



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee (the City), as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv through xxiv of the Financial Section and the required supplementary information on pages B-1 through B-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga's basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, statistical tables and schedule and schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Chattanooga, Tennessee
November 25, 2014

Henderson Hutcherson
& McCullough, PLLC

Management's Discussion and Analysis

As management of the City of Chattanooga (the "City"), we provide readers of the City's financial statements with this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with our Letter of Transmittal beginning on page Intro 3 and the financial statements beginning on page A-1.

Financial Highlights

- Assets and deferred outflow of resources for the primary government exceeded liabilities and deferred inflow of resources by \$1.8 billion (net position), an increase of \$103.4 million, or 6.2 percent, at the close of the fiscal year. Of this amount there is a \$108.0 million deficit unrestricted net position due to recording of unfunded pension liabilities under GASB 68 as a prior period adjustment. Net position increased \$52.6 million or 32.8 percent, over last year. Please see Note 15.
- Beginning net position was decreased by \$223.4 million and \$9.1 million for governmental and business type activities, respectively, primarily as a result of implementation of GASB No. 65 and 68. Additional \$(11.5) million and \$1.5 million prior period adjustments for governmental and business-type activities, respectively, were made for a compromise of litigation involving the Hamilton County Board of Education relative to past liquor-by-the drink tax revenues and water quality fees. Please see Note 15 for more information.
- Net position of governmental activities at June 30, 2014 was \$1.2 billion, an increase of \$60.8 million, or 5.5 percent. Business-type activities reported ending net position of \$606.6 million, an increase of \$42.5 million, or 7.5 percent.
- Long-term liabilities for the City's primary government decreased \$90.7 million or 8.4 percent, during the current fiscal year. Governmental activities issued \$26.8 million in general obligation debt. There was a \$64.2 million decrease in Fire and Police Pension liability (primarily the result of pension reform effective July 1, 2014), a \$16.2 million decrease General Pension liability as well as normal debt retirement. Business-type activities issued \$5.2 million in general obligation debt for Water Quality Management and \$3.8 million in State Revolving Fund Notes for the Interceptor Sewer System. EPB aggressively paid a note payable and line of credit of \$12.0 million in addition to normal debt retirement of all funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund is \$64.0 million, up \$8.2 million or 14.6 percent from prior year. This represents 27.9 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 items that will only result in cash flows in future fiscal years (e.g., revenue includes uncollected taxes and expenses include earned but unused vacation leave).

The government-wide financial statement reflect three distinct activities:

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

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

Comprehensive Annual Financial Report for the year ended June 30, 2014

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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 of Chattanooga maintains two types of proprietary funds: (1) enterprise funds and (2) internal service funds.

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

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

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

The City of Chattanooga maintains a pension trust fund and an other post-employment benefits (OPEB) trust fund as fiduciary funds. These 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-14 of this report.



Notes to the financial statements

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

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

Supplemental Information

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

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

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

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

Government-wide Overall Financial Analysis

Net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$1.8 billion at the close of the most recent fiscal year, an increase of \$103.4 million, or 6.2 percent, from last year. At the end of the fiscal year, the City of Chattanooga is once again able to report a positive net position for the government as a whole, as well as for its governmental and business-type activities individually.



City of Chattanooga's Net Position

(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 262,261	\$ 225,027	\$ 411,907	\$ 407,972	\$ 674,168	\$ 632,999
Capital assets	1,489,132	1,505,803	935,840	911,100	2,424,972	2,416,903
Total assets	1,751,393	1,730,830	1,347,747	1,319,072	3,099,140	3,049,902
Total deferred outflows of resources	21,040	14,383	4,737	5,508	25,777	19,891
Long-term liabilities outstanding	430,173	492,818	561,326	589,336	991,499	1,082,154
Other liabilities	27,401	24,673	181,522	171,183	208,923	195,856
Total liabilities	457,574	517,491	742,848	760,519	1,200,422	1,278,010
Total deferred inflows of resources	156,080	129,764	3,032	-	159,112	129,764
Net position:						
Net investment						
in capital assets	1,204,845	1,212,457	573,918	537,001	1,778,763	1,749,458
Restricted	47,932	28,150	46,645	45,015	94,577	73,165
Unrestricted	(93,998)	(142,649)	(13,959)	(17,955)	(107,957)	(160,604)
Total net position	\$ 1,158,779	\$ 1,097,958	\$ 606,604	\$ 564,061	\$ 1,765,383	\$ 1,662,019

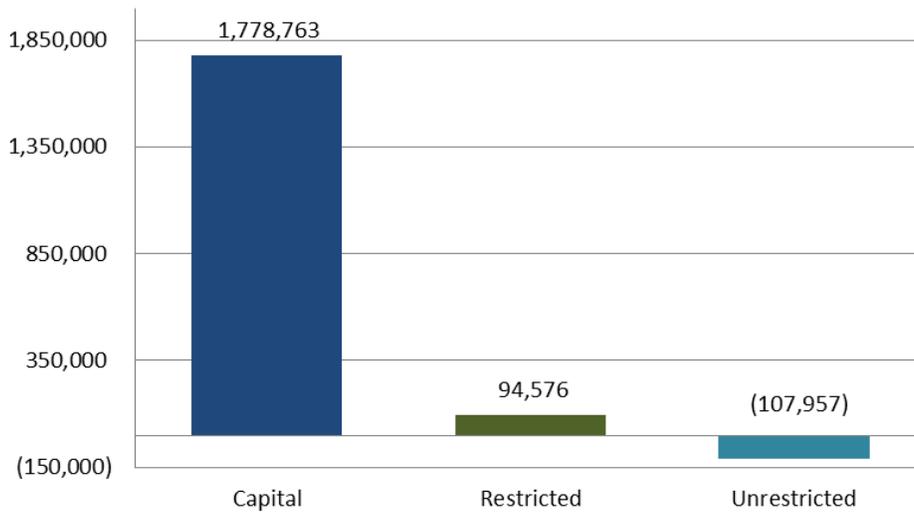
By far the largest portion of the City's net position, \$1.8 billion, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc.), less any related outstanding debt that was issued to acquire those assets. While capital assets are used to provide services to citizens, these assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$94.6 million, represents resources that are subject to external restrictions on how they may be used. There is a \$108.0 million deficit in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 15.



Government-wide Net Position

(in thousands)



Governmental Activities

During the current fiscal year, net position of the City's governmental activities increased \$60.8 million from the prior year for an ending balance of \$1.2 billion.

Overall revenue decreased \$13.5 million or 4.8 percent. Over \$10 million of the decrease is due to a reduction in operating grants and contributions for Congestion Mitigation and Air Quality (\$4.1 million), community development (\$1.8 million), Head Start and LIHEAP (\$1.2 million) and a \$1.3 million cumulative adjustment for state shared revenue in the prior fiscal year which increased the comparative number. While property taxes increased \$2.2 million in the current fiscal year, governmental activities reflect a \$3.5 million decrease. This is the result of a cumulative adjustment of \$5.9 million of unearned revenue in fiscal year 2013, inflating the comparative amount to fiscal year 2014.

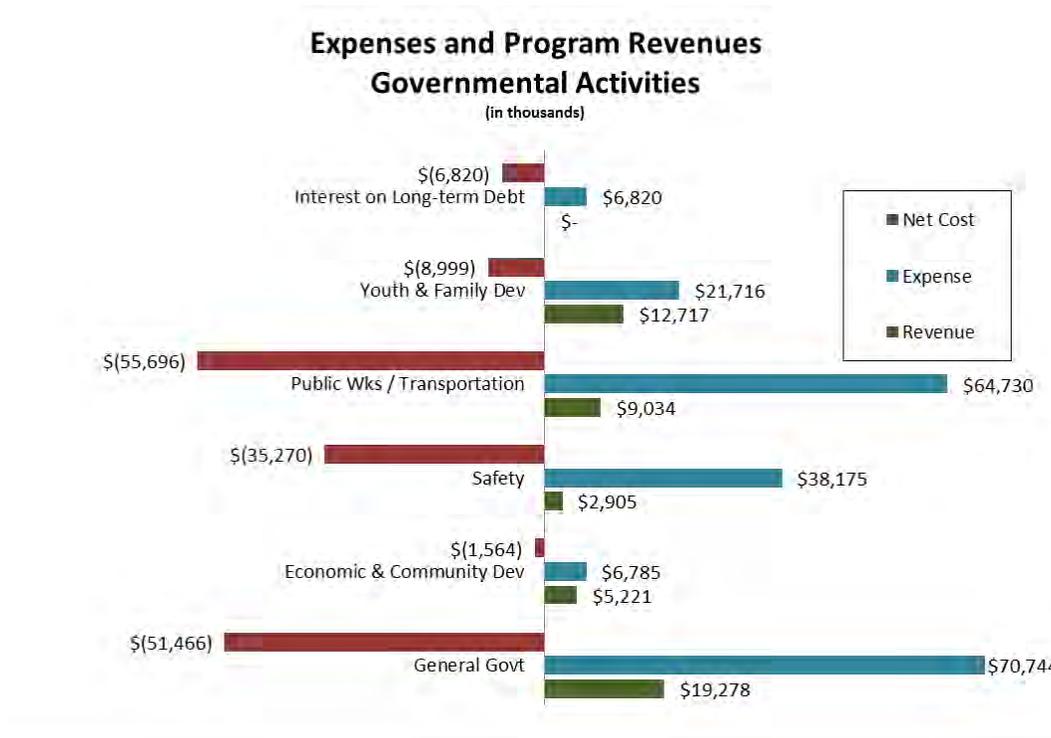
Expenses for the current year decreased \$57.8 million or 21.7 percent. This is primarily a reduction in expenses relating to the Fire and Police Pension as a result of pension reform.

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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.



City of Chattanooga's Changes in Net Position

(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 20,860	\$ 20,740	\$ 761,199	\$ 722,157	\$ 782,059	\$ 742,897
Operating grants	28,079	38,425	-	-	28,079	38,425
Capital grants	216	1,473	1,833	19,983	2,049	21,456
General revenues:						
Property taxes	125,641	129,150	-	-	125,641	129,150
Other taxes	22,733	21,028	-	-	22,733	21,028
Investment income	1,332	1,069	990	1,056	2,322	2,125
Miscellaneous	263	891	-	388	263	1,279
Unrestricted grants	70,668	70,563	-	-	70,668	70,563
Total revenues	<u>269,792</u>	<u>283,339</u>	<u>764,022</u>	<u>743,584</u>	<u>1,033,814</u>	<u>1,026,923</u>
Expenses						
Governmental activities:						
General government	70,744	68,097	-	-	70,744	68,097
Economic and community development	6,785	-	-	-	6,785	-
Public safety	38,176	90,260	-	-	38,176	90,260
Public works and transportation	64,730	61,279	-	-	64,730	61,279
Parks, rec, ed & culture	-	22,884	-	-	-	22,884
Social services	-	17,514	-	-	-	17,514
Youth and family development	21,716	-	-	-	21,716	-
Interest on long-term debt	6,820	6,763	-	-	6,820	6,763
Business-type activities:						
Electric utility	-	-	639,501	630,134	639,501	630,134
Sewer	-	-	48,360	51,883	48,360	51,883
Solid waste	-	-	4,393	6,458	4,393	6,458
Water quality	-	-	13,176	12,869	13,176	12,869
Housing management	-	-	-	4,753	-	4,753
Downtown Redevelopment	-	-	16,049	16,196	16,049	16,196
Total expenses	<u>208,971</u>	<u>266,797</u>	<u>721,479</u>	<u>722,293</u>	<u>930,450</u>	<u>989,090</u>
Excess (deficiency) before extraordinary item and transfers	60,821	16,542	42,543	21,291	103,364	37,833
Extraordinary item	-	-	-	-	-	-
Transfers	-	1,363	-	(1,363)	-	-
Increase (decrease) in net position	60,821	17,905	42,543	19,928	103,364	37,833
Net position, beginning	1,097,958	1,314,941	564,061	551,793	1,662,019	1,866,734
Prior period adjustment	-	(11,464)	-	1,467	-	(9,997)
Change in Accounting Principal	-	(223,424)	-	(9,127)	-	(232,551)
Net position, ending	<u>\$ 1,158,779</u>	<u>\$ 1,097,958</u>	<u>\$ 606,604</u>	<u>\$ 564,061</u>	<u>\$ 1,765,383</u>	<u>\$ 1,662,019</u>

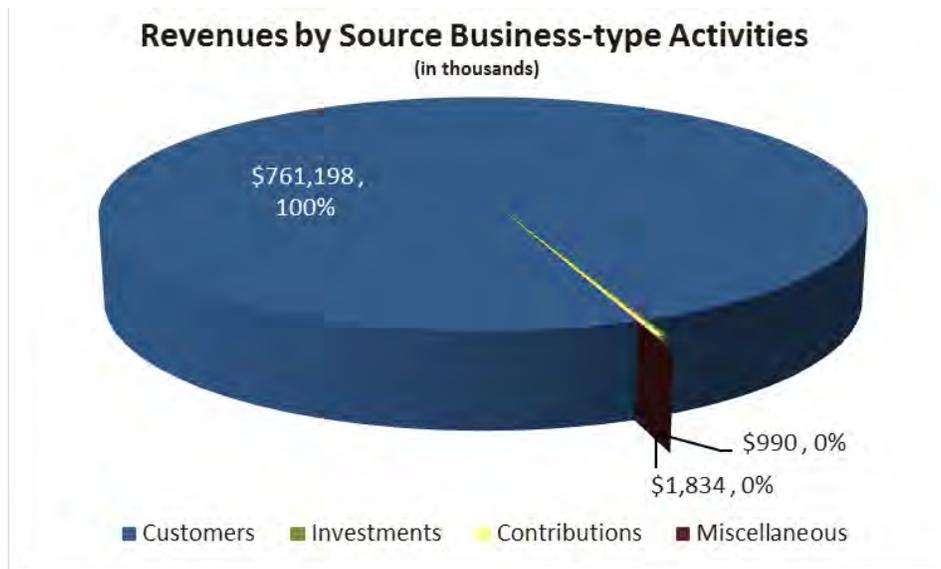


Business-type Activities

During the current year, net position of the business-type activities increased \$42.5 million or 7.5 percent, to \$606.6 million. This net position is dedicated solely to finance the continuing operations of the electric, sewer, water quality systems, solid waste disposal and downtown redevelopment operations.

Revenues for the City’s business-type activities were \$764.0 million for the year just completed; this is a \$22.1 million or 3.0 percent increase. Expenses decreased \$0.9 million or 0.13 percent resulting in total expense of \$721.5 million for the year. Please see Enterprise Fund detail for additional information.

