress	<u>53,621,838</u>	<u>15,971,213</u>	<u>999,000</u>	<u>68,594,051</u>
Total non-depreciable assets	<u>73,226,155</u>	<u>16,256,574</u>	<u>1,026,000</u>	<u>88,456,729</u>
Depreciable assets:				
Buildings and improvements	\$ 137,343,367	\$ 5,809,000	\$ 7,647,285	\$ 135,505,082
Vehicles and machinery	244,724,645	9,559,924	162,230,143	92,054,426
Sewer system	417,487,714	144,724	-	417,632,438
Solid waste system	9,520,509	-	-	9,520,509
Water quality management system	38,913,370	21,092	-	38,934,462
Electric system	444,887,000	214,465,000	45,037,000	614,315,000
Communication system	88,091,000	16,934,000	865,000	104,160,000
Total depreciable assets	<u>1,380,967,605</u>	<u>246,933,740</u>	<u>215,779,428</u>	<u>1,412,121,917</u>
Less accumulated depreciation for:				
Buildings and improvements	52,527,728	4,015,055	3,249,075	53,293,708
Vehicles and machinery	62,473,753	4,912,756	1,188,004	66,198,505
Sewer system	189,926,197	10,489,481	-	200,415,678
Solid waste system	1,410,108	317,350	-	1,727,458
Water quality management system	8,432,203	798,255	-	9,230,458
Electric system	190,292,000	28,765,158	8,158,158	210,899,000
Communication system	36,222,000	12,343,000	851,000	47,714,000
Total accumulated depreciation	<u>541,283,989</u>	<u>61,641,055</u>	<u>13,446,237</u>	<u>589,478,807</u>
Depreciable assets, net	<u>829,683,616</u>	<u>185,292,685</u>	<u>202,333,191</u>	<u>822,643,110</u>
Business-type activities capital assets, net	<u>\$ 912,909,771</u>	<u>\$201,549,259</u>	<u>\$203,359,191</u>	<u>\$ 911,099,839</u>
DISCRETELY PRESENTED COMPONENT UNITS				
Non-depreciable assets:				
Land	\$ 7,101,608	\$ -	\$ -	\$ 7,101,608
Construction in progress	<u>23,075,977</u>	<u>10,875,675</u>	<u>414,279</u>	<u>33,537,373</u>
Total non-depreciable assets	<u>30,177,585</u>	<u>10,875,675</u>	<u>414,279</u>	<u>40,638,981</u>
Depreciable assets:				
Buildings and improvements	126,746,487	2,024,012	519,497	128,251,002
Vehicles and equipment	<u>66,178,532</u>	<u>2,110,144</u>	<u>10,138,118</u>	<u>58,150,558</u>
Total depreciable assets	<u>192,925,019</u>	<u>4,134,156</u>	<u>10,657,615</u>	<u>186,401,560</u>
Less accumulated depreciation	<u>111,805,853</u>	<u>8,367,761</u>	<u>10,511,444</u>	<u>109,932,170</u>
Depreciable assets, net	<u>81,119,166</u>	<u>(4,503,605)</u>	<u>146,171</u>	<u>76,469,390</u>
Component units capital assets, net	<u>\$ 111,296,751</u>	<u>\$ 6,372,070</u>	<u>\$ 560,450</u>	<u>\$ 117,108,371</u>

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	\$ 10,898,878
Public safety	1,761,902
Public works	25,879,238
Parks, recreation, education, arts & culture	3,754,088
Social services	<u>91,222</u>
Total	<u>\$ 42,385,328</u>
Primary Government – Business-Type Activities:	
Electric Utility	\$ 44,691,000
Sewer	14,568,654
Solid Waste	530,841
Water Quality Management	1,216,103
Downtown Redevelopment	494,898
Housing Management	<u>139,559</u>
Total	<u>\$ 61,641,055</u>
Discretely Presented Component Units:	
CARTA	\$ 3,541,034
Airport Authority	<u>5,096,727</u>
Total	<u>\$ 8,637,761</u>

NOTE 6. LONG-TERM LIABILITIES

(A) Governmental Activities

Debt related to governmental activities at June 30, 2013, 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:

<u>Series</u>	<u>Original Principal</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal June 30, 2013</u>
General Obligations Refunding Bonds, Series 1998	\$ 7,292,600	5.25% - 5.50%	09/01/17	\$ 1,711,400
General Obligations Refunding Bonds, Series 2002	15,390,900	4.38% - 5.38%	09/01/15	2,585,000
General Obligations Refunding Bonds, Series 2002 A	6,037,950	3.60% - 5.00%	09/01/14	314,591
General Obligations Refunding Bonds, Series 2005 A	17,436,520	3.50% - 5.00%	09/01/19	12,137,842
Hotel-Motel Tax Refunding Bonds, Series 2005 A	6,469,987	3.50% - 5.00%	09/01/19	4,133,495
General Obligations Bonds, Series 2006 A	20,732,796	4.00% - 5.00%	11/01/26	14,512,957
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	36,320,000
General Obligations Bonds, Series 2010 A	6,725,000	2.00% - 4.00%	02/01/30	5,705,000
General Obligation Refunding Bonds, Series 2010 B	4,707,460	2.00% - 4.00%	02/01/30	4,357,818
Hotel-Motel Tax Refunding Bonds, Series 2010 B	29,557,540	2.00% - 4.00%	02/01/30	27,362,182
General Obligation Bonds, Series 2010C	6,840,000	2.00% - 4.00%	02/01/30	5,810,000
General Obligation Bonds, Series 2011A	26,495,000	2.00% - 4.00%	10/01/26	24,725,000
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	<u>15,595,750</u>	2.00% - 4.00%	10/01/27	<u>15,595,750</u>
Total payable from Debt Service Fund	<u>\$ 225,165,753</u>			<u>\$ 171,740,285</u>

(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, 2013, is \$2,324,001 of which \$2,110,019 is due from Governmental Activities and \$213,982 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, 2013, is \$15,847,735, of which \$15,471,391 is due from Governmental Activities and \$376,344 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, 2013, is \$4,526.