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 Development	Total
Expenses	\$ 639,502	\$ 48,359	\$ 4,393	\$ 13,176	\$ 16,049	\$721,479
Revenues	656,822	63,294	7,120	19,201	17,585	764,022
Change in net position	\$ 17,320	\$ 14,935	\$ 2,727	\$ 6,025	\$ 1,536	\$ 42,543



Financial Analysis of the City's Funds

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

Governmental Funds

Governmental funds focus 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 \$146.2 million at the end of the fiscal year. Of this amount 43.8 percent or \$64.0 million, is available for spending at the City's discretion (unassigned fund balance). Total fund balance is made up of the following:

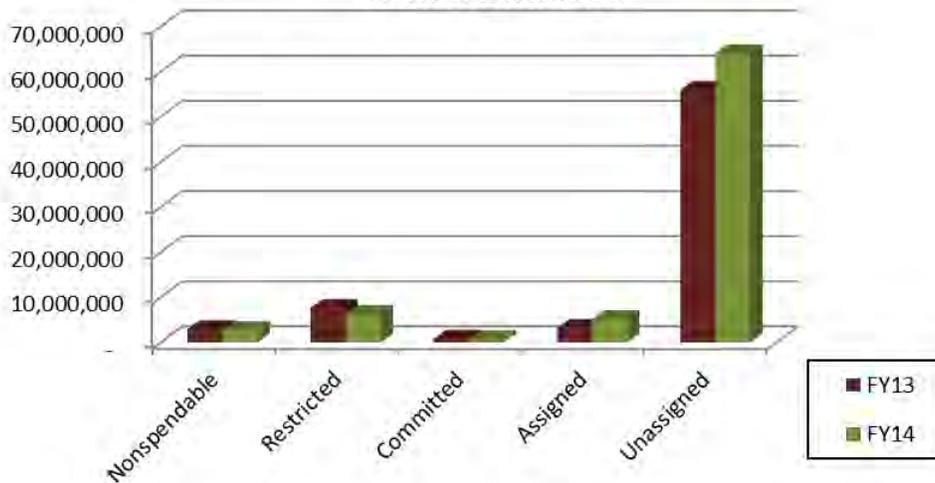
- \$64.0 million is unassigned
- \$8.5 million is in nonspendable form
- \$57.8 million is restricted for particular purposes
- \$9.9 million is committed for specific purposes
- \$5.9 million is assigned for particular purposes

General Fund -- This is the chief operating fund of the City. Total fund balance of the General Fund increased by 12.2 percent or \$8.6 million to \$78.7 million during the fiscal year. Unassigned fund balance increased \$8.2 million or 14.6 percent to \$64.0 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 28.0 percent of total General Fund expenditures and transfers out, while total fund balance represents 34.3 percent of that same amount.



General Fund Fund Balance



Total revenues decreased \$0.8 million or 0.3 percent, from the prior year. All major revenue sources are discussed as follows.

- During the current fiscal year, property tax, along with payments in lieu of tax, increased \$2.2 million, 1.8 percent over last year. This includes a \$1.8 million, 1.6 percent increase in property taxes and a \$0.4 million, 4.4 percent increase in payments in lieu of tax. Liquor and beer taxes were up \$0.2 million, or 3.1 percent. Gross receipts decreased \$0.3 million or 6.2 percent; prior year gross receipts were in excess of the normal revenue due to audits by the State of Tennessee and collections as a result of those audits.
- Licenses and permits are up \$0.5 million or 9.4 percent. Parking meters increased \$0.4 million or 23.9 percent due to the installation of new meters and stations that take credit cards.
- Intergovernmental revenues decreased \$4.2 million or 5.3 percent over the prior year. The primary change is a \$3.5 million or 71.9 percent decrease in the congestion mitigation grant from the State of Tennessee as the final phase of the project was completed. Other changes include a \$0.3 million or 0.6 percent decrease in local sales tax, \$0.4 million or 3.5 percent increase in state sales tax and \$0.5 million or 10.8 percent decrease in allocation of state income tax.
- Charges for services decreased 3.8 percent or \$0.2 million. The primary decrease is preservation and box office fees from performance venues.
- Fines, forfeitures and penalties increased \$0.6 million or 46.3 percent primarily due to increased fine collection from automated traffic enforcement.



- Interest income increased approximately \$9,000 or 1.6 percent. Major changes in miscellaneous income include an increase of \$0.6 million in private donations from Code for America and a private foundation grant for streetscape on Market Street. Sale of property decreased by \$0.6 million.

Total expenditures decreased \$9.3 million or 4.5 percent, from the previous year. Major changes during fiscal year 2014 are discussed below:

- Employee compensation decreased \$0.7 million, or 0.9 percent. Final leave payout decreased \$0.3 million or 15.3 percent, personal leave decreased \$0.3 million or 3.2 percent due to an administration transition in the prior fiscal year and regular employees decreased \$0.2 million or 0.4 percent as departments were asked to freeze positions to fund innovative programs as the City's new Budgeting For Outcomes began.
- Employee benefit costs increased by \$1.7 million or 3.6 percent. This is due to an increase in sworn pension costs of \$1.4 million or 11.7 percent and a 2.0 percent or \$0.3 million increase as a result of employee health options.

Capital Projects Fund -- This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported \$43.2 million in fund balance; of that amount \$1.2 million is non-spendable for long-term note receivables leaving \$42.0 million restricted for completion of capital projects. Fund balance for this fund fluctuates from year-to-year based on debt issued and project expenditures; new debt increases fund balance while project expenditures decreases it. For fiscal year 2014 there was a \$19.2 million increase in fund balance. Analysis of project income and expenditures follows.

Project inflows for the year of \$42.4 million include \$29.1 million in proceeds and premiums from issuance of debt. Transfers of \$12.9 million include \$11.6 million from General Fund, \$0.5 million from Community Development, \$0.5 million from Narcotics and \$0.3 million from Hotel Motel Tax.

Current year project outflows of \$23.2 million include \$7.3 million for street and sidewalk projects, \$4.2 million for energy efficient street lighting and traffic signal upgrades, \$2.8 million of economic development projects, \$2.4 million for technology upgrades and \$2.6 million for safety building improvements and equipment. Transfers out of \$0.6 million are primarily fleet improvements.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, have combined net position of \$643.5 million. Net investment in capital assets is \$590.1 million, with an additional \$46.6 million restricted for future use, leaving \$6.8 million available to meet on-going obligations.



Enterprise Funds - Total net position of the enterprise funds increased \$42.5 million or 7.5 percent. Details for each fund are presented as follows:

- **Electric Power Board** – The largest enterprise fund is EPB, which has both an electric and a fiber optic division. Total net position increase \$17.3 million or 6.4 percent, mainly due to a reduction in electric bond liabilities of \$6.4 million as well as a reduction of fiber optics debt of \$11.8 million. Operating revenues are up \$27.0 million. Electric sales increased \$9.9 million which was mostly offset by an increase in purchased power of \$9.8 million. Fiber optics operating sales increased by \$17.1 million due to the continued success of the residential service offerings; operating expenses associated with acquiring and serving customers increased \$8.0 million which is consistent with the increased sales.
- **Interceptor Sewer System** – Net position of the Interceptor Sewer System increased \$14.9 million or 5.9 percent, to \$269.8 million. Operating revenues rose \$10.4 million or 19.8 percent primarily due to a 9.8% increase in rates. Operating expenses decreased \$3.2 million or 6.4 percent mainly due to the reduction in Liquid Handling. Unrestricted net position (available to finance on-going operations) increased \$5.1 million or 27.4 percent to \$23.9 million. An additional \$23.7 million is restricted for future capital spending, an increase of \$1.0 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.
- **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 \$2.7 million following a continual improvement trend. To date the City has accrued liabilities of \$5.7 million for closure and post closure care costs.
- **Water Quality Management** – The Water Quality Fund, established to comply with EPA guidelines, now has \$54.9 million in net position, an increase of \$6.0 million or 12.3 percent from last year. This includes the fourth and final annual adjustment to the non-residential rate adopted in April 2010. An additional \$1.5 million was accrued as prior year revenue resulting from a court settlement; see Note 15. Net investment in capital is \$30.9 million. The amount available to fund day-to-day operations (unrestricted net position) increased from \$17.3 million to \$22.3 million, a 29.2 percent increase.
- **Chattanooga Downtown Redevelopment Corporation** – The Chattanooga Downtown Redevelopment Corporation (CDRC) remains in a negative net asset position of \$5.7 million. However, during the fiscal year net position increased \$1.5 million following a continual improvement trend.



Internal Service Fund -- The internal service fund is used to account for the City's vehicle operation and maintenance program, employee medical benefits program and third party liability claims. Net position for this fund decreased \$3.3 million or 8.2 percent. This change is primarily due to a \$3 million reduction in revenue as a result of the suspension of the capital component of fleet lease rate and a deficit \$2.4 million in operation of liability insurance fund due to a \$2.9 million increase in claims cost. These reductions were offset by positive operation in other internal service activities.

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 re-allocations within the General Fund with a report to City Council.

Final Budget Compared to Actual Results

Actual revenues exceed budget for the year by \$4.1 million. All revenue categories with the exception of intergovernmental exceeded expectations. All major revenue categories are addressed below.

- Total tax revenue for the year was higher than budget expectations by \$2.4 million or 1.7 percent. Property taxes, inclusive of payments in lieu of tax, exceeded budget, \$1.7 million or 1.4 percent. Franchise tax is over budget \$0.6 million or 16.0 percent, primarily due to Chattanooga Gas.
- Licenses and permits are \$0.4 million or 6.9 percent above budget primarily related to street cut-in permits, plan checking fees and fire city code permits.
- Intergovernmental revenue is \$0.2 million or 0.3 percent less than budget. This is primarily due to a \$1.1 million over estimate in state income tax which was offset by a decrease of \$0.7 million from Hamilton County for county-wide sales tax.
- Charges for services are \$0.2 million over budget or 3.9 percent due to \$0.1 million in court charges and \$0.1 million facility rental charges.
- Fines and forfeitures are \$0.8 million or 68.3 percent above estimates as a result of more citations being paid.
- Miscellaneous revenue is up \$0.5 million or 6.7 percent. Included is an additional \$0.4 million of donations for special programs.



Expenditures were less than budgetary estimates by \$8.3 million or 4.0 percent. All departments were under budget. Personnel costs, which are budgeted at 100 percent of authorized positions, are \$6.7 million below budget. Additionally the City budgeted \$2.1 million for contingencies but only spent \$1.4 million.

The General Fund budget anticipated use of \$3.8 million of fund balance during the year; instead \$8.6 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, an increase of \$8.0 million or 0.3 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. Net investment in capital assets for governmental funds decreased by \$16.7 million or 1.1 percent while business type net investment in capital assets increased by \$24.7 million or 2.7 percent. 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	
	2014	2013	2014	2013	2014	2013
Non-depreciable:						
Land & Easements	\$ 1,040,673	\$ 1,039,530	\$ 20,021	\$ 19,863	\$ 1,060,694	\$ 1,059,393
Construction in progress	69,219	64,660	46,768	68,594	115,987	133,254
Depreciable:						
Buildings & Improvements	113,894	111,559	83,248	82,211	197,142	193,770
Vehicles & Machinery	29,024	32,088	90,193	25,856	119,217	57,944
Infrastructure	236,322	257,966	695,609	714,576	931,931	972,542
Total	\$ 1,489,132	\$ 1,505,803	\$ 935,839	\$ 911,100	\$ 2,424,971	\$ 2,416,903



Major capital asset events during the year included the following:

- Construction-in-progress additions include \$6.7 million for paving/sidewalks/road improvements, \$1.5 million for new fire stations, \$3.8 million for energy efficient street lighting, \$2.6 million in economic and community development projects, \$0.7 million park and recreation improvements, \$1.7 million to renovate to traffic signals, \$0.3 million for waterfront improvements, \$12.7 million for the sewer consent decree, and \$1.6 million for water quality system improvements. Projects capitalized during the year include \$4.7 million for the new health center, \$3.9 million for completed sewer pump stations, \$2.4 million in improvement of streets and sidewalks, \$3.7 million in completion of new police/fire stations, \$1.5 in signalization upgrade, and \$23.2 million electric system and \$11.8 million in fiber optics.
- The increase in vehicles and machinery is primarily the result of an increase of \$59.8 million by EPB; this includes \$45.0 million reclassification from infrastructure.
- The infrastructure decrease is primarily due to EPB reclassification to vehicles and machinery mentioned above.
- 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 \$42.0 million including \$26.9 million on infrastructure assets. Business-type activities recognized depreciation expense of \$65.6 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 \$698.7 million in long-term debt outstanding. This is a \$4.1 million decrease or 0.6 percent, from last year. Detail is provided in the table and narrative that follows.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds (backed by the City)	\$ 187,632	\$ 171,740	\$ 43,598	\$ 45,960	\$ 231,230	\$ 217,700
Revenue bonds (backed by specific revenues)			381,105	391,500	381,105	391,500
Notes payable and other	33,678	35,714	52,400	57,543	86,078	93,257
Capital leases	232	288	6	37	238	325
Total	\$ 221,542	\$ 207,742	\$ 477,109	\$ 495,040	\$ 698,651	\$ 702,782

The City of Chattanooga maintains an “AAA” rating from Standard & Poor’s and “AA+” from Fitch Inc. for general obligation debt. The City Charter limits the amount of net general obligation debt to 10 percent of the assessed value of all taxable property within City corporate limits. The City’s general obligation debt, net of self-supporting debt, is \$160.8 million; this is 32.5 percent of its current limit of \$495.5 million. As of year-end, EPB had \$270.1 million in revenue bond debt outstanding compared to \$277.0 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:

- The City issued \$32.0 million in bonds. Governmental activities issued \$19.4 million to fund various capital projects approved in the 2013 and 2014 capital improvement programs with an additional \$7.4 million for water front projects supported by dedicated hotel motel tax revenue. Business-type activities issued \$5.2 million to fund water quality projects.
- The Interceptor Sewer System drew down \$3.8 million from a state revolving fund loan.

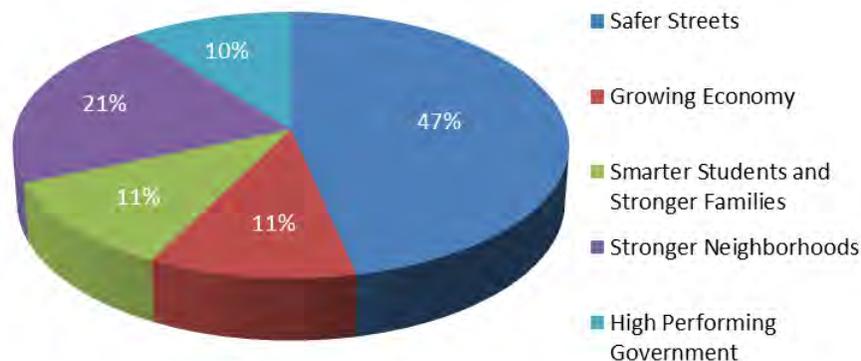
More detailed information about the City’s long-term liabilities is presented in Note 6 to the financial statements.



Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the budget for 2015:

- Anticipated revenues in the General Fund are \$263.1 million, up 11.0 percent from the 2014 budget. This includes a \$20.6 million one-time use of reserves for a major economic development incentive at Enterprise South Industrial Park.
- The City conservatively forecasts property tax at 95 percent of the tax levy. The fiscal year 2015 budget includes no increase in the property tax rate yet provides sufficient revenue to fund the priorities of residents and meet the City's financial obligations. Major increases include property tax revenue of \$426,000 or 0.3 percent, state sales tax of \$359,000 or 3.0 percent and local option sales tax \$237,000 or 0.6 percent.
- Expenditures of \$263.1 million reflect an elevated awareness of constituent priorities in the following areas: safer streets; growing the local economy; smarter students and stronger families; stronger neighborhoods; and a high performing government. Also included is a \$20.6 million incentive for Volkswagen which is funded entirely from reserves.
- The City of Chattanooga uses Budgeting for Outcomes (BFO) approach to budgeting for undesignated general funds (\$216,850,000). This approach is based on collaboration, transparency and delivery of services that matter most to citizens. Requests in the form of offers are prioritized by results areas and funded as revenue permits.



- The 2015 budget funds 19 offers totaling \$101,096,324 (46.6 percent) of the budget for safer streets. This continues funding for 486 police officers, an all-time high, to implement a community-based policing model. Also included is approximately \$1.0 million to address a consistent pay plan for sworn personnel, maintaining a full-time Federal prosecutor, and funding for a family justice center.
 - 26 offers were funded a total of \$23,504,020 (10.8 percent) for growing the local economy. A new office of Economic Development has been created to invest in small businesses, ensuring Chattanoogaans have the skills to compete, while strengthening infrastructure to support business expansion.
 - \$24,295,904 (11.2 percent) of the budget provides funding for 21 offers for smarter students and stronger families. These dollars will support children from cradle to career, providing character education, and creating effective programming for parents and seniors.
 - Stronger neighborhoods received \$45,243,639 (20.9 percent) to fund 15 offers. This will provide opportunities for every citizen to live in a thriving neighborhood with recreation opportunities and access to variety of transportation options.
 - Effective use of every tax dollar is ensured by funding 26 offers totaling \$22,710,113 (11.5 percent) for high performing government. These offers focus on long term financial health of the City and providing customer service.
- The budget provides a 1.5 percent pay raise for civilian employees. The City is committed to fund the cost of employee benefits such as medical insurance for active and retirees and pension benefits.
 - Business-type activities are expected to have modest increases in operations during 2015. The Interceptor Sewer System includes a 9.8 percent rate increase to address requirements imposed by EPA.
 - The capital budget reflects commitment to economic development, long-term sustainability for City infrastructure and public safety. In addition to the operating budget, over \$96.7 million was appropriated for major capital initiatives in fiscal year 2015. Major projects include \$15.4 million for public infrastructure such as paving, road improvements, sidewalks, parks development and maintenance, as well as transportation projects; \$3.4 million for technology development and upgrades; \$2.2 million for fleet replacement; \$5.3 million in public safety projects such as fire station construction, breathing apparatus and other safety equipment; \$7.9 million for economic and community development; \$48.2 million for the interceptor sewer related to consent decree requirements; \$12.9 million to update water quality infrastructure, and \$2.8 million for other capital projects. The Interceptor Sewer System, as discussed in Note 12 of the financial statements, is upgrading the system to comply with EPA.



Requests for Information

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

City of Chattanooga Finance Department

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

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

Chattanooga Metropolitan Airport Authority

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

CARTA

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

Comprehensive Annual Financial Report for the year ended June 30, 2014

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CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 102,078,585	\$ 144,385,219	\$ 246,463,804	\$ 7,797,556
Investments	33,211,948	26,332,768	59,544,716	-
Receivables, net of allowance for uncollectible	175,436,782	96,706,957	272,143,739	4,957,918
Internal balances	(94,007,163)	94,007,163	-	-
Due from component units	1,326,788	-	1,326,788	-
Inventories	2,958,713	13,800,475	16,759,188	602,242
Prepaid items	28,674	7,303,714	7,332,388	1,584,235
Restricted assets:				
Cash and cash equivalents	29,006,382	16,997,710	46,004,092	3,579,803
Investments	-	9,789,172	9,789,172	-
Endowment investments	4,646,973	-	4,646,973	-
Receivables	88,876	-	88,876	279,310
Other	-	2,584,223	2,584,223	-
Other post employment benefit assets	-	-	-	97,643
Equity interest in joint venture	7,483,902	-	7,483,902	-
Land and other nondepreciable assets	1,109,892,866	66,788,652	1,176,681,518	50,778,075
Other capital assets, net of accumulated depreciation	379,239,507	869,050,535	1,248,290,042	87,796,444
Total assets	1,751,392,833	1,347,746,588	3,099,139,421	157,473,226
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	2,490,548	3,352,439	5,842,987	-
Deferred contribution general pension plan	6,124,876	1,384,415	7,509,291	-
Deferred items fire and police pension plan	12,424,411	-	12,424,411	-
Total deferred outflows of resources	21,039,835	4,736,854	25,776,689	-
LIABILITIES				
Accounts payable and accrued liabilities	26,454,985	150,135,642	176,590,627	3,071,845
Due to primary government	-	-	-	1,326,788
Contracts payable	454,760	174,429	629,189	627,163
Unearned grants revenue	490,789	-	490,789	-
Net pension and OPEB obligations	-	-	-	986,892
Other liabilities	-	31,210,910	31,210,910	-
Long-term liabilities:				
Due within one year	21,081,110	28,104,463	49,185,573	1,038,838
Due in more than one year	409,091,861	533,222,457	942,314,318	14,227,727
Total liabilities	457,573,505	742,847,901	1,200,421,406	21,279,253
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	130,504,310	-	130,504,310	79,910
Investment gains pension	21,749,339	2,166,934	23,916,273	-
Assumption change pensions	3,826,740	864,964	4,691,704	-
Total deferred inflows of resources	156,080,389	3,031,898	159,112,287	79,910
NET POSITION				
Net investment in capital assets	1,204,844,784	573,918,419	1,778,763,203	122,881,166
Restricted for:				
Capital projects	43,202,659	-	43,202,659	-
Debt service	-	-	-	3,859,113
Renewal and replacement	-	46,644,598	46,644,598	-
Permanent endowments:				
Nonexpendable	4,646,973	-	4,646,973	-
Expendable	82,240	-	82,240	-
Unrestricted	(93,997,882)	(13,959,374)	(107,957,256)	9,373,784
Total net position	\$ 1,158,778,774	\$ 606,603,643	\$ 1,765,382,417	\$ 136,114,063

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 70,744,329	\$ 15,401,346	\$ 3,660,926	\$ 215,908
Economic and community development	6,785,001	3,537,586	1,683,169	-
Public safety	38,174,721	820,316	2,084,574	-
Public works and transportation	64,730,037	501,462	8,531,870	-
Youth and family development	21,716,619	599,463	12,118,310	-
Interest on long-term debt	6,819,652	-	-	-
Total governmental activities	<u>208,970,359</u>	<u>20,860,172</u>	<u>28,078,849</u>	<u>215,908</u>
Business-type activities:				
Electric utility, including fiber optics	639,502,000	654,818,000	-	1,741,000
Sewer	48,359,508	63,155,547	-	-
Solid waste	4,392,822	7,085,846	-	-
Water quality management	13,175,781	19,100,534	-	92,500
Downtown redevelopment	16,049,380	17,038,504	-	-
Total business-type activities	<u>721,479,491</u>	<u>761,198,431</u>	<u>-</u>	<u>1,833,500</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 930,449,850</u>	<u>\$ 782,058,603</u>	<u>\$ 28,078,849</u>	<u>\$ 2,049,408</u>
COMPONENT UNITS				
Airport authority	\$ 17,462,231	\$ 14,553,451	\$ -	\$ 5,783,247
Transportation authority	23,285,908	7,683,857	7,612,278	11,573,268
TOTAL COMPONENT UNITS	<u>\$ 40,748,139</u>	<u>\$ 22,237,308</u>	<u>\$ 7,612,278</u>	<u>\$ 17,356,515</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
- Endowment contributions
- Gain on sale of capital assets
- Gain on equity interest in joint venture
- Total general revenues and transfers

Change in net position

- Net position, beginning, as previously reported
- Prior period adjustment
- Change in accounting principle
- Net position, beginning, as restated
- Net position, ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (51,466,150)	\$ -	\$ (51,466,150)	\$ -
(1,564,245)	-	(1,564,245)	-
(35,269,831)	-	(35,269,831)	-
(55,696,705)	-	(55,696,705)	-
(8,998,847)	-	(8,998,847)	-
(6,819,652)	-	(6,819,652)	-
(159,815,430)	-	(159,815,430)	-
-	17,057,000	17,057,000	-
-	14,796,039	14,796,039	-
-	2,693,024	2,693,024	-
-	6,017,253	6,017,253	-
-	989,124	989,124	-
-	41,552,440	41,552,440	-
(159,815,430)	41,552,440	(118,262,990)	-
-	-	-	2,874,467
-	-	-	3,583,495
-	-	-	6,457,962
125,641,150	-	125,641,150	-
8,186,392	-	8,186,392	-
5,364,901	-	5,364,901	-
4,797,634	-	4,797,634	-
4,221,364	-	4,221,364	-
162,765	-	162,765	-
51,261,100	-	51,261,100	-
11,979,633	-	11,979,633	-
4,044,628	-	4,044,628	-
3,382,265	-	3,382,265	-
1,331,773	990,099	2,321,872	29,505
-	-	-	2,185,047
105	-	105	-
197,445	-	197,445	-
65,251	-	65,251	-
220,636,406	990,099	221,626,505	2,214,552
60,820,976	42,542,539	103,363,515	8,672,514
1,332,845,129	571,722,305	1,904,567,434	127,441,549
(11,463,578)	1,466,036	(9,997,542)	-
(223,423,753)	(9,127,237)	(232,550,990)	-
1,097,957,798	564,061,104	1,662,018,902	127,441,549
<u>\$ 1,158,778,774</u>	<u>\$ 606,603,643</u>	<u>\$ 1,765,382,417</u>	<u>\$ 136,114,063</u>

CITY OF CHATTANOOGA, TENNESSEE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 36,953,073	\$ 45,099,852	\$ 20,529,466	\$ 102,582,391
Investments	33,211,948	-	4,646,973	37,858,921
Receivables, net of allowance for uncollectibles:				
Property taxes	119,734,855	-	-	119,734,855
Other taxes	11,632,272	-	1,053,716	12,685,988
Notes	1,807,263	1,199,533	15,578,987	18,585,783
Other	1,628,797	8,053	140,206	1,777,056
Due from other funds	-	204,418	166,476	370,894
Due from other governments	20,436,808	103,863	2,932,858	23,473,529
Inventories	902,624	-	-	902,624
Prepaid items	18,000	-	10,674	28,674
	<u>\$ 226,325,640</u>	<u>\$ 46,615,719</u>	<u>\$ 45,059,356</u>	<u>\$ 318,000,715</u>
LIABILITIES				
Accounts payable and accrued liabilities:				
Accounts payable	\$ 4,234,401	\$ 2,791,824	\$ 1,552,332	\$ 8,578,557
Accrued payroll	4,964,753	-	493,603	5,458,356
Due to other funds	-	166,476	204,418	370,894
Due to other governments	409,881	-	-	409,881
Contracts payable	-	454,760	-	454,760
Unearned grants revenue	-	-	490,789	490,789
	<u>9,609,035</u>	<u>3,413,060</u>	<u>2,741,142</u>	<u>15,763,237</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	127,129,612	-	-	127,129,612
Unavailable revenue - other local taxes	1,952,162	-	558,987	2,511,149
Unavailable revenue - shared tax revenue	8,786,306	-	387,970	9,174,276
Unavailable revenue - CDBG loans	-	-	17,114,155	17,114,155
Unavailable revenue - other	136,547	-	-	136,547
	<u>138,004,627</u>	<u>-</u>	<u>18,061,112</u>	<u>156,065,739</u>
FUND BALANCES				
Nonspendable	2,669,652	1,199,532	4,657,647	8,526,831
Restricted	6,213,426	42,003,127	9,544,948	57,761,501
Committed	689,137	-	9,227,214	9,916,351
Assigned	5,100,983	-	827,293	5,928,276
Unassigned	64,038,780	-	-	64,038,780
	<u>78,711,978</u>	<u>43,202,659</u>	<u>24,257,102</u>	<u>146,171,739</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 226,325,640</u>	<u>\$ 46,615,719</u>	<u>\$ 45,059,356</u>	<u>\$ 318,000,715</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, 2014

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

Fund balances - total governmental funds	\$ 146,171,739
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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.	1,472,963,184
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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.	25,561,429
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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.	7,483,902
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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.	36,939,215
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Deferred results and contributions to pension plans made after the measurement date are recorded as expenditures in governmental funds but must be deferred in the statement of net position:

General pension	\$ 6,124,876	
Fire and Police pension	<u>12,424,411</u>	18,549,287

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.	(29,467,895)
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The City's pollution remediation obligation is considered a long-term obligation.	(1,194,495)
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Net pension liabilities are not due and payable in the current period and are not reported in the funds:

General pension	(20,096,370)	
Fire and police pension	<u>(129,139,277)</u>	(149,235,647)

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	(187,631,740)	
Add net deferred refunding, issue premiums and discounts	(4,809,169)	
Notes payable	(33,678,383)	
Capital leases	(232,290)	
Capital lease payable to CDRC - reported as internal balance	(94,007,163)	
Compensated absences	(20,947,984)	
Accrued interest payable	<u>(2,109,137)</u>	(343,415,866)

Certain amounts related to the net pension liability are deferred and amortized over time.