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. In January 2013, this note was extended for an additional five years and fixed parking prices were renegotiated. The balance at June 30, 2013, is \$242,564.

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, 2013 is \$3,356,000.

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, 2013, is \$15,871.

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, 2013 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 Chattanooga - a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for 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 Chattanooga, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of \$9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments.

The City's lease payment for the year ended June 30, 2013, was \$9,683,809, of which \$3,164,158 was a reduction of principal. The debt service reserve fund held by the fiscal agent at June 30, 2013 is \$9,668,319. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

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

Golf Course Capital Lease - In April 2013, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling \$301,493. The lease term is five years and provides for monthly payments which began April 1, 2013. The recorded liability under this capital lease at June 30, 2013 is \$287,958.

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

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

(B) Business-type Activities

Debt related to business-type activities at June 30, 2013, 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:

<u>Series</u>	<u>Original Principal</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal June 30, 2013</u>
Electric Power Board				
2006B Electric System Refunding Revenue Bonds	\$ 23,430,000	4.00% - 4.25%	09/01/25	\$ 21,660,000
2006A Electric System Revenue Bonds	40,000,000	4.00% - 5.00%	09/01/31	35,475,000
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	6,688,600
General Obligations Refunding Bonds, Series 2002	24,642,272	4.38% - 5.38%	09/01/14	4,251,577
General Obligations Refunding Bonds, Series 2002A	32,252,050	3.60% - 5.00%	09/01/14	1,680,409
General Obligations Refunding Bonds, Series 2005A	12,545,129	3.50% - 5.00%	09/01/19	10,998,694
Solid Waste Fund				
General Obligation Refunding Bonds, Series 2002	10,526,302	4.38% - 5.38%	09/01/15	1,075,043
General Obligation Refunding Bonds, Series 2005A	9,877,293	3.50% - 5.00%	09/01/19	8,123,370
General Obligation Bonds, Series 2006A	5,667,204	4.00% - 5.00%	11/01/26	3,967,043
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	803,380
General Obligation Refunding Bonds, Series 2005A	6,046,071	3.50% - 5.00%	09/01/19	5,141,598
General Obligation Refunding Bonds, Series 2007A	750,000	24.30% - 5.00%	03/01/26	750,000
Chattanooga Downtown Redevelopment Corporation				
2007 Chatt Lease Rental Rev Ref Bonds	56,110,000	4.00% - 5.00%	10/01/30	48,930,000
2010 Chatt Lease Rental Rev Ref Bonds	<u>66,955,000</u>	3.00% - 5.00%	10/01/24	<u>65,605,000</u>
Total payable from Business-type Activities	<u>\$ 532,294,547</u>			<u>\$ 437,459,714</u>

(2) Notes and Loans Payable

1998 Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga was authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The 20 year loan is being repaid at 4% interest through 2019. The balance at June 30, 2013 to be paid from Interceptor Sewer Fund is \$2,577,669.

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, 2013 to be paid from Interceptor Sewer Fund is \$26,077,788.

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, 2013, is \$2,324,001 of which \$2,110,019 is due from Governmental Activities and \$213,982 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, 2013, is \$15,847,735, of which \$15,471,391 is due from Governmental Activities and \$376,344 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, 2013 to be paid from Interceptor Sewer Fund is \$12,129,127.

State Revolving Loan 2013 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments after 90 percent of the loan has been drawn down at 2.00% interest. The balance at June 30, 2013 to be paid from Interceptor Sewer Fund is \$5,306,601.

2013 Secured (Internet) Term Note – In March 2013, EPB obtained a bank loan for \$11,500,000 million with monthly principal payments of \$319,415 with a maturity of March 2016 for the benefit of the Telecom System which is guaranteed by the revenue and assets of the Telecom System. The outstanding balance bears interest equal to the 30-day LIBOR rate plus 1.12%. The remaining balance at June 30, 2013 is \$10,861,000.

(3) Capital Lease

Collegedale Capital Lease - The City has a capital lease agreement with the City of Collegedale to purchase sewer system improvements. The capital lease obligation of \$316,052 is to be repaid in monthly lease payments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2013 to be paid from Interceptor Sewer Fund is \$37,701.

(4) Capitalized Interest

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

	<u>Total Interest</u>	<u>Capitalized Interest</u>	<u>Interest Expense</u>
Interceptor Sewer System	\$ 2,543,991	\$ 81,103	\$ 2,462,888
Water Quality Fund	317,893	21,092	296,801

(C) Component Units

Component Units debt at June 30, 2013, consisted of the following:

(1) Revenue Bonds

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

<u>Series</u>	<u>Original Principal</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal June 30, 2013</u>
Airport Authority Taxable Refunding Revenue Bonds, Series 2009	\$ 6,600,000	3.54% - 5.41%	04/01/19	\$ 5,249,871
Total payable from Component Units	\$ 6,600,000			\$ 5,249,871

(2) Notes Payable

Republic Parking System Note – In February 2013, the Authority entered into an agreement with Republic Parking System, Inc. to secure a loan for the purpose of financing transportation operations. The loan will be repaid in monthly installments through February 2016 at 6.00% interest. The remaining balance at June 30, 2013 is \$690,372.

(3) 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, 2013. The capital lease obligation of \$186,643 is to be repaid in monthly lease payments of \$4,333 through 2017 at variable rates of interest. The balance on this capital lease at June 30, 2013 to be paid from the Chattanooga Metropolitan Airport Authority is \$151,010.