These are not reported in the funds:

Investment gain - general pension	(9,586,864)	
Investment gain - fire and police pension	(12,162,475)	
Assumption change - general pension	<u>(3,826,740)</u>	(25,576,079)

Net position of governmental activities	<u><u>\$ 1,158,778,774</u></u>
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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, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 142,068,008	\$ -	\$ 5,352,640	\$ 147,420,648
Licenses and permits	5,799,027	-	585,383	6,384,410
Intergovernmental	75,512,510	78,152	21,335,976	96,926,638
Charges for services	5,614,849	2,952	400,184	6,017,985
Fines, forfeitures and penalties	2,017,340	-	34,548	2,051,888
Investment income	616,802	196,840	767,907	1,581,549
Contributions and donations	641,239	58,429	82,877	782,545
Sale of property	208,622	-	5,925	214,547
Miscellaneous	5,173,888	3,539	844,040	6,021,467
Total revenues	237,652,285	339,912	29,409,480	267,401,677
EXPENDITURES				
Current:				
General government	50,271,980	-	5,994,616	56,266,596
Finance and administration	5,166,048	-	-	5,166,048
Economic and community development	5,411,472	-	1,485,366	6,896,838
Public safety	92,702,343	-	547,269	93,249,612
Public works and transportation	34,287,397	-	3,913,897	38,201,294
Youth and family development	8,308,003	-	13,430,670	21,738,673
Capital outlay/capital assets	-	22,598,368	-	22,598,368
Debt service:				
Principal retirement	-	-	12,970,806	12,970,806
Interest and fiscal charges	-	-	7,030,200	7,030,200
Total expenditures	196,147,243	22,598,368	45,372,824	264,118,435
Excess (deficiency) of revenues over (under) expenditures	41,505,042	(22,258,456)	(15,963,344)	3,283,242
OTHER FINANCING SOURCES (USES)				
Transfers in	116,847	12,881,974	25,835,866	38,834,687
Transfers out	(33,055,409)	(603,661)	(5,662,258)	(39,321,328)
General obligation bonds issued	-	26,775,000	-	26,775,000
Premium on bonds issued	-	2,369,489	-	2,369,489
Total other financing sources (uses)	(32,938,562)	41,422,802	20,173,608	28,657,848
Net change in fund balances	8,566,480	19,164,346	4,210,264	31,941,090
FUND BALANCES, beginning, as previously reported	69,845,599	24,038,313	20,046,838	113,930,750
PRIOR PERIOD ADJUSTMENT	299,899	-	-	299,899
FUND BALANCE, beginning, as restated	70,145,498	24,038,313	20,046,838	114,230,649
FUND BALANCES, ending	\$ 78,711,978	\$ 43,202,659	\$ 24,257,102	\$ 146,171,739

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, 2014

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	\$	31,941,090
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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.	21,317,784
Depreciation expense for governmental capital assets are included in the governmental activities.	(38,525,670)
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.	924,670
The net effect of various transactions involving capital assets is to decrease net positions.	(58,713)
The gain of equity interest in joint venture is reported in the statement of activities. This gain does not use current financial resources and is not reflected in the governmental funds.	65,251

Bond proceeds and notes issued 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	\$ 12,970,806	
Principal adjustment	3,871	
Payment of capital lease	3,360,020	
Bonds issued	(26,775,000)	
Premiums on bonds issued	(2,369,489)	
Amortization	270,508	
Change in accrued interest payable	<u>(164,199)</u>	(12,703,483)

Net loss of the internal service fund are reported with governmental activities.	(3,311,342)
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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	(4,095,677)	
Change in pension expense	61,756,230	
Change in pollution remediation liability	193,949	
Change in OPEB liability	<u>1,913,829</u>	59,768,331

Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources. This item consists of:

Change in deferred revenue to earned revenue	<u>1,403,058</u>	<u>1,403,058</u>
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Change in net position of governmental activities	<u>\$</u>	<u>60,820,976</u>
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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, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 139,624,800	\$ 139,624,800	\$ 142,068,008	\$ 2,443,208
Licenses, fees, and permits	5,427,182	5,427,182	5,799,027	371,845
Intergovernmental	75,750,255	75,750,255	75,512,510	(237,745)
Charges for services	5,404,707	5,404,707	5,614,849	210,142
Fines, forfeitures and penalties	1,198,600	1,198,600	2,017,340	818,740
Investment income	488,462	488,462	616,802	128,340
Miscellaneous	5,646,197	5,646,197	6,023,749	377,552
Total revenues	233,540,203	233,540,203	237,652,285	4,112,082
EXPENDITURES				
General government	43,928,680	42,728,680	39,818,029	(2,910,651)
Executive	2,041,239	2,041,239	1,838,845	(202,394)
Finance and administration	5,591,898	5,591,898	5,166,048	(425,850)
General services	7,251,796	7,251,796	6,940,824	(310,972)
Human resources	1,879,515	1,879,515	1,674,282	(205,233)
Economic and community development	5,783,923	5,783,923	5,411,472	(372,451)
Police	57,662,330	57,662,330	55,160,451	(2,501,879)
Fire	38,234,450	38,234,450	37,541,892	(692,558)
Public works	27,902,358	27,902,358	27,583,980	(318,378)
Transportation	6,962,689	6,962,689	6,703,417	(259,272)
Youth and family development	8,379,531	8,379,531	8,308,003	(71,528)
Total expenditures	205,618,409	204,418,409	196,147,243	(8,271,166)
Excess of revenues over expenditures	27,921,794	29,121,794	41,505,042	12,383,248
OTHER FINANCING SOURCES (USES)				
Transfers in	92,862	92,862	116,847	23,985
Transfers out	(29,834,014)	(33,055,409)	(33,055,409)	-
Total other financing sources (uses)	(29,741,152)	(32,962,547)	(32,938,562)	23,985
Net change in fund balances	(1,819,358)	(3,840,753)	8,566,480	12,407,233
FUND BALANCE, beginning, as previously reported	69,845,599	69,845,599	69,845,599	-
PRIOR PERIOD ADJUSTMENT	299,899	299,899	299,899	-
FUND BALANCE, beginning, as restated	70,145,498	70,145,498	70,145,498	-
FUND BALANCES, ending	\$ 68,326,140	\$ 66,304,745	\$ 78,711,978	\$ 12,407,233

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, 2014

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds					Total	
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment		
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 99,457,000	\$ 18,632,397	\$ 581,374	\$ 20,406,603	\$ 5,307,845	\$ 144,385,219	\$ 28,502,578
Investments	-	26,332,768	-	-	-	26,332,768	-
Receivables:							
Customer service	65,770,000	11,279,075	37,613	3,000,330	-	80,087,018	500,969
Other	-	2,069	-	134	1,403,567	1,405,770	-
Less allowance for doubtful accounts	(1,180,000)	(1,181,144)	(100)	(1,944,128)	(39,534)	(4,344,906)	-
Inventories	12,809,000	884,487	-	-	106,988	13,800,475	2,056,089
Due from other governments	6,694,000	11,185,151	44,125	1,635,799	-	19,559,075	94,266
Prepaid items	7,152,000	-	-	-	151,714	7,303,714	-
Total current assets	190,702,000	67,134,803	663,012	23,098,738	6,930,580	288,529,133	31,153,902
Noncurrent Assets:							
Restricted Assets:							
Cash and cash equivalents	-	1,667,550	10,497,239	4,832,921	-	16,997,710	-
Investments	-	-	-	-	9,789,172	9,789,172	-
Investment in capital lease	-	-	-	-	94,007,163	94,007,163	-
Other	2,580,000	298	2,693	1,232	-	2,584,223	-
Total restricted assets	2,580,000	1,667,848	10,499,932	4,834,153	103,796,335	123,378,268	-
Capital Assets:							
Land	6,098,000	10,539,589	1,517,514	1,865,986	-	20,021,089	-
Construction in progress	9,584,000	33,759,562	-	3,424,001	-	46,767,563	6,000
Buildings	71,228,000	55,805,248	1,921,659	10,601,459	806,434	140,362,800	5,322,108
Equipment	104,821,000	31,748,738	3,813,487	1,402,368	4,145,502	145,931,095	2,985,714
Vehicles	-	3,037,368	1,698,578	2,194,228	23,465	6,953,639	25,269,038
Infrastructure	707,711,000	420,490,289	9,520,509	39,510,748	-	1,177,232,546	-
	899,442,000	555,380,794	18,471,747	58,998,790	4,975,401	1,537,268,732	33,582,860
Less accumulated depreciation	(305,980,000)	(267,482,199)	(8,793,994)	(16,476,975)	(2,696,377)	(601,429,545)	(17,413,672)
Net capital assets	593,462,000	287,898,595	9,677,753	42,521,815	2,279,024	935,839,187	16,169,188
Total assets	786,744,000	356,701,246	20,840,697	70,454,706	113,005,939	1,347,746,588	47,323,090
DEFERRED OUTFLOWS OF RESOURCES							
Deferred refunding	-	557,214	172,893	85,712	2,536,620	3,352,439	-
Deferred contribution pension	-	698,608	88,474	597,333	-	1,384,415	-
Total deferred outflows of resources	-	1,255,822	261,367	683,045	2,536,620	4,736,854	-

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS

June 30, 2014

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment		
(Continued from previous page)							
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable	\$ 129,613,000	\$ 16,334,898	\$ 166,615	\$ 176,519	\$ 1,101,994	\$ 147,393,026	\$ 9,798,529
Accrued payroll	-	307,084	33,959	271,142	252,811	864,996	100,505
Other accrued liabilities	-	356,365	195,087	149,116	1,014,864	1,715,432	-
Due to other governments	-	-	-	-	162,188	162,188	22
Current maturities of long-term liabilities:							
Bonds payable	7,040,000	5,252,288	1,651,410	1,161,010	4,520,000	19,624,708	-
Notes payable	3,833,000	3,970,542	72,113	-	-	7,875,655	-
Capital leases payable	-	5,562	-	-	-	5,562	-
Compensated absences	205,000	81,209	10,324	62,014	-	358,547	40,972
Landfill postclosure costs	-	-	239,991	-	-	239,991	-
Contracts payable	-	171,915	-	2,514	-	174,429	-
Other	-	-	-	-	858,911	858,911	-
Total current liabilities	140,691,000	26,479,863	2,369,499	1,822,315	7,910,768	179,273,445	9,940,028
Long-term liabilities:							
Bonds payable	270,757,000	13,874,519	12,742,176	10,505,096	113,318,613	421,197,404	-
Notes payable	944,000	43,132,446	448,193	-	-	44,524,639	-
Compensated absences	571,000	879,761	111,846	671,817	-	2,234,424	443,847
OPEB liability	9,365,000	-	-	-	-	9,365,000	-
Pension liability	-	2,292,208	290,293	1,959,914	-	4,542,415	-
Landfill postclosure costs	-	-	5,483,574	-	-	5,483,574	-
Customer deposits	21,647,000	-	-	-	-	21,647,000	-
Other noncurrent liabilities	54,580,000	-	-	-	-	54,580,000	-
Total long-term liabilities	357,864,000	60,178,934	19,076,082	13,136,827	113,318,613	563,574,456	443,847
Total liabilities	498,555,000	86,658,797	21,445,581	14,959,142	121,229,381	742,847,901	10,383,875
DEFERRED INFLOWS OF RESOURCES							
Investment gains pension	-	1,093,485	138,483	934,966	-	2,166,934	-
Assumption change pension	-	436,481	55,278	373,205	-	864,964	-
Total deferred inflows of resources	-	1,529,966	193,761	1,308,171	-	3,031,898	-
NET POSITION							
Net investment in capital assets	315,665,000	222,220,454	2,812,518	30,941,422	2,279,025	573,918,419	16,169,188
Restricted for renewal and replacement	-	23,671,958	10,734,430	1,590,127	10,648,083	46,644,598	-
Unrestricted	(27,476,000)	23,875,893	(14,084,226)	22,338,889	(18,613,930)	(13,959,374)	20,770,027
Total net position	\$ 288,189,000	\$ 269,768,305	\$ (537,278)	\$ 54,870,438	\$ (5,686,822)	\$ 606,603,643	\$ 36,939,215

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

CITY OF CHATTANOOGA, TENNESSEE

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

Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Major Funds						
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Redevelopment		
OPERATING REVENUES							
Charges for services:							
Electric	\$ 545,852,000	\$ -	\$ -	\$ -	\$ -	\$ 545,852,000	\$ -
Fiber optic	89,988,000	-	-	-	-	89,988,000	-
Sewer	-	62,208,665	-	-	-	62,208,665	-
Waste disposal	-	-	6,949,778	-	-	6,949,778	-
Water quality	-	-	-	19,094,809	-	19,094,809	-
Lease rental revenue	-	-	-	-	4,518,642	4,518,642	-
Conference center	-	-	-	-	11,731,002	11,731,002	-
Parking garage	-	-	-	-	788,860	788,860	-
Other services	18,771,000	927,155	122,177	-	-	19,820,332	53,064,888
Other	-	2,822	13,891	1,001	-	17,714	2,102,038
Total operating revenues	654,611,000	63,138,642	7,085,846	19,095,810	17,038,504	760,969,802	55,166,926
OPERATING EXPENSES							
Power purchases	436,507,000	-	-	-	-	436,507,000	-
Other electric operations	65,484,000	-	-	-	-	65,484,000	-
Fiber optic operations	54,915,000	-	-	-	-	54,915,000	-
Sewer plant operations	-	31,640,781	-	-	-	31,640,781	-
Waste disposal operations	-	-	2,984,947	-	-	2,984,947	-
Closure/postclosure costs	-	-	196,683	-	-	196,683	-
Water quality operations	-	-	-	11,528,460	-	11,528,460	-
Conference center operations	-	-	-	-	10,691,730	10,691,730	-
Parking garage operations	-	-	-	-	326,600	326,600	-
Fleet operations	-	-	-	-	-	-	14,581,172
Liability insurance	-	-	-	-	-	-	3,194,866
Health services	-	-	-	-	-	-	38,569,126
Depreciation	48,735,000	14,596,519	525,992	1,256,557	471,697	65,585,765	3,465,094
Other	11,855,000	-	-	-	(232,443)	11,622,557	-
Total operating expenses	617,496,000	46,237,300	3,707,622	12,785,017	11,257,584	691,483,523	59,810,258
OPERATING INCOME (LOSS)	37,115,000	16,901,342	3,378,224	6,310,793	5,780,920	69,486,279	(4,643,332)
NONOPERATING REVENUES (EXPENSES)							
Investment income	263,000	139,472	33,559	7,600	546,468	990,099	-
Interest expense	(13,779,000)	(2,122,208)	(638,609)	(337,437)	(4,791,796)	(21,669,050)	-
Tax equivalent	(6,486,000)	-	-	-	-	(6,486,000)	-
Other income	207,000	16,905	-	4,724	-	228,629	845,376
Other expense	(1,741,000)	-	(46,591)	(53,327)	-	(1,840,918)	(27)
Total nonoperating revenues (expenses)	(21,536,000)	(1,965,831)	(651,641)	(378,440)	(4,245,328)	(28,777,240)	845,349
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	15,579,000	14,935,511	2,726,583	5,932,353	1,535,592	40,709,039	(3,797,983)
Capital contributions	1,741,000	-	-	92,500	-	1,833,500	-
Transfers in	-	-	-	-	-	-	486,641
CHANGE IN NET POSITION	17,320,000	14,935,511	2,726,583	6,024,853	1,535,592	42,542,539	(3,311,342)
NET POSITION, beginning, as previously reported	273,184,000	258,270,407	(2,828,509)	50,318,821	(7,222,414)	571,722,305	40,250,557
PRIOR PERIOD ADJUSTMENT CHANGE IN ACCOUNTING PRINCIPLE	-	-	-	1,466,036	-	1,466,036	-
	(2,315,000)	(3,437,613)	(435,352)	(2,939,272)	-	(9,127,237)	-
NET POSITION, beginning, as restated	270,869,000	254,832,794	(3,263,861)	48,845,585	(7,222,414)	564,061,104	40,250,557
NET POSITION, ending	\$ 288,189,000	\$ 269,768,305	\$ (537,278)	\$ 54,870,438	\$ (5,686,822)	\$ 606,603,643	\$ 36,939,215