(D) Refunding

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, 2013, the remaining liabilities for the bonds refunded were as follows:

<u>Year Refunded</u>	<u>Primary Government</u>
1992	\$ 2,260,000
1998	8,450,000
2002	9,130,000
2003	2,350,000
2005	41,110,000
2007	66,280,000
2010	30,600,000
2011	65,605,000
2012	18,360,000

(E) Changes in Long-term Liabilities

Changes in long-term liabilities for the fiscal year ended June 30, 2013, were as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	\$ 182,677,809	\$ -	\$10,937,524	\$ 171,740,285	\$ 10,883,546
Notes payable	25,814,209	128,416	1,992,255	23,950,370	2,016,341
Capital leases payable	93,758	301,493	107,293	287,958	55,668
Accrued pollution remediation costs	1,342,950	293,045	315,453	1,320,542	26,308
Accrued postemployment benefits	31,500,289	12,739,235	12,857,800	31,381,724	-
Compensated absences	<u>17,794,264</u>	<u>10,086,997</u>	<u>10,618,331</u>	<u>17,262,930</u>	<u>6,502,101</u>
Total governmental activities	<u>\$ 259,223,279</u>	<u>\$ 23,549,186</u>	<u>\$36,828,656</u>	245,943,809	<u>\$ 19,483,964</u>
Original issue premiums and discounts				<u>5,497,806</u>	
				<u>\$ 251,441,615</u>	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	\$ 279,930,000	\$ -	\$ 2,965,000	\$ 276,965,000	\$ 6,000,000
Notes payable	21,725,000	11,500,000	22,364,000	10,861,000	3,833,000
Line of credit	-	51,828,000	-	51,828,000	-
Accrued postemployment benefits	8,955,000	1,999,000	1,899,000	9,055,000	-
Compensated absences	<u>820,000</u>	<u>794,000</u>	<u>828,000</u>	<u>786,000</u>	<u>206,000</u>
	<u>311,430,000</u>	<u>66,121,000</u>	<u>28,056,000</u>	<u>349,495,000</u>	<u>10,039,000</u>
Interceptor Sewer System:					
General obligation serial bonds	29,633,265	-	6,013,985	23,619,280	5,129,185
Notes payable	43,628,246	5,306,601	2,843,662	46,091,185	3,882,188
Capital leases payable	67,834	-	30,133	37,701	32,138
Compensated absences	<u>815,411</u>	<u>684,874</u>	<u>698,178</u>	<u>802,107</u>	<u>373,271</u>
	<u>74,144,756</u>	<u>5,991,475</u>	<u>9,585,958</u>	<u>70,550,273</u>	<u>9,416,782</u>
Solid Waste/Sanitation Fund					
General obligation serial bonds	\$ 17,180,490	\$ -	\$ 1,535,034	\$ 15,645,456	\$ 1,600,298
Notes payable	658,281	-	67,955	590,326	70,023
Accrued landfill closure costs	7,000,562	-	1,225,999	5,774,563	271,037
Compensated absences	<u>71,353</u>	<u>84,227</u>	<u>71,178</u>	<u>84,402</u>	<u>38,614</u>
	<u>24,910,686</u>	<u>84,227</u>	<u>2,900,166</u>	<u>22,094,747</u>	<u>1,979,972</u>
Water Quality/Management Fund:					
General obligation serial bonds	7,528,435	-	833,457	6,694,978	876,971
Notes payable	129,207	-	129,207	-	-
Compensated absences	<u>587,598</u>	<u>657,858</u>	<u>615,702</u>	<u>629,754</u>	<u>311,324</u>
	<u>8,245,240</u>	<u>657,858</u>	<u>1,578,366</u>	<u>7,324,732</u>	<u>1,188,295</u>
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	<u>118,775,000</u>	<u>-</u>	<u>4,240,000</u>	<u>114,535,000</u>	<u>4,395,000</u>
Total business-type activities	<u>\$ 537,505,682</u>	<u>\$72,854,560</u>	<u>\$46,360,490</u>	563,999,752	<u>\$ 27,019,049</u>
Original issue premiums and discounts				<u>17,139,126</u>	
				<u>\$ 581,138,878</u>	
Discretely Presented Component Units					
Airport Authority:					
Revenue bonds	\$ 5,630,575	\$ -	\$ 380,704	\$ 5,249,871	\$ 394,599
Capital leases payable	<u>186,643</u>	<u>-</u>	<u>35,633</u>	<u>151,010</u>	<u>44,930</u>
	<u>5,817,218</u>	<u>-</u>	<u>416,337</u>	<u>5,400,881</u>	<u>439,529</u>
CARTA:					
Notes payable	<u>-</u>	<u>770,564</u>	<u>80,192</u>	<u>690,372</u>	<u>246,591</u>
Total component units	<u>\$ 5,817,218</u>	<u>\$ 770,564</u>	<u>\$ 496,529</u>	<u>\$ 6,091,253</u>	<u>\$ 686,120</u>

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

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 12,899,887	\$ 6,654,922	\$ 25,786,665	\$ 21,712,652
2015	15,962,146	6,300,307	27,262,023	20,794,245
2016	13,319,216	5,888,953	26,203,745	19,797,502
2017	11,811,179	5,491,239	24,963,911	18,775,412
2018	13,174,337	5,126,367	25,660,673	17,690,820
2019-2023	60,263,504	19,526,670	109,129,179	73,152,062
2024-2028	52,370,386	8,189,592	117,361,614	47,894,054
2029-2033	15,890,000	1,133,294	117,964,415	18,783,898
2034-2038	-	-	20,670,000	516,750
	<u>\$ 195,690,655</u>	<u>\$ 58,311,344</u>	<u>\$ 495,002,225</u>	<u>\$ 239,117,395</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 641,190	\$ 216,707
2015	670,797	187,099
2016	605,901	158,226
2017	439,388	137,207
2018	455,420	121,172
2019-2023	<u>3,127,547</u>	<u>88,269</u>
	<u>\$ 5,940,243</u>	<u>\$ 908,680</u>