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

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds					
	Major Funds					
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 664,661,000	\$ 49,646,791	\$ 6,967,886	\$ 19,140,504	\$ 16,559,032	\$ 756,975,213
Receipts from operating grants	-	-	151,166	-	-	151,166
Payments to suppliers	(526,789,000)	(14,889,190)	(2,807,283)	(4,635,554)	(10,344,946)	(559,465,973)
Payments to employees	(34,507,000)	(7,926,418)	(1,012,315)	(7,514,564)	-	(50,960,297)
Payments in lieu of taxes	(18,025,000)	-	-	-	-	(18,025,000)
Net cash from operating activities	85,340,000	26,831,183	3,299,454	6,990,386	6,214,086	128,675,109
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	-	-	-	-
Net cash flows used in noncapital financing	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on capital debt	(12,084,000)	(7,960,512)	(1,670,320)	(876,971)	(4,395,000)	(26,986,803)
Interest paid on capital debt	(14,961,000)	(2,349,315)	(699,683)	(358,623)	(5,168,194)	(23,536,815)
Line of credit	(5,721,000)	-	-	-	-	(5,721,000)
Proceeds from capital debt	-	3,810,991	-	5,708,665	3,360,020	12,879,676
Capital grants and contributions	1,741,000	-	-	92,500	-	1,833,500
Additions to capital assets	(80,200,000)	(15,696,292)	-	(1,905,304)	-	(97,801,596)
Proceeds from the sale of capital assets	563,000	-	-	4,724	(211,905)	355,819
Net cash flows used in capital and related financing activities	(110,662,000)	(22,195,128)	(2,370,003)	2,664,991	(6,415,079)	(138,977,219)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	-	(88,613,802)	-	-	(67,935,617)	(156,549,419)
Proceeds from sales and maturities of investments	-	88,653,946	-	-	67,816,353	156,470,299
Interest	291,000	140,375	33,539	7,600	546,468	1,018,982
Net cash flows from investing activities	291,000	180,519	33,539	7,600	427,204	939,862
Net increase (decrease) in cash and cash equivalents	(25,031,000)	4,816,574	962,990	9,662,977	226,211	(9,362,248)
Cash and cash equivalents, beginning of year	124,488,000	15,483,373	10,115,623	15,576,547	5,081,634	170,745,177
Cash and cash equivalents, end of year	\$ 99,457,000	\$ 20,299,947	\$ 11,078,613	\$ 25,239,524	\$ 5,307,845	\$ 161,382,929
CLASSIFIED AS:						
Current assets	\$ 99,457,000	\$ 18,632,397	\$ 581,374	\$ 20,406,603	\$ 5,307,845	\$ 144,385,219
Restricted assets	-	1,667,550	10,497,239	4,832,921	-	16,997,710
	\$ 99,457,000	\$ 20,299,947	\$ 11,078,613	\$ 25,239,524	\$ 5,307,845	\$ 161,382,929

(Continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds					
	Major Funds					
	EPB	Interceptor Sewer System	Solid Waste	Water Quality Management	Downtown Development	Total
(Continued from previous page)						
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
OPERATING INCOME (LOSS)	\$ 37,115,000	\$ 16,901,342	\$ 3,378,224	\$ 6,310,793	\$ 5,780,920	\$ 69,486,279
ADJUSTMENTS NOT AFFECTING CASH						
Depreciation and amortization	48,735,000	14,596,519	525,992	1,256,557	471,697	65,585,765
Miscellaneous nonoperating expenses	2,931,000	-	-	-	-	2,931,000
Provision for uncollectible accounts	(6,486,000)	970,118	-	209,620	(15,471)	(5,321,733)
(Increase) decrease in:						
Accounts receivable	(4,178,000)	(14,478,874)	4,217	(169,614)	(464,001)	(19,286,272)
Due from other funds	-	-	-	-	-	-
Due from other governments	1,045,000	-	28,989	(99,389)	-	974,600
Inventory	(331,000)	(63,217)	-	-	25,486	(368,731)
Prepaid Items	798,000	-	-	-	-	798,000
Deferred charges	66,000	-	-	-	-	66,000
Increase (decrease) in:						
Accounts payable	5,664,000	8,988,959	(545,770)	(409,747)	(34,485)	13,662,957
Accrued claims	-	34,465	7,395	109,936	419,255	571,051
Claims liabilities	-	-	-	-	-	-
Other assets/liabilities	(19,000)	(276,992)	(137,361)	(321,847)	30,685	(724,515)
Compensated absences	-	158,863	37,768	104,077	-	300,708
Total adjustments	48,225,000	9,929,841	(78,770)	679,593	433,166	59,188,830
Net cash from operating activities	\$ 85,340,000	\$ 26,831,183	\$ 3,299,454	\$ 6,990,386	\$ 6,214,086	\$ 128,675,109

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, 2014

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
	<u> </u>	<u> </u>
ASSETS		
Investments:		
Corporate bonds and notes	\$ 7,479,296	\$ 19,699,351
Preferred securities	-	4,845,085
Corporate stocks	-	119,051,125
Foreign equity	-	6,328,184
Mutual funds - preferred securities	-	1,500,045
Mutual funds - equity	14,933,158	123,488,209
Mutual funds - fixed income	10,368,882	70,651,431
Real estate	-	25,717,252
Hedge funds	-	108,885,594
Other investments	-	24,189,287
Temporary investments	1,768,725	4,464,894
Receivables:		
Accrued income	10,134	280,043
Due from plan custodian	1,228,266	-
	<u>35,788,461</u>	<u>509,100,500</u>
LIABILITIES		
Accounts payable and accrued liabilities:		
Accrued payable	-	222,648
Due to plan custodian	223,026	-
	<u>223,026</u>	<u>222,648</u>
NET POSITION		
Held in trust for pension and other postemployment benefits	<u>\$ 35,565,435</u>	<u>\$ 508,877,852</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**

Year Ended June 30, 2014

	Other Postemployment Benefits Trust Fund	Pension Trust Fund
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer	\$ 12,539,062	\$ 21,247,342
Plan member	2,532,327	4,329,447
Other	-	193,877
	<u> </u>	<u> </u>
Total contributions	15,071,389	25,770,666
	<u> </u>	<u> </u>
Investment income:		
Net appreciation (depreciation) in fair market value of investments	3,844,630	60,840,894
Interest	-	516,527
Dividends	345,206	5,516,852
	<u> </u>	<u> </u>
	4,189,836	66,874,273
	<u> </u>	<u> </u>
Less investment income (loss)	-	(1,054,760)
	<u> </u>	<u> </u>
Net investment income (loss)	4,189,836	65,819,513
	<u> </u>	<u> </u>
Total additions	19,261,225	91,590,179
	<u> </u>	<u> </u>
DEDUCTIONS		
Benefits paid to participants	12,607,228	46,802,592
Administrative expenses	20,484	1,285,678
	<u> </u>	<u> </u>
Total deductions	12,627,712	48,088,270
	<u> </u>	<u> </u>
CHANGE IN NET POSITION	6,633,513	43,501,909
NET POSITION - beginning	<u>28,931,922</u>	<u>465,375,943</u>
NET POSITION - ending	<u>\$ 35,565,435</u>	<u>\$ 508,877,852</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, 2014

	Chattanooga Metropolitan Airport Authority	CARTA	Total
ASSETS			
Cash and cash equivalents	\$ 6,678,896	\$ 1,118,660	\$ 7,797,556
Accounts receivable	3,104,320	1,853,598	4,957,918
Inventories	182,280	419,962	602,242
Prepaid items	709,867	874,368	1,584,235
Other post employment benefit assets	-	97,643	97,643
Restricted assets:			
Cash and cash equivalents	3,579,803	-	3,579,803
Receivables	279,310	-	279,310
Land and other nondepreciable assets	47,520,028	3,258,047	50,778,075
Other capital assets, net of accumulated depreciation	62,900,644	24,895,800	87,796,444
Total assets	<u>124,955,148</u>	<u>32,518,078</u>	<u>157,473,226</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,364,766	1,707,079	3,071,845
Contracts payable	627,163	-	627,163
Due to primary government	-	1,326,788	1,326,788
Net pension obligation	-	840,081	840,081
Net OPEB obligation	146,811	-	146,811
Capital lease obligations	106,081	-	106,081
Notes payable	-	443,782	443,782
Revenue bonds payable	14,716,702	-	14,716,702
Total liabilities	<u>16,961,523</u>	<u>4,317,730</u>	<u>21,279,253</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	79,910	-	79,910
Total deferred inflows of resources	<u>79,910</u>	<u>-</u>	<u>79,910</u>
NET POSITION			
Net investment in capital assets	95,597,889	27,283,277	122,881,166
Restricted for debt service and construction	3,859,113	-	3,859,113
Unrestricted	8,456,713	917,071	9,373,784
Total net position	<u>\$ 107,913,715</u>	<u>\$ 28,200,348</u>	<u>\$ 136,114,063</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, 2014

	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	\$ 17,462,231	\$ 14,553,451	\$ -	\$ 5,783,247	\$ 2,874,467	\$ -	\$ 2,874,467
CARTA							
CARTA operations	23,285,908	7,683,857	7,612,278	11,573,268	-	3,583,495	3,583,495
Total component units	<u>\$ 40,748,139</u>	<u>\$ 22,237,308</u>	<u>\$ 7,612,278</u>	<u>\$ 17,356,515</u>	2,874,467	3,583,495	6,457,962
			General revenues:				
			Investment income		28,716	789	29,505
			Miscellaneous		2,017,372	167,675	2,185,047
			Total general revenues		2,046,088	168,464	2,214,552
			CHANGE IN NET POSITION		4,920,555	3,751,959	8,672,514
			Net position, beginning		102,993,160	24,448,389	127,441,549
			Net position, ending		<u>\$ 107,913,715</u>	<u>\$ 28,200,348</u>	<u>\$ 136,114,063</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, 2014

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CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

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

Reporting Entity

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

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

The City reports the following blended component unit:

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

The City reports the following discretely-presented component units:

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

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

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

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

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, including a capital lease, are reported in the government-wide financial statements as "internal balances." Transactions between the primary government and its discretely-presented component units are reported as external transactions, that is as revenues and expenses.

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Budgetary Information

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments 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.

Internal Balances

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

Inventories and Prepaid Items

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

Capital Assets

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

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

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

	<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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

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

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

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

Revenues, Expenditures/Expenses

Program Revenues

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

Property Taxes

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

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

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

Compensated Absences

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

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

Proprietary Funds Operating and Non-operating Revenues and Expenses

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

Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Net Position

The Solid Waste Fund, a major enterprise fund, has a deficit in net position of \$537,278 at June 30, 2014. 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 \$2,726,583 from the prior fiscal year.

The Downtown Redevelopment Fund, a major enterprise fund, has a deficit in net position of \$5,686,822 at June 30, 2014. This deficit resulted from the settlement of a swap option in fiscal year 2011. The deficit decreased by \$1,535,592 from the prior fiscal year.

NOTE 3. CASH AND INVESTMENTS

Cash Deposits with Financial Institutions

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

Investments

The City utilizes a pooled investment concept. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. At June 30, 2014, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and discretely-presented 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	<u>2.83</u>	<u>\$ 33,211,948</u>
Primary Government – Business-Type Activities:		
Certificates of deposits classified as investments	<u>3.00</u>	<u>\$ 36,121,940</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, 2014, the primary government's investments in U.S. Government agency securities consisted of Federal Home Loan Bank bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) and Moody's Investor Service (Moody's).