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

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 55,668	\$ 11,670	\$ 32,138	\$ 1,515
2015	55,192	9,146	5,563	46
2016	60,831	6,507	-	-
2017	63,590	3,748	-	-
2018	<u>49,677</u>	<u>926</u>	<u>-</u>	<u>-</u>
	<u>\$ 287,958</u>	<u>\$ 31,997</u>	<u>\$ 37,701</u>	<u>\$ 1,561</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 44,930	\$ 7,066
2015	47,421	4,575
2016	50,051	1,945
2017	<u>8,608</u>	<u>58</u>
	<u>\$ 151,010</u>	<u>\$ 13,644</u>

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 Electric Power Board of Chattanooga Retirement 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 primary government also provides benefits through two single employer defined benefit other postemployment benefit plans, one for EPB employees and one for other city employees. The City also acts as Trustee for the City of Chattanooga 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 Electric Power Board retirement or postemployment benefits plans; 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

Plan Descriptions:

City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees.

The normal retirement benefit is two percent of average compensation multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years. The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized two and one-half percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. 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.

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.

Fire and Police Pension Fund

The City maintains a single-employer defined benefit pension plan for the firefighters and police officers employed by the City.

The normal retirement benefit is based upon 25 years of credited service. It is calculated as 2.75% of final average monthly salary for each year of service up to 25 years plus 1.25% of final average monthly salary for each year of service greater than 25 up to 30 years. Benefit is capped at 75% of final average monthly salary. Reduced benefit provisions are available for participants who have attained age 55 and have completed at least 10 years of credited service. Additional benefits are available in the event of death for pre-retirement participants, based on predetermined formulas. A deferred retirement option provision (DROP) is available for participants completing 25 years of service. Two DROP options are available. The original (retro) DROP benefit is calculated, based upon service at the DROP date and final average salary at retirement. Up to 36 months of this benefit amount will be used in determine the DROP lump-sum. Effective September 2, 2008, the DROP formula was changed by City ordinance. Participants who were eligible for the original DROP plan were required to contribute an additional 1 percent of pay to remain eligible. 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 and participants hired on or after January 1, 2009, may participate in a modified DROP.

Future amendments to the plan 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.

Other Postemployment Benefits

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 postemployment healthcare benefits upon attaining Medicare eligibility.

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.

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 with a December 31 fiscal year end. 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.

Valuation of 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.

Funding Policies:

The City contributes to each plan at an actuarially determined rate.

City of Chattanooga General Pension Plan

Each participant is required to contribute 2 percent of earnings. The City is currently contributing 13.65 percent of the total covered payroll of the participants.

Fire and Police Pension Fund

The Plan is designed for each plan participant to contribute 8 or 9 percent of base salary depending on the participant's DROP option. The City is currently contributing 31.8 percent of the total covered payroll of the participants. 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.

Other Postemployment Benefits

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

The City established an Other Postemployment Benefits Trust (the Trust) in 2008 to partially pre-fund benefits. Beginning in 2011, the City began funding the Trust based on an actuarial calculation in which all unfunded prior service costs as well as normal costs are allocated to various funds based on applicable payroll. The City is currently contributing 13.1 percent of the total covered payroll of participants. All obligations are liquidated from the OPEB trust.

Annual Pension/OPEB Cost and Net Pension/OPEB 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	\$ 7,806,000	\$ 11,859,505	\$ 12,857,800
Interest on net pension/OPEB obligation (asset)	(59,652)	(363,757)	2,362,522
Adjustment to annual required contribution	<u>66,764</u>	<u>286,607</u>	<u>(2,481,087)</u>
Annual pension/OPEB cost	7,813,112	11,782,355	12,739,235
Adjustment to NPO prior contributions	-	-	-
Contributions made	<u>(7,599,939)</u>	<u>(11,937,269)</u>	<u>(12,857,800)</u>
Increase in net pension/OPEB obligation (asset)	213,173	(154,914)	(118,565)
Net pension/OPEB obligation (asset):			
Beginning of year	<u>(769,700)</u>	<u>(4,693,643)</u>	<u>31,500,289</u>
End of year	<u><u>\$ (556,527)</u></u>	<u><u>\$ (4,848,557)</u></u>	<u><u>\$ 31,381,724</u></u>

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	12/31/12	\$ 7,813,112	97%	\$ (556,527)
	12/31/11	7,215,031	93%	(769,674)
	12/31/10	7,174,558	69%	(1,302,008)
Fire and Police Pension Fund	12/31/12	11,782,355	101%	(4,848,557)
	12/31/11	9,615,142	103%	(4,693,643)
	12/31/10	8,526,415	97%	(4,385,105)
Other Postemployment Benefits	12/31/12	12,739,235	101%	31,381,724
	12/31/11	14,169,688	101%	31,500,289
	12/31/10	13,718,933	101%	31,619,302

Funded Status and Funding Progress:

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

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Actuarial valuation date	January 1, 2013	January 1, 2013	January 1, 2012
Actuarial accrued liability (AAL)	\$ 287,753,658	\$ 408,278,814	\$ 146,748,770
Actuarial value of plan assets	<u>253,442,165</u>	<u>258,596,818</u>	<u>19,853,844</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 34,311,493</u>	<u>\$ 149,681,996</u>	<u>\$ 126,894,926</u>
Funded ratio (actuarial value of plan assets/AAL)	88.08%	63.34%	13.53%
Covered payroll (annual payroll of active Employees covered by the plan)	\$ 56,270,053	\$ 37,215,933	\$ 95,280,557
UAAL as a percentage of covered payroll	60.98%	402.20%	133.2%

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

Complete schedule funding progress may be found on page B-1.