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

The Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5 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	\$ 3,364,843
Mutual funds – fixed income	Not rated	1,156,946
Temporary investments	Not rated	<u>125,184</u>
		<u>\$ 4,646,973</u>
<u>City of Chattanooga General Pension Plan</u>		
Domestic corporate bonds	BBB	\$ 199,568
Domestic corporate bonds	BBB-	725,681
Domestic corporate bonds	BB+	2,242,479
Domestic corporate bonds	BB-	1,345,998
Domestic corporate bonds	BB	890,381
Domestic corporate bonds	B+	149,850
Domestic corporate bonds	Not rated	211,739
Corporate stocks	Not rated	88,400,031
Mutual funds – equity	Not rated	71,339,811
Mutual funds – fixed income	Not rated	45,747,921
Hedge funds	Not rated	45,574,883
Other investments	Not rated	13,309,521
Temporary investments	Not rated	<u>2,626,056</u>
		<u>\$ 272,763,919</u>
<u>Fire and Police Pension Fund</u>		
Corporate bonds and notes	Not rated	\$ 13,933,655
Preferred securities	Not rated	4,845,085
Corporate Stocks	Not rated	30,651,094
Mutual funds – equity	Not rated	52,148,398
Mutual funds – fixed income	Not rated	24,903,510
Mutual funds – preferred securities	Not rated	1,500,045
Foreign equity	Not rated	6,328,184
Real estate	Not rated	25,717,252
Hedge funds	Not rated	63,310,711
Other investments	Not rated	10,879,766
Temporary investments	Not rated	<u>1,838,838</u>
		<u>\$ 236,056,538</u>
<u>Other Postemployment Benefit Trust Fund</u>		
Corporate bonds and notes	Not rated	\$ 7,479,296
Mutual funds – equity	Not rated	14,933,158
Mutual funds – fixed income	Not rated	10,368,882
Temporary investments	Not rated	<u>1,768,725</u>
		<u>\$ 34,550,061</u>

At June 30, 2014, the fair values of the City's investments in Hedge Funds totaling \$108,885,594 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 4. RECEIVABLES

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

	Governmental Activities Funds					Total
	General	Capital Projects	Other Governmental	Internal Service	Business-Type Activities	
Primary Government						
Receivables:						
Taxes	\$ 123,324,369	\$ -	\$ -	\$ -	\$ -	\$ 123,324,369
Accounts	11,632,272	-	1,053,716	-	-	12,685,988
Notes	1,807,263	1,199,533	16,470,454	-	-	19,477,250
Customer service	-	-	-	500,969	80,087,018	80,587,987
Other	1,547,974	-	140,206	-	1,405,770	3,093,950
Restricted	80,823	8,053	-	-	-	88,876
Intergovernmental	<u>20,436,808</u>	<u>103,863</u>	<u>2,932,858</u>	<u>94,266</u>	<u>19,559,075</u>	<u>43,126,870</u>
Gross receivables	158,829,509	1,311,449	20,597,234	595,235	101,051,863	282,385,290
Less:						
Allowance for uncollectibles	<u>(3,589,514)</u>	<u>-</u>	<u>(891,467)</u>	<u>-</u>	<u>(4,344,906)</u>	<u>(8,825,887)</u>
Net receivables	<u>\$ 155,239,995</u>	<u>\$ 1,311,449</u>	<u>\$ 19,705,767</u>	<u>\$ 595,235</u>	<u>\$ 96,706,957</u>	<u>\$ 273,559,403</u>

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 \$3,589,514 is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2014.

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 2010, the loan agreement was amended. Under the new loan agreement, FOZ agreed to repay the outstanding balance of \$1,700,000 with scheduled payments of \$150,000 per year. As an early payoff incentive, the City agreed to appropriate to FOZ an amount equal to one dollar for every two dollars raised by FOZ through donations for capital improvements, up to a maximum of \$250,000 per year subject to annual appropriation. The amount credited for fiscal year 2014 was \$186,202. As of June 30, 2014, FOZ was in arrears by \$225,000 on the agreed scheduled payments. The current balance is \$876,007.

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 \$186,900 and \$239,888, 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 \$900,000.

Community Development Loans

Notes receivable of \$16,470,454 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, \$107,095 represents forgivable loans and \$4,325,067 represents title transfer loans, which are payable only upon the transfer of title by the current loan recipient. The allowance for uncollectable loans is \$891,467.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
PRIMARY GOVERNMENT				
Governmental Activities:				
Non-depreciable assets:				
Land and land improvements	\$1,039,530,486	\$ 1,150,135	\$ 7,190	\$1,040,673,431
Construction in progress	<u>64,659,952</u>	<u>19,855,180</u>	<u>15,295,697</u>	<u>69,219,435</u>
Total non-depreciable assets	<u>1,104,190,438</u>	<u>21,005,315</u>	<u>15,302,887</u>	<u>1,109,892,866</u>
Depreciable assets:				
Buildings and improvements	216,917,845	9,853,161	936,369	225,834,637
Vehicles and machinery	140,122,883	4,595,045	844,498	143,873,430
Infrastructure	<u>688,596,991</u>	<u>5,229,588</u>	<u>-</u>	<u>693,826,579</u>
Total depreciable assets	<u>1,045,637,719</u>	<u>19,677,794</u>	<u>1,780,867</u>	<u>1,063,534,646</u>
Less accumulated depreciation for:				
Buildings and improvements	105,358,934	7,380,298	798,787	111,940,445
Vehicles and machinery	108,035,181	7,736,493	922,082	114,849,592
Infrastructure	<u>430,631,126</u>	<u>26,873,976</u>	<u>-</u>	<u>457,505,102</u>
Total accumulated depreciation	<u>644,025,241</u>	<u>41,990,767</u>	<u>1,720,869</u>	<u>684,295,139</u>
Depreciable assets, net	<u>401,612,478</u>	<u>(22,312,973)</u>	<u>59,998</u>	<u>379,239,507</u>
Governmental activities capital assets, net	<u>\$1,505,802,916</u>	<u>\$ (1,307,658)</u>	<u>\$ 15,362,885</u>	<u>\$1,489,132,373</u>
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 19,862,678	\$ 158,411	\$ -	\$ 20,021,089
Construction in progress	<u>68,594,051</u>	<u>14,261,868</u>	<u>36,088,356</u>	<u>46,767,563</u>
Total non-depreciable assets	<u>88,456,729</u>	<u>14,420,279</u>	<u>36,088,356</u>	<u>66,788,652</u>
Depreciable assets:				
Buildings and improvements	\$ 135,505,082	\$ 5,040,718	\$ 183,000	\$ 140,362,800
Vehicles and machinery	92,054,426	60,852,335	22,027	152,884,734
Sewer system	417,632,438	2,857,851	-	420,490,289
Solid waste system	9,520,509	-	-	9,520,509
Water quality management system	38,934,462	576,286	-	39,510,748
Electric system	614,315,000	153,595,000	127,647,000	640,263,000
Communication system	<u>104,160,000</u>	<u>29,078,000</u>	<u>65,790,000</u>	<u>67,448,000</u>
Total depreciable assets	<u>1,412,121,917</u>	<u>252,000,190</u>	<u>193,642,027</u>	<u>1,470,480,080</u>
Less accumulated depreciation for:				
Buildings and improvements	53,293,708	3,940,502	119,000	57,115,210
Vehicles and machinery	66,198,505	13,965,577	17,472,027	62,692,055
Sewer system	200,415,678	10,516,107	-	210,931,785
Solid waste system	1,727,458	317,350	-	2,044,808
Water quality management system	9,230,458	804,229	-	10,034,687
Electric system	210,899,000	20,970,000	8,590,000	223,279,000
Communication system	<u>47,714,000</u>	<u>15,072,000</u>	<u>27,454,000</u>	<u>35,332,000</u>
Total accumulated depreciation	<u>589,478,807</u>	<u>65,585,765</u>	<u>53,635,027</u>	<u>601,429,545</u>
Depreciable assets, net	<u>822,643,110</u>	<u>186,414,425</u>	<u>140,007,000</u>	<u>869,050,535</u>
Business-type activities capital assets, net	<u>\$ 911,099,839</u>	<u>\$200,834,704</u>	<u>\$176,095,356</u>	<u>\$ 935,839,187</u>

DISCRETELY-PRESENTED COMPONENT UNITS

Non-depreciable assets:

Land	\$ 7,101,608	\$ -	\$ -	\$ 7,101,608
Construction in progress	<u>33,537,373</u>	<u>10,139,094</u>	<u>-</u>	<u>43,676,467</u>
Total non-depreciable assets	<u>40,638,981</u>	<u>10,139,094</u>	<u>-</u>	<u>50,778,075</u>

Depreciable assets:

Buildings and improvements	128,259,826	13,085,740	2,270,638	139,074,928
Vehicles and equipment	<u>58,150,558</u>	<u>7,219,740</u>	<u>1,195,993</u>	<u>64,174,305</u>
Total depreciable assets	<u>186,410,384</u>	<u>20,305,480</u>	<u>3,466,631</u>	<u>203,249,233</u>

Less accumulated depreciation	<u>109,932,170</u>	<u>8,857,889</u>	<u>3,337,270</u>	<u>115,452,789</u>
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Depreciable assets, net	<u>76,478,214</u>	<u>11,376,416</u>	<u>129,361</u>	<u>87,796,444</u>
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Component units capital assets, net	<u>\$ 117,117,195</u>	<u>\$ 21,586,685</u>	<u>\$ 129,361</u>	<u>\$ 138,574,519</u>
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Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:

General Government	\$ 12,323,462
Public Safety	1,389,830
Economic Development	9,402
Public Works	27,741,314
Youth & Family Development	389,231
Transportation	<u>137,528</u>
Total	<u>\$ 41,990,767</u>

Primary Government – Business-Type Activities:

Electric Utility	\$ 48,735,000
Sewer	14,596,519
Solid Waste	525,992
Water Quality Management	1,256,557
Downtown Redevelopment	<u>471,697</u>
Total	<u>\$ 65,585,765</u>

Discretely-Presented Component Units:

CARTA	\$ 5,485,508
Airport Authority	<u>3,372,381</u>
Total	<u>\$ 8,857,889</u>

NOTE 6. LONG-TERM LIABILITIES

Governmental Activities

Debt related to governmental activities at June 30, 2014, consisted of the following:

General Obligation Bonds

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

General obligation bonds are summarized by issue as follows:

<u>Series</u>	<u>Original Principal</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal June 30, 2014</u>
General Obligations Refunding Bonds, Series 1998	\$ 7,292,600	5.25% - 5.50%	09/01/17	\$ 1,406,800
General Obligations Refunding Bonds, Series 2002	15,390,900	4.38% - 5.38%	09/01/15	1,745,000
General Obligations Refunding Bonds, Series 2002 A	6,037,950	3.60% - 5.00%	09/01/14	154,536
General Obligations Refunding Bonds, Series 2005 A	17,436,520	3.50% - 5.00%	09/01/19	10,740,992
Hotel-Motel Tax Refunding Bonds, Series 2005 A	6,469,987	3.50% - 5.00%	09/01/19	4,133,095
General Obligations Bonds, Series 2006 A	20,732,796	4.00% - 5.00%	11/01/26	13,476,317
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	34,050,000
General Obligations Bonds, Series 2010 A	6,725,000	2.00% - 4.00%	02/01/30	5,365,000
General Obligation Refunding Bonds, Series 2010 B	4,707,460	2.00% - 4.00%	02/01/30	4,025,349
Hotel-Motel Tax Refunding Bonds, Series 2010 B	29,557,540	2.00% - 4.00%	02/01/30	25,274,651
General Obligation Bonds, Series 2010C	6,840,000	2.00% - 4.00%	02/01/30	5,465,000
General Obligation Bonds, Series 2011A	26,495,000	2.00% - 4.00%	10/01/26	22,955,000
General Obligation Refunding Bonds, Series 2011B	1,949,250	2.00% - 4.00%	10/01/27	1,949,250
Hotel-Motel Tax Refunding Bonds, Series 2011B	15,595,750	2.00% - 4.00%	10/01/27	15,595,750
General Obligation Bonds, Series 2013	19,355,000	2.00% - 5.00%	10/01/28	19,355,000
Hotel-Motel Tax Pledge, Series 2013	<u>7,420,000</u>	2.00% - 5.00%	10/01/28	<u>7,420,000</u>
Total payable from Debt Service Fund	<u>\$ 251,940,753</u>			<u>\$ 187,631,740</u>

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, 2014, is \$1,888,000 of which \$1,714,165 is due from Governmental Activities and \$173,835 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, 2014, is \$14,579,736, of which \$14,233,265 is due from Governmental Activities and \$346,471 is due from Solid Waste Fund.

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 balance at June 30, 2014, is \$166,477.

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, 2014 is \$3,051,000.

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, 2014 of \$2,750,000 is due in full in 2015.

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

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 (IDB) on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments are funded by the City's share of the 0.5% increase in the county-wide sales tax passed by county-wide referendum, income from the 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, 2014, was \$9,678,469, of which \$3,360,020 was a reduction of principal. The debt service reserve fund held by the fiscal agent at June 30, 2014 is \$9,789,172. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

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

Golf Course Capital Lease - In April 2013, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling \$301,493. The lease term is five years and provides for monthly payments which began April 1, 2013. The recorded liability under this capital lease at June 30, 2014 is \$232,290.

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

Business-type Activities

Debt related to business-type activities at June 30, 2014, consisted of the following:

Revenue and General Obligation Bonds

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

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

<u>Series</u>	<u>Original Principal</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal June 30, 2014</u>
Electric Power Board				
2006A Electric System Revenue Bonds	\$ 40,000,000	4.00% - 5.00%	09/01/31	\$ 34,230,000
2006B Electric System Refunding Revenue Bonds	23,430,000	4.00% - 4.25%	09/01/25	19,905,000
2008A Electric System Revenue Bonds	219,830,000	3.00% - 5.00%	09/01/33	216,830,000
Interceptor Sewer System				
General Obligations Refunding Bonds, Series 1998	13,612,700	5.25% - 5.50%	09/01/17	5,498,200
General Obligations Refunding Bonds, Series 2002	24,642,272	4.38% - 5.38%	09/01/14	1,175,000
General Obligations Refunding Bonds, Series 2002A	32,252,050	3.60% - 5.00%	09/01/14	825,464
General Obligations Refunding Bonds, Series 2005A	12,545,129	3.50% - 5.00%	09/01/19	10,991,431
Solid Waste Fund				
General Obligation Refunding Bonds, Series 2005A	9,877,293	3.50% - 5.00%	09/01/19	7,881,476
General Obligation Bonds, Series 2006A	5,667,204	4.00% - 5.00%	11/01/26	3,683,683
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 2005A	6,046,071	3.50% - 5.00%	09/01/19	5,068,007
General Obligation Refunding Bonds, Series 2007A	750,000	24.30% - 5.00%	03/01/26	750,000
General Obligation Bonds, Series 2013	5,245,000	2.00% - 5.00%	10/01/28	5,245,000
Chattanooga Downtown Redevelopment Corporation				
2007 Chatt Lease Rental Rev Ref Bonds	56,110,000	4.00% - 5.00%	10/01/30	48,840,000
2010 Chatt Lease Rental Rev Ref Bonds	<u>66,955,000</u>	3.00% - 5.00%	10/01/24	<u>61,300,000</u>
Total payable from Business-type Activities	<u>\$ 519,442,719</u>			<u>\$ 424,703,261</u>

Notes, Loans, and Line of Credit Payable

1998 Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga was authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The 20 year loan is being repaid at 4% interest through 2019. The balance at June 30, 2014 to be paid from Interceptor Sewer Fund is \$2,161,162.

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, 2014 to be paid from Interceptor Sewer Fund is \$24,212,151.

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, 2014, is \$1,888,000 of which \$1,714,165 is due from Governmental Activities and \$173,835 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, 2014, is \$14,579,736, of which \$14,233,265 is due from Governmental Activities and \$346,471 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, 2014 to be paid from Interceptor Sewer Fund is \$11,612,083.