Actuarial Methods and Assumptions:

The annual required contribution for each plan is as follows:

	General Pension Plan	Fire and Police Pension Fund	Other Postemployment Benefits
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	26 Years Remaining	30 Years Open
Inflation rate	3.00%	3.25%	3.00%
Asset valuation method	Market Value, Smoothed	Market Value, Smoothed	Market Value
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%
Cost of living adjustments	3.00%	3.00%	3.00%

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

The actuarial valuation for the OPEB plan uses an annual healthcare cost trend rate of 7 percent, reducing incrementally to an ultimate rate of 5 percent.

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 Position:

	General Pension Plan	Fire and Police Pension Fund	Total
ASSETS			
Receivables:			
Accrued income	\$ 277,810	\$ 118,082	\$ 395,892
Total receivables	<u>277,810</u>	<u>118,082</u>	<u>395,892</u>
Investments, at fair value:			
U.S. Government securities	-	405,253	405,253
Corporate bonds and notes	4,884,148	12,531,414	17,415,562
Preferred securities	-	5,011,312	5,011,312
Corporate stocks	80,359,516	30,864,676	111,224,192
Foreign equity	-	5,938,394	5,938,394
Mutual funds – preferred securities	-	2,421,408	2,421,408
Mutual funds – equity	63,980,056	49,371,450	113,351,506
Mutual funds – fixed income	51,030,138	21,200,941	72,231,079
Real estate	-	24,239,550	24,239,550
Hedge funds	38,335,305	55,748,065	94,083,370
Other investments	4,767,952	5,278,147	10,046,099
Temporary investments	5,742,779	3,034,080	8,776,859
Total investments	<u>249,099,894</u>	<u>216,044,690</u>	<u>465,144,584</u>
Total assets	<u>249,377,704</u>	<u>216,162,772</u>	<u>465,540,476</u>
LIABILITIES			
Accrued expenses	30,742	33,791	164,533
Total liabilities	<u>130,742</u>	<u>33,791</u>	<u>164,533</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
	<u>\$ 249,246,962</u>	<u>\$ 216,128,981</u>	<u>\$ 465,375,943</u>

Combining Statement of Changes in Plan Net Position:

	<u>General Pension Plan</u>	<u>Fire and Police Pension Fund</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employer	\$ 7,840,233	\$ 12,117,043	\$ 19,957,276
Employee	1,150,703	3,231,132	4,381,835
Other	<u>-</u>	<u>171,398</u>	<u>171,398</u>
Total contributions	<u>8,990,936</u>	<u>15,519,573</u>	<u>24,510,509</u>
Investment income:			
Net appreciation in fair market value of investments	27,884,287	19,319,002	47,203,289
Interest	404,556	258,282	662,838
Dividends	<u>2,325,858</u>	<u>4,001,264</u>	<u>6,327,122</u>
	30,614,701	23,578,548	54,193,249
Less investment expense	<u>(589,206)</u>	<u>(446,741)</u>	<u>(1,035,947)</u>
Net investment income (loss)	<u>30,025,495</u>	<u>23,131,807</u>	<u>53,157,302</u>
Total additions	<u>39,016,431</u>	<u>38,651,380</u>	<u>77,667,811</u>
DEDUCTIONS			
Benefits paid to participants	14,840,520	25,859,694	40,700,214
Administrative expenses	<u>175,957</u>	<u>473,553</u>	<u>649,510</u>
Total deductions	<u>15,016,477</u>	<u>26,333,247</u>	<u>41,349,724</u>
NET INCREASE	23,999,954	12,318,133	36,318,087
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>225,247,008</u>	<u>203,810,848</u>	<u>429,057,856</u>
End of year	<u>\$ 249,246,963</u>	<u>\$ 216,128,981</u>	<u>\$ 465,375,943</u>

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, 2012	\$ 19,683,727
Deferrals of compensation	2,170,159
Earnings (losses)	2,250,414
Withdrawals	(1,735,890)
Administrative expenses	<u>(10,807)</u>
Asset balance at June 30, 2013	<u>\$ 22,357,603</u>

(B) Plans not Administered by the City of Chattanooga

Plan Descriptions:

EPB Pension Plan

The Electric Power Board of Chattanooga Retirement 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.

EPB Other Postemployment Benefits

The Electric Power Board of Chattanooga Post Employment Health and Welfare Benefit 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 to plan members. Section 3 of the plan assigns the authority to establish and amend benefit provisions to EPB. A standalone financial report is not issued for this plan.

Funding Policies:

EPB Pension 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. EPB's required contributions are calculated based on an actuarially determined rate; the current rate is 11.60 percent of annual covered payroll.

EPB Other Postemployment Benefits

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 2013, EPB contributed approximately \$1.9 million (approximately 84 percent of total claims).

Annual Pension/OPEB Cost and Net Pension/OPEB Obligation:

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

	<u>Pension Plan</u>	Other Postemployment <u>Benefits</u>
Annual required contribution	\$ 3,569,952	\$ 2,180,170
Interest on net pension/OPEB obligation (asset)	-	582,054
Adjustment to annual required contribution	-	(763,094)
Annual pension/OPEB cost	3,569,952	1,999,130
Contributions made	(3,569,952)	(1,898,747)
Increase in net pension/OPEB obligation (asset)	-	100,383
Net pension/OPEB obligation (asset):		
Beginning of year	-	8,954,680
End of year	\$ -	\$ 9,055,062

EPB'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:

	<u>Year Ended</u>	Annual Pension/OPEB <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension/ OPEB Obligation <u>(Assets)</u>
Pension Plan	7/31/12	\$ 3,569,952	100.00%	\$ -
	7/31/11	2,796,435	121.60%	-
	7/31/10	2,725,560	100.00%	-

	<u>Year Ended</u>	<u>Annual Pension/OPEB Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension/OPEB Obligation (Assets)</u>
Other Postemployment Benefits	6/30/12	\$ 1,999,130	95.00%	\$ 9,055,062
	6/30/11	1,888,329	93.40%	8,954,511
	6/30/10	1,763,819	125.10%	8,830,000

Funded Status and Funding Progress:

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

	<u>Pension Plan</u>	<u>Other Postemployment Benefits</u>
Actuarial valuation date	August 1, 2012	July 1, 2012
Actuarial accrued liability (AAL)	\$ 43,676,939	\$ 25,462,868
Actuarial value of plan assets	<u>31,150,374</u>	<u>15,044,942</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,526,565</u>	<u>\$ 10,417,927</u>
Funded ratio (actuarial value of plan assets/AAL)	71.30%	59.10%
Covered payroll (annual payroll of active Employees covered by the plan)	\$ 31,045,236	\$ 32,044,908
UAAL as a percentage of covered payroll	40.30%	32.50%

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

Complete schedule funding progress may be found on page B-1.

Actuarial Methods and Assumptions:

The annual required contribution for each plan is as follows:

	<u>Pension Plan</u>	<u>Other Postemployment Benefits</u>
Actuarial cost method	Aggregate	Projected Unit Credit
Amortization method	n/a	Level Dollar
Remaining amortization period	n/a	20 years
Asset valuation method	Market Value Smoothed	Market Value, 3 Year Smoothed
Investment rate of return	7.50%	6.50%
Projected salary increases	3.00%	-

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

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

The actuarial valuation for the OPEB plan uses an annual healthcare cost trend rate of 7.5 percent reducing incrementally to an ultimate rate of 5.5 percent.

EPB 401(k) Plan

EPB also has a 401(k) defined contribution plan which permits employees to invest up to 15 percent of salary in a tax-deferred savings plan. EPB contributes a 100% matching contribution 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, 2013, EPB contributions were approximately \$1.1 million while employee contributions were approximately \$2.6 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:

<u>Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Disability and Retirement Plan:			
6/30/13	\$ 908,890	100.0%	\$ -
6/30/12	816,672	100.0%	-
6/30/11	931,980	100.0%	-
Defined Benefit Plan:			
6/30/13	\$ 186,731	0.0%	\$ 570,273
6/30/12	160,995	0.0%	383,541
6/30/11	89,461	0.0%	222,546

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, 2013, the minimum fund balance per policy is \$35.8 million. The current unrestricted fund balance is \$56.6 million.

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable				
Endowments	\$ -	\$ -	\$ 3,956,828	\$ 3,956,828
Inventory	934,888	-	-	934,888
Long-term notes receivable	1,909,585	1,618,932	-	3,528,517
Prepaid expenses	8,000	-	11,675	19,675
Restricted				
Law enforcement	67,393	-	1,961,165	2,028,558
Economic development	5,111,905	-	11,780	5,123,685
African-American Museum	50,232	-	-	50,232
Special programs	2,338,256	-	-	2,338,256
Capital projects	-	22,419,381	-	22,419,381
Library Endowment	-	-	155,023	155,023
Human services program	-	-	612,407	612,407
State street aid	-	-	1,136,052	1,136,052
Community development	-	-	1,651,976	1,651,976
Hotel-Motel tax revenue pledge	-	-	3,155,014	3,155,014
Regional Planning Agency	-	-	631,183	631,183
Air Pollution Control Bureau	-	-	343,350	343,350

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Committed				
Law enforcement	286,578	-	-	286,578
Economic development	271,143	-	-	271,143
Free Public Library	125,975	-	-	125,975
African-American Museum	50,231	-	-	50,231
Regional Planning Agency	-	-	2,013,690	2,013,690
Air Pollution Control Bureau	-	-	515,024	515,024
Scenic Cities Beautiful Commission	-	-	203,902	203,902
Tennessee Valley Regional Communications	-	-	257,157	257,157
Debt service	-	-	2,476,637	2,476,637
Assigned				
Public Library	1,384,031	-	-	1,384,031
Special programs	609,604	-	-	609,604
Human services program	-	-	296,083	296,083
River Pier garage	-	-	657,892	657,892
Other purposes	1,117,402	-	-	1,117,402
Unassigned	<u>55,580,376</u>	<u>-</u>	<u>-</u>	<u>55,580,376</u>
Total fund balances	<u>\$ 69,845,599</u>	<u>\$24,038,313</u>	<u>\$20,046,838</u>	<u>\$ 113,930,750</u>
Summary for Governmental Funds				
Balance Sheet (page A - 4):				
Nonspendable	\$ 2,852,473	\$ 1,618,932	\$ 3,968,503	\$ 8,439,908
Restricted	7,567,786	22,419,381	9,657,950	39,645,117
Committed	733,927	-	5,466,410	6,200,337
Assigned	3,111,037	-	953,975	4,065,012
Unassigned	<u>55,580,376</u>	<u>-</u>	<u>-</u>	<u>55,580,376</u>
Total fund balances	<u>\$ 69,845,599</u>	<u>\$24,038,313</u>	<u>\$20,046,838</u>	<u>\$ 113,930,750</u>

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	\$ 242,565
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	<u>204,418</u>
		<u>\$ 446,983</u>

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.

The Statement of Net Position includes \$97,367,183 of internal balances between Governmental Activities and Business-Type Activities. The internal balance results from a capital lease between governmental activities and a blended component unit reported as a business-type activity. A schedule of long-term debt for this interfund payable is excluded because it would duplicate debt reported as Chattanooga Downtown Redevelopment Corporation Lease Rental Revenue Bonds in Note 6.

NOTE 10. INTERFUND TRANSFERS

	Transfers In:					<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Solid Waste</u>	<u>Internal Service Fund</u>	
Transfer out:						
General Fund	\$ -	\$5,651,042	\$ 20,808,782	\$ -	\$ -	\$ 26,459,824
Capital Projects Fund	9,349	-	686	473,432	3,513,359	3,996,826
Nonmajor Governmental Funds:						
Community Development	-	618,554	467,434	-	-	1,085,988
Hotel/Motel Tax	-	-	<u>4,001,667</u>	-	-	<u>4,001,667</u>
Total	<u>\$ 9,349</u>	<u>\$6,269,596</u>	<u>\$ 25,278,569</u>	<u>\$ 473,432</u>	<u>\$ 3,513,359</u>	<u>\$ 35,544,305</u>

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

NOTE 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. As of June 30, 2013, there were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

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

Interfund premiums in the Internal Service Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. At June 30, 2013, the Internal Service Fund liability consists of \$4,102,700 related to torts and \$3,235,679 related to medical benefits. Assets are sufficient in the fund to cover unpaid claims.

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

	<u>Internal General Fund</u>	<u>Service Fund</u>
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	<u>(1,503,458)</u>	<u>(24,194,279)</u>
Unpaid claims, June 30, 2012	247,143	7,615,821
Incurred claims, including IBNRs/reduction in estimated liabilities	1,519,629	24,061,680
Claim payments	<u>(1,517,346)</u>	<u>(24,339,122)</u>
Unpaid claims, June 30, 2013	<u>\$ 249,426</u>	<u>\$ 7,338,379</u>

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

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. At year end the City's commitment with contractors was approximately \$33,766,035.

(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 45 years.

Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2013, are as follows:

Estimated liability, June 30, 2012	\$ 7,000,562
Expenses recognized	-
Costs incurred	<u>(1,225,999)</u>
Estimated liability, June 30, 2013	<u>\$ 5,774,563</u>
Due within one year	<u>\$ 271,037</u>

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, 2013. 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. An additional \$7,762,003 has not been recognized in the financial statements.

(D) Consent Decree

The Interceptor Sewer System was established in 1952 to provide sewers for the City in a planned and orderly manner. The system encompasses approximately 1,263 miles of sewer lines, 8 sewage pumping stations, 9 storm stations, 62 underground, submersible sewage pump stations, approximately 195 residential/grinder stations, 9 combined sewer overflow treatment facilities and 1 regional wastewater treatment plant.

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

(E) Pollution Remediation

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

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

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

During the fiscal year, the City spent \$435,453 in pollution remediation obligation related activities. At June 30, 2013, the City had an outstanding pollution remediation liability of \$3,390,518 with an estimated \$2,069,976 in grant revenue and donated services to offset these costs leaving a net pollution remediation obligation of \$1,320,542.

Currently, one Brownfield site has been identified for remediation activities to address contamination from hazardous substances. The majority of the cost, which includes pollution cleanup at an old construction landfill on 36th Street and at a railroad overpass on Tennessee Avenue, was covered by a grant from the Environmental Protection Agency (EPA). The City's estimated remaining cost as of June 30, 2013 is \$17,591.

Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) site list, is an old landfill site that was closed in 2003 when methane gas leaks were found. The City is in the process of re-capping the site in compliance with TDEC for use as athletic fields and a sculpture garden. Total costs are estimated at \$4,000,000; 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 \$1,202,951 at the end of fiscal year 2013.

The old Moccasin Bend Firing Range is being donated to the National Park Services (NPS) when the planned firing range becomes operational. However, NPS mandates that City to clean-up the lead and lead-containing soil from the land before the donation can be accepted. The cost of the clean-up is estimated at \$100,000.

(F) Contingencies

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

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

The City of Chattanooga and Hamilton County Board of Education are currently negotiating the payment of prior year's liquor taxes in accordance with Tennessee Code Annotated 57-4-306. City management has not currently entered into such agreement and believes that reimbursements, if any, would not be material.

(G) 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 \$284,250,000. The Health, Educational and Housing Facility Board currently has forty (37) bond issues, the original amount of which were \$587,205,727. 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 POSITION

	<u>Electric Division</u>	<u>Fiber Optics Division</u>	<u>Eliminations</u>	<u>Total</u>
Assets:				
Current assets	\$ 206,753,000	\$ 7,394,000	\$ (1,064,000)	\$ 213,083,000
Restricted assets	4,766,000	252,000	-	5,018,000
Capital assets	<u>499,806,000</u>	<u>70,085,000</u>	-	<u>569,891,000</u>
Total assets	<u>711,325,000</u>	<u>77,731,000</u>	<u>(1,064,000)</u>	<u>787,992,000</u>
Liabilities:				
Current liabilities	120,231,000	14,749,000	(1,064,000)	133,916,000
Noncurrent liabilities	<u>317,586,000</u>	<u>63,306,000</u>	-	<u>380,892,000</u>
Total liabilities	<u>437,817,000</u>	<u>78,055,000</u>	<u>(1,064,000)</u>	<u>514,808,000</u>
Net position:				
Net investment in capital assets	215,646,000	70,085,000	-	285,731,000
Restricted	-	-	-	-
Unrestricted	<u>57,862,000</u>	<u>(70,409,000)</u>	-	<u>(12,547,000)</u>
Total net position	<u>\$ 273,508,000</u>	<u>\$ (324,000)</u>	<u>\$ -</u>	<u>\$ 273,184,000</u>

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

	<u>Electric Division</u>	<u>Fiber Optics Division</u>	<u>Eliminations</u>	<u>Total</u>
Customer charges	\$ 554,300,000	\$80,715,000	\$ (9,529,000)	\$ 625,486,000
Depreciation expense	(32,348,000)	(12,343,000)	-	(44,691,000)
Other operating expense	<u>(498,596,000)</u>	<u>(57,102,000)</u>	<u>9,529,000</u>	<u>(546,169,000)</u>
Operating income	23,356,000	11,270,000	-	34,626,000
Nonoperating revenues (expenses):				
Investment earnings	531,000	-	(159,000)	372,000
Interest expense	(12,711,000)	(2,047,000)	159,000	(14,599,000)
Other nonoperating	220,000	-	-	220,000
Transfer to General Fund	<u>(5,790,000)</u>	<u>(601,000)</u>	<u>-</u>	<u>(6,391,000)</u>
Change in net position	5,606,000	8,622,000	-	14,228,000
Net position, beginning of year	<u>267,902,000</u>	<u>(8,946,000)</u>	<u>-</u>	<u>258,956,000</u>
Net position, end of year	<u>\$ 273,508,000</u>	<u>\$ (324,000)</u>	<u>\$ -</u>	<u>\$ 273,184,000</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Electric Division</u>	<u>Fiber Optics Division</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided (used) by:				
Operating activities	\$ 49,314,000	\$24,419,000	\$ -	\$ 73,733,000
Capital and related financing activities	(51,748,000)	(25,200,000)	46,918,000	(30,030,000)
Investing activities	<u>47,261,000</u>	<u>-</u>	<u>(46,918,000)</u>	<u>343,000</u>
Net increase (decrease)	44,827,000	(781,000)	-	44,046,000
Beginning cash and cash equivalents	<u>78,802,000</u>	<u>1,640,000</u>	<u>-</u>	<u>80,442,000</u>
Ending cash and cash equivalents	<u>\$ 123,629,000</u>	<u>\$ 859,000</u>	<u>\$ -</u>	<u>\$ 124,488,000</u>

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 position	\$11,127,977
Multiplied by two-thirds	<u>x 2/3</u>
City's equity interest	<u>\$ 7,418,651</u>

Condensed financial information for Carter Street Corporation as of June 30, 2013, is as follows:

ASSETS

Cash	\$ 1,418,028
Accounts receivable, net	232,556
Prepaid expenses	68,866
Inventories	53,633
Other current assets	5,750
Capital assets, net	<u>9,752,756</u>
Total assets	<u>11,531,589</u>

LIABILITIES AND NET POSITION

LIABILITIES

Accounts payable	\$ 33,623
Accrued expenses	129,104
Deferred revenue	20,000
Advanced deposits	<u>220,885</u>
 Total liabilities	 <u>403,612</u>

NET POSITION

Net investment in capital assets	9,758,506
Unrestricted	<u>1,369,471</u>
 Total net position	 <u>11,127,977</u>
 Total liabilities and net position	 <u>\$11,531,589</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues	\$ 5,761,935
Total operating expenses	<u>6,526,847</u>
Loss from operations	(764,912)
Nonoperating revenues	300,000
Capital contributions	<u>200,000</u>
Net decrease	(264,912)
Net position, beginning of year	<u>11,407,597</u>
Net position, end of year	<u>\$11,672,509</u>

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

NOTE 15. CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2013 the City of Chattanooga implemented several Governmental Accounting Standards Board (GASB) statements: Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*. The City early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has an effective date of June 30, 2014.

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organization for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units. As result of the review of the financial reporting entity the Chattanooga Downtown Redevelopment Corporation was moved from a discretely presented component unit to blended component unit. This change required an adjustment of -\$7,838,346 to the beginning net position of both the government-wide and proprietary funds statement of net position.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No.4, Elements of Financial Statements. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The result of implementation was a direct adjustment to net position, in the amount of \$2,285,251 in governmental activities and \$2,155,612 in business-type activities to eliminate bond issue costs.

In addition, an adjustment of \$17,612,083 was made to governmental activities net position due to economic development loans that were previously included as earned revenue at June 30, 2012.

The aggregate impact of these adjustments is shown on the face of the financial statements. Details of the adjustments are as follows:

	<u>Government- wide Activities</u>					
Beginning balance, as previously reported	\$ 1,334,838,462					
Prior period adjustment:						
Change in accounting principle (GASB 65)	(2,285,251)					
Unearned economic development loans	<u>(17,612,083)</u>					
Beginning balance, as restated	<u>\$ 1,314,941,128</u>					
	<u>Inteceptor Sewer System</u>	<u>Solid Waste</u>	<u>Water Quality Management</u>	<u>Downtown Redevelopment</u>	<u>Business- type Activities</u>	
Beginning balance, as previously reported	\$ 257,833,992	\$ (3,081,771)	\$ 45,993,051	\$ -	\$300,745,272	
Prior period adjustment:						
Change in accounting principle (GASB 61)	-	-	-	(7,838,346)	(7,838,346)	
Change in accounting principle (GASB 65)	<u>(514,492)</u>	<u>(212,551)</u>	<u>(85,741)</u>	<u>(1,342,828)</u>	<u>(2,155,612)</u>	
Beginning balance, as restated	<u>\$ 257,319,500</u>	<u>\$ (3,294,322)</u>	<u>\$ 45,907,310</u>	<u>\$ (9,181,174)</u>	<u>\$290,751,314</u>	