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, 2014 to be paid from Interceptor Sewer Fund is \$9,117,592.

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, 2014 is \$4,777,000.

EPB Video and Internet LOC - In August 2012, a revolving line of credit was obtained for \$60 million for the benefit of EPB’s Video and Internet system. The line of credit was used for repayment of all funds borrowed from the Electric System and retirement of the outstanding principal of a \$7.5 million bank loan obtained in October 2011. This loan is secured by the revenue, assets, and other income of the Video and Internet System. The loan shall mature in August 2015 and incur monthly interest payments equal to 30-day LIBOR plus 2.5%; subject to a total 3.5% floor. At June 30, 2014, the outstanding balance under the revolving line of credit was \$45,875,000.

Capital Lease

Collegedale Capital Lease - The City has a capital lease agreement with the City of Collegedale to purchase sewer system improvements. Lease payments are due in monthly installments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2014 to be paid from Interceptor Sewer Fund is \$5,562.

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	\$ 2,289,028	\$ 166,820	\$ 2,122,208
Water Quality Fund	376,230	38,793	337,437

Component Units

Component Units debt at June 30, 2014, consisted of the following:

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, 2014</u>
Metropolitan Airport Authority				
Taxable Refunding Revenue Bonds, Series 2009	\$ 6,600,000	2.95%	04/01/19	\$ 4,847,413
Tax Exempt Revenue Bonds, Series 2014	5,086,077	3.99%	01/10/24	5,015,999
Taxable Revenue Bonds, Series 2014	<u>4,913,923</u>	4.99%	01/10/24	<u>4,853,290</u>
Total payable from Component Units	<u>\$ 16,600,000</u>			<u>\$ 14,716,702</u>

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, 2014 is \$443,782.

Capital Lease

Fuel Facility Capital Lease – Effective July 1, 2012, the Airport 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. The balance on this capital lease at June 30, 2014 to be paid from the Chattanooga Metropolitan Airport Authority is \$106,081.

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, 2014, the remaining liabilities for the bonds refunded were as follows:

<u>Year</u> <u>Refunded</u>	<u>Primary</u> <u>Government</u>
1992	\$ 1,130,000
1998	6,970,000
2002	3,195,000
2003	1,170,000
2005	39,325,000
2007	66,280,000
2010	28,370,000
2011	61,300,000
2012	18,360,000

Changes in Long-term Liabilities

Changes in long-term liabilities for the fiscal year ended June 30, 2014, were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	\$ 171,740,285	\$ 26,775,000	\$ 10,883,545	\$ 187,631,740	\$ 12,495,291
Notes payable	35,713,848	-	2,035,464	33,678,384	6,752,435
Capital leases payable	287,958	-	55,668	232,290	58,192
Accrued pollution remediation costs	1,320,541	67,903	193,949	1,194,495	5,000
Accrued postemployment benefits	31,381,724	13,157,560	15,071,389	29,467,895	-
Accrued general pension costs	36,263,302	-	16,166,932	20,096,370	-
Accrued fire and police pension costs	193,350,491	-	64,211,214	129,139,277	-
Compensated absences	<u>17,262,930</u>	<u>14,599,740</u>	<u>10,429,867</u>	<u>21,432,803</u>	<u>1,770,192</u>
Total governmental activities	<u>\$ 487,321,079</u>	<u>\$ 54,600,203</u>	<u>\$ 119,048,028</u>	422,873,254	<u>\$ 21,081,110</u>
Original issue premiums and discounts				<u>7,299,717</u>	
				<u>\$ 430,172,971</u>	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	\$ 276,965,000	\$ -	\$ 6,000,000	\$ 270,965,000	\$ 7,040,000
Notes payable	10,861,000	-	6,084,000	4,777,000	3,833,000
Line of credit	51,828,000	-	5,953,000	45,875,000	-
Accrued postemployment benefits	9,055,000	2,039,000	1,729,000	9,365,000	-
Compensated absences	<u>786,000</u>	<u>32,000</u>	<u>42,000</u>	<u>776,000</u>	<u>205,000</u>
	<u>349,495,000</u>	<u>2,071,000</u>	<u>19,808,000</u>	<u>331,758,000</u>	<u>11,078,000</u>
Interceptor Sewer System:					
General obligation serial bonds	23,619,280	-	5,129,185	18,490,095	5,252,288
Notes payable	46,091,185	3,810,991	2,799,188	47,102,988	3,970,542
Capital leases payable	37,701	-	32,139	5,562	5,562
Accrued general pension costs	4,136,221	-	1,844,013	2,292,208	-
Compensated absences	<u>802,107</u>	<u>838,354</u>	<u>679,491</u>	<u>960,970</u>	<u>81,209</u>
	<u>70,550,273</u>	<u>4,649,345</u>	<u>8,640,003</u>	<u>68,851,823</u>	<u>9,309,601</u>

Solid Waste/Sanitation Fund:					
General obligation serial bonds	\$ 15,645,456	\$ -	\$ 1,600,297	\$ 14,045,159	\$ 1,651,410
Notes payable	590,326	-	70,020	520,306	72,113
Accrued landfill closure costs	5,774,563	196,683	247,681	5,723,565	239,991
Accrued general pension costs	523,826	-	233,533	290,293	-
Compensated absences	84,402	119,019	81,251	122,170	10,324
	<u>22,094,747</u>	<u>315,702</u>	<u>1,999,249</u>	<u>20,701,493</u>	<u>1,973,838</u>
Water Quality/Management Fund:					
General obligation serial bonds	6,694,978	5,245,000	876,971	11,063,007	1,161,010
Accrued general pension costs	3,536,605	-	1,576,691	1,959,914	-
Compensated absences	629,754	764,218	660,141	733,831	62,014
	<u>10,861,337</u>	<u>6,009,218</u>	<u>1,537,112</u>	<u>13,756,752</u>	<u>1,223,024</u>
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	<u>114,535,000</u>	<u>-</u>	<u>4,395,000</u>	<u>110,140,000</u>	<u>4,520,000</u>
Total business-type activities	<u>\$ 563,999,752</u>	<u>\$ 13,045,265</u>	<u>\$ 36,379,364</u>	545,208,068	<u>\$ 28,104,463</u>
Original issue premiums and discounts				<u>16,118,852</u>	
				<u>\$ 561,326,920</u>	
Discretely-Presented Component Units					
Airport Authority:					
Revenue bond	\$ 5,249,871	\$10,000,000	\$ 533,169	\$ 14,716,702	\$ 741,609
Capital lease	<u>151,010</u>	<u>-</u>	<u>44,929</u>	<u>106,081</u>	<u>47,421</u>
	<u>5,400,881</u>	<u>10,000,000</u>	<u>578,098</u>	<u>14,822,783</u>	<u>789,030</u>
CARTA:					
Notes payable	<u>690,372</u>	<u>-</u>	<u>246,590</u>	<u>443,782</u>	<u>261,800</u>
Total component units	<u>\$ 6,091,253</u>	<u>\$10,000,000</u>	<u>\$ 824,688</u>	<u>\$ 15,266,565</u>	<u>\$ 1,050,830</u>

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

Year	Primary Government			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 19,247,726	\$ 7,352,131	\$ 27,500,363	\$ 21,030,964
2016	17,099,796	6,883,987	24,290,652	20,044,374
2017	15,587,332	6,397,286	25,301,376	19,012,434
2018	16,940,224	5,943,488	26,322,060	17,910,504
2019	15,354,125	5,449,303	25,644,900	16,758,617
2020-2024	72,612,592	19,994,623	113,861,642	68,945,974
2025-2029	55,388,329	7,090,916	120,733,511	42,524,432
2030-2034	<u>9,080,000</u>	<u>536,000</u>	<u>113,449,051</u>	<u>13,096,389</u>
	<u>\$ 221,310,124</u>	<u>\$ 59,647,734</u>	<u>\$ 477,103,555</u>	<u>\$ 219,323,688</u>
Year	Component Units			
	Principal	Interest		
2015	\$ 1,003,409	\$ 600,667		
2016	949,970	558,777		
2017	797,741	525,030		
2018	827,493	495,278		
2019	3,469,293	451,008		
2020-2024	<u>8,112,578</u>	<u>1,611,090</u>		
	<u>\$ 15,160,484</u>	<u>\$ 4,241,850</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>
2015	\$ 55,192	\$ 9,146	\$ 5,562	\$ 46
2016	60,831	6,507	-	-
2017	63,590	3,748	-	-
2018	<u>49,677</u>	<u>926</u>	<u>-</u>	<u>-</u>
	<u>\$ 232,290</u>	<u>\$ 20,327</u>	<u>\$ 5,562</u>	<u>\$ 46</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 47,421	\$ 4,575
2016	50,051	1,945
2017	<u>8,609</u>	<u>57</u>
	<u>\$ 106,081</u>	<u>\$ 6,577</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 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:

City of Chattanooga General Pension Plan (City Administered Plan)

Significant Accounting Policies

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

Plan Descriptions

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

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

Plan membership - At June 30, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	999
Inactive plan members entitled to but not yet receiving benefits	101
Active plan members	<u>1,381</u>
	<u>2,481</u>

Benefits provided - The GPP provides retirement and disability benefits. The normal retirement benefit is two percent of average compensation multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years. The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized two and one-half percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustment is 3.0 percent.

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

Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the GPP Board of Trustees. It is the policy of the GPP Board of Trustees to pursue an investment strategy that provides sufficient return to meet its actuarial assumptions without undue investment risk. The following was the adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	45%
International equity	15
Fixed income	20
Hedge funds	14
Private equity	3
Real estate	<u>3</u>
	<u>100%</u>

Rate of return - For the year ended June 30, 2014, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 16.11 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Partial Lump Sum Option (PLOP)

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

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

Net Pension Liability

The components of the net pension liability of the City at June 30, 2014 were as follows:

	<u>Primary Government</u>	<u>Airport Authority</u>	<u>Total</u>
Total pension liability	\$ 291,846,978	\$ 9,429,293	\$ 301,276,271
Plan fiduciary net position	<u>(267,208,193)</u>	<u>(8,633,238)</u>	<u>(275,841,431)</u>
Net pension liability	<u>\$ 24,638,785</u>	<u>\$ 796,055</u>	<u>\$ 25,434,840</u>
 Plan fiduciary net position as a percentage of the total pension liability	 91.56%	 91.56%	 91.56%

The net pension liability of \$25,434,840 is allocated among the governmental activities, business-type activities, and Airport Authority as \$20,096,370, \$4,542,415, and \$796,055, respectively. The Airport Authority did not early transition to GASB 68 in fiscal year 2014.

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

Inflation	3.0 percent
Salary increases	4.5 - 5.0 percent
Investment rate of return	7.75 percent

Mortality rates were based on the RP-2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	8.2-8.5%
International equity	8.3
Domestic fixed income	1.0-4.8
International fixed income	1.7
Hedge funds	7.0-7.5
Private equity	15.0
Real estate	8.0

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/2013	\$ 295,274,117	\$ 249,377,705	\$ 45,896,412
Changes for the year:			
Service cost	6,069,090	-	6,069,090
Interest expense	22,247,450	-	22,247,450
Changes of assumptions	(5,893,894)	-	(5,893,894)
Contributions – city	-	7,751,909	(7,751,909)
Contributions – members	-	1,130,354	(1,130,354)
Net investment income	-	34,194,160	(34,194,160)
Benefits paid	(16,420,492)	(16,420,492)	-
Plan administrative expenses	-	(192,205)	192,205
Net changes	<u>6,002,154</u>	<u>26,463,726</u>	<u>(20,461,572)</u>
Balances at 6/30/2014	<u>\$ 301,276,271</u>	<u>\$ 275,841,431</u>	<u>\$ 25,434,840</u>

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	<u>\$ 59,825,400</u>	<u>\$ 25,434,840</u>	<u>\$ (3,736,699)</u>

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

For the year ended June 30, 2014, the City recognized \$4,133,625 with an additional \$133,553 for the Airport Authority, in pension expense. Deferred inflows of resources related to pensions are as follows:

	Primary Government	Airport Authority	Total
Changes of assumptions	\$ 4,691,704	\$ 151,584	\$ 4,843,288
Net difference between projected and actual earnings on pension plan investments	<u>11,753,798</u>	<u>379,754</u>	<u>12,133,552</u>
Total	<u>\$ 16,445,502</u>	<u>\$ 531,338</u>	<u>\$ 16,976,840</u>

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

Year ended June 30,	
2015	\$ 4,083,993
2016	4,083,993
2017	4,083,993
2018	4,083,993
2019	640,868

Deferred outflows of resources totaling \$7,509,291 represent contributions made after the plan's valuation date.

Payable to the Pension Plan

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

Fire and Police Pension Fund (City Administered Plan)

Significant Accounting Policies

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

Plan Description

Plan administration - The City of Chattanooga Fire and Police Pension Fund (CFPPF) is a single-employer defined benefit pension plan that provides pensions for all permanent full-time police officers and firefighters. Chapter 2, Article III, Division 18 of the City Code provides for the Fire and Police Pension Fund. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Directors of the CFPPF, upon advice by the Mayor provided that such an amendment is not inconsistent with sound actuarial principles.

Management of the CFPPF is vested in the FPPF Board of Directors, which consists of eight members; three active members of the fire department, three active members of the police department, one appointee by the Mayor and one appointee by the City Council.

Actuarial information for the CFPPF is provided on a calendar year basis.

Plan membership - At December 31, 2013, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	764
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	<u>798</u>
	<u>1,571</u>

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

- For those vested as of July 1, 2014, 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.
- For active employees not vested as of July 1, 2014, the normal retirement benefit is based upon age 50 with 25 years of credited service or any age with 28 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.
- For employees hired after July 1, 2014, the normal retirement benefit is based upon age 55 with 25 years of credited service or any age with 30 years of credited service. It is calculated as 2.50% of final average monthly salary for each year of service 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 employees, based on predetermined formulas. Effective July 1, 2014, cost of living adjustment

Contributions - The CFPPF Board of Directors establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended January 1, 2014, the active member contribution rate was 8 or 9 percent; as if July 1, 2014 those rates increased to either 9 or 10 percent of payroll, and will continue to increase each July 1st until they reach 11 or 12 percent effective July 1, 2016.

Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the CFPPF Board of Directors. It is the policy of the CFPPF Board of Directors to pursue an investment strategy that provides sufficient return to meet its actuarial assumptions without undue investment risk. The following was the adopted asset allocation policy as of June 30, 2014:

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

Rate of return - For the year ended June 30, 2014, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 16.15 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

Two deferred retirement option plans (DROP) are available for participants. Under the original DROP a participant may retire at any time after completing at least 25 years of service and no more than 33 years of service with the option to retro-DROP for up to three years but not prior to 25 years of service. The retirement benefit amount is calculated, based upon service at the retro-DROP date and final average salary at the beginning of the DROP period, and up to 36 months of this benefit amount will be used in determining the DROP lump sum. No COLA or interest will be applied to either the DROP annuity or DROP lump sum. Eligibility for this DROP was closed in fiscal year 2009. Participant contributions are 8%. All other participants are eligible for a modified DROP; eligibility has been extended from 30 to 33 years. For participants previously contributing 9% and who have at least 24 years of service as of July 1, 2014, final average salary will be based on the 30-year final average salary if they retire with more than 30 years of service and drop back to 30 years. For all other participants, the DROP will remain the same, with the exception of the removal of the COLA from the DROP annuity and the removal of interest from the DROP lump sum.

Net Pension Liability

The components of the net pension liability of the City at December 31, 2013 were as follows:

Total pension liability	\$ 359,921,727
Plan fiduciary net position	<u>230,782,450</u>
Net pension liability	<u>\$ 129,139,277</u>
Plan fiduciary net position as a percentage of the total pension liability	64.12%

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2013, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.25 percent
Salary increases	3.25 percent plus service based merit increases
Investment rate of return	7.50 percent

Mortality rates were based on the RP-2000 Blue Collar Healthy Mortality Table. For healthy lives this was set forward two years for both males and females; for disabled lives this was set forward eight years both males and females.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the year period ended December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2013 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.95%
International equity	6.45
Fixed income	1.55
Real estate	3.75
Hedge funds	3.25
Limited partnerships	11.05

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

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at 12/31/2012	\$ 404,968,283	\$ 211,617,792	\$ 193,350,491
Changes for the year:			
Service cost	7,167,456	-	7,167,456
Interest expense	30,312,135	-	30,312,135
Difference between expected and actual experience	7,470,629	-	7,470,629
Contributions – city	-	12,944,665	(12,944,665)
Contributions – members	-	3,210,673	(3,210,673)
Net investment income	-	31,139,450	(31,139,450)
Benefits paid	(27,687,917)	(27,687,917)	-
Plan administrative expenses	-	(608,924)	608,924
Other	(62,308,859)	166,711	(64,475,570)
Net changes	<u>(45,046,556)</u>	<u>19,164,658</u>	<u>(64,211,214)</u>
Balances at 12/31/2013	<u>\$ 359,921,727</u>	<u>\$ 230,782,450</u>	<u>\$ 129,139,277</u>

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's net pension liability	<u>\$ 166,584,659</u>	<u>\$ 129,139,277</u>	<u>\$ 97,346,092</u>

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

For the year ended June 30, 2014, the City recognized \$(45,507,470) in pension expense. Deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 6,403,396	\$ -
Deferred contributions	6,021,015	-
Net difference between projected and actual	<u>-</u>	<u>12,162,475</u>
Total	<u>\$ 12,424,411</u>	<u>\$ 12,162,475</u>

Deferred outflows of resources totaling \$6,021,015 represent contributions made after the plan's valuation date. Amounts reported as deferred outflows of resources and deferred inflows of resources, excluding deferred contributions, related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2015	\$ (1,973,386)
2016	(1,973,386)
2017	(1,973,386)
2018	(1,973,386)
2019	1,067,233
Thereafter	1,067,231

Payable to the Pension Plan

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

Combining Statements for Pension Trust Fund (City Administered Plans)

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	\$ 220,487	\$ 59,556	\$ 280,043
Total receivables	<u>220,487</u>	<u>59,556</u>	<u>280,043</u>
Investments, at fair value:			
Corporate bonds and notes	5,765,696	13,933,655	19,699,351
Preferred securities	-	4,845,085	4,845,085
Corporate stocks	88,400,031	30,651,094	119,051,125
Foreign equity	-	6,328,184	6,328,184
Mutual funds – preferred securities	-	1,500,045	1,500,045
Mutual funds – equity	71,339,811	52,148,398	123,488,209
Mutual funds – fixed income	45,747,921	24,903,510	70,651,431
Real estate	-	25,717,252	25,717,252
Hedge funds	45,574,883	63,310,711	108,885,594
Other investments	13,309,521	10,879,766	24,189,287
Temporary investments	2,626,056	1,838,838	4,464,894
Total investments	<u>272,763,919</u>	<u>236,056,538</u>	<u>508,820,457</u>
Total assets	<u>272,984,406</u>	<u>236,116,094</u>	<u>509,100,500</u>

LIABILITIES			
Accrued expenses	158,938	63,710	222,648
Total liabilities	<u>158,938</u>	<u>63,710</u>	<u>222,648</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
	<u>\$ 272,825,468</u>	<u>\$ 236,052,384</u>	<u>\$ 508,877,852</u>

Combining Statement of Changes in Plan Net Position:

	General Pension Plan	Fire and Police Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	\$ 7,751,909	\$ 13,495,433	\$ 21,247,342
Employee	1,130,354	3,199,093	4,329,447
Other	-	193,877	193,877
Total contributions	<u>8,882,263</u>	<u>16,888,403</u>	<u>25,770,666</u>
Investments income:			
Net appreciation in fair market value of investments	29,477,180	31,363,714	60,840,894
Interest	359,158	157,369	516,527
Dividends	<u>2,278,868</u>	<u>3,237,984</u>	<u>5,516,852</u>
	32,115,206	34,759,067	66,874,273
Less investment expense	<u>(613,319)</u>	<u>(441,441)</u>	<u>(1,054,760)</u>
Net investment income (loss)	<u>31,501,887</u>	<u>34,317,626</u>	<u>65,819,513</u>
Total additions	<u>40,384,150</u>	<u>51,206,029</u>	<u>91,590,179</u>
DEDUCTIONS			
Benefits paid to participants	16,568,660	30,233,932	46,802,592
Administrative expenses	<u>236,984</u>	<u>1,048,694</u>	<u>1,285,678</u>
Total deductions	<u>16,805,644</u>	<u>31,282,626</u>	<u>48,088,270</u>
NET INCREASE	23,578,506	19,923,403	43,501,909
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>249,249,962</u>	<u>216,128,981</u>	<u>465,375,943</u>
End of year	<u>\$ 272,825,468</u>	<u>\$ 236,052,384</u>	<u>\$ 508,877,852</u>

Other Postemployment Benefits (City Administered Plan)

Significant Accounting Policies

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

Plan Description

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.

Funding Policy

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

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

Annual OPEB Cost and Net OPEB Obligation

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

	Other Postemployment Benefits
Annual required contribution	\$ 13,275,679
Interest on net OPEB obligation	2,353,629
Adjustment to annual required contribution	<u>(2,471,748)</u>
Annual OPEB cost	13,157,560
Contributions made	<u>(15,071,389)</u>
Increase in net OPEB obligation	(1,913,829)
Net OPEB obligation:	
Beginning of year	<u>31,381,724</u>
End of year	<u>\$ 29,467,895</u>

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

	<u>Year Ended</u>	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Other Postemployment	6/30/14	\$ 13,157,560	114.5%	\$ 29,467,895
Benefits	6/30/13	12,739,235	100.9%	31,381,724
	6/30/12	14,169,688	100.8%	31,500,289

Funded Status and Funding Progress

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

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

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

	<u>Other Postemployment Benefits</u>
Actuarial cost method	Entry Age
Amortization method	Level Dollar Open
Remaining amortization period	30 Years
Inflation rate	3.00%
Asset valuation method	Market Value
Investment rate of return	7.50%
Projected salary increases	3.25-7.50%
Cost of living adjustments	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 7.75 - 5.00 percent for Pre-Medicare and 5.75 – 5.00 percent for Medicare.

City Deferred Compensation Plan

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

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

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

Asset balance at July 1, 2013	\$ 22,357,603
Deferrals of compensation	2,542,850
Earnings (losses)	2,888,944
Withdrawals	(2,088,526)
Administrative expenses	<u>(11,305)</u>
Asset balance at June 30, 2014	<u>\$ 25,689,566</u>

EPB Pension Plan

Plan Descriptions

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.

Funding Policy

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 11.46 percent of annual covered payroll.

Investment Policy

The investment objective of the Plan is to attain a favorable absolute return for the entire fund, consistent with preservation of capital with some emphasis on long-term growth. The table below lists the allowable asset mix of the fund.

	<u>Minimum</u>	<u>Maximum</u>
Equity	20%	80%
Bonds	20%	80%
Cash equivalents	0%	15%
Real estate	0%	15%
Hedge strategies	0%	20%

Annual Pension Cost and Net Pension Obligation

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

Annual required contribution	\$ 3,646,080
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	<u>3,646,080</u>
Contributions made	<u>(3,646,080)</u>
Increase in net pension obligation	-
Net pension obligation:	
Beginning of year	-
End of year	<u>\$ -</u>

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>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Assets)</u>
Pension Plan	7/31/13	\$ 3,646,080	100.00%	\$ -
	7/31/12	3,569,952	100.00%	-
	7/31/11	2,796,435	121.60%	-

Funded Status and Funding Progress

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

Actuarial valuation date	August 1, 2013
Actuarial accrued liability (AAL)	\$ 46,098,802
Actuarial value of plan assets	<u>33,604,485</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,494,317</u>
Funded ratio (actuarial value of plan assets/AAL)	72.90%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 32,127,132
UAAL as a percentage of covered payroll	38.90%

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:

Actuarial cost method	Aggregate
Amortization method	n/a
Remaining amortization period	n/a
Asset valuation method	Market Value, Smoothed
Investment rate of return	7.50%
Projected salary increases	3.00%

EPB 401(k) Plan

Effective August 1, 1984, EPB implemented a 401(k) defined contribution plan, the EPB Retirement Savings Plan, which allows employees to invest up to 100% of their salary in a tax-deferred savings plan. EPB contributes 100% matching contribution up to 4.0% of an employee's salary after one year of employment. All employees who have completed three months of employment and have attained age 18 are eligible to participate in the 401(k) defined contribution plan. Participating employees are immediately fully vested in EPB contributions, which amounted to approximately \$1.0 million and \$1.1 million in fiscal years 2014 and 2013, respectively. The EPB Retirement Savings Plan is administered by an individual designated by EPB. Article XII of the EPB Retirement Savings Plan assigns the authority to establish and amend the plan to EPB.

EPB Other Postemployment Benefits

Plan Description

The Electric Power Board of Chattanooga Post Employment Health and Welfare Benefit Plan (the 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. Eligible retirees and their dependents may continue healthcare coverage through EPB, and retirees after July 1, 1994 received a death benefit from the Plan. 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 Policy

The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2014, EPB contributed approximately \$1.7 million (approximately 86 percent of total claims). Presently, EPB has the option of prefunding a "Voluntary Employees' Beneficiary Association Trust" (VEBA) to pay post-employment benefit claims. During fiscal year 2014, EPB had no additional funding to the VEBA for post-employment benefit claims.

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 2,222,325
Interest on net OPEB obligation (asset)	588,759
Adjustment to annual required contribution	<u>(771,648)</u>
Annual OPEB cost	2,039,255
Contributions made	<u>(1,728,883)</u>
Increase in net OPEB obligation (asset)	310,374
Net OPEB obligation (asset):	
Beginning of year	<u>9,055,062</u>
End of year	<u>\$ 9,365,436</u>

EPB's Annual OPEB Cost (APC), percentage of APC contributed, and Net OPEB Obligation (Assets) for the plan for the current year and each of the two preceding years was as follows:

	<u>Year Ended</u>	<u>Annual OPEB Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net OPEB Obligation (Assets)</u>
Other Postemployment Benefits	6/30/13	\$ 2,039,255	84.80%	\$ 9,365,436
	6/30/12	1,999,130	95.00%	9,055,062
	6/30/11	1,888,329	93.40%	8,954,511

Funded Status and Funding Progress

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

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	\$ 27,104,206
Actuarial value of plan assets	16,754,185
Unfunded actuarial accrued liability (UAAL)	<u>\$ 10,350,021</u>
Funded ratio (actuarial value of plan assets/AAL)	61.81%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 34,440,516
UAAL as a percentage of covered payroll	30.05%

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:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar
Remaining amortization period	20 Years
Asset valuation method	Market Value, 3 Year Smoothed
Investment rate of return	6.50%

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.

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:			
6/30/14	\$ 269,808	0.0%	\$ 840,081
6/30/13	186,731	0.0%	570,273
6/30/12	160,995	0.0%	383,541

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, 2014, the minimum fund balance per policy is \$35.7 million. The current unrestricted fund balance is \$69.8 million.

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable				
Endowments	\$ -	\$ -	\$ 4,646,973	\$ 4,646,973
Inventory	902,624	-	-	902,624
Long-term notes receivable	1,749,028	1,199,532	-	2,948,560
Prepaid expenses	18,000	-	10,674	28,674
Restricted				
Law enforcement	67,393	-	1,432,383	1,499,776
Economic development	5,750,823	-	11,780	5,762,603
African-American Museum	54,357	-	-	54,357
Special programs	340,853	-	-	340,853
Capital projects	-	42,003,127	-	42,003,127
Library Endowment	-	-	82,240	82,240
Human services program	-	-	652,466	652,466
State street aid	-	-	1,598,826	1,598,826
Community development	-	-	1,316,560	1,316,560
Hotel-Motel tax revenue pledge	-	-	3,984,152	3,984,152
Regional Planning Agency	-	-	163,341	163,341
Air Pollution Control Bureau	-	-	303,200	303,200
Committed				
Law enforcement	257,400	-	-	257,400
Economic development	260,372	-	-	260,372
Free Public Library	117,008	-	-	117,008
African-American Museum	54,357	-	-	54,357
Regional Planning Agency	-	-	3,042,862	3,042,862
Air Pollution Control Bureau	-	-	454,799	454,799
Scenic Cities Beautiful Commission	-	-	170,377	170,377
Tennessee Valley Regional Communications	-	-	538,424	538,424
Debt service	-	-	5,020,752	5,020,752
Assigned				
Public Library	1,410,926	-	-	1,410,926
Special programs	2,748,215	-	-	2,748,215
River Pier garage	-	-	827,293	827,293
Other purposes	941,842	-	-	941,842
Unassigned	<u>64,038,780</u>	<u>-</u>	<u>-</u>	<u>64,038,780</u>
 Total fund balances	 <u>\$ 78,711,978</u>	 <u>\$43,202,659</u>	 <u>\$24,257,102</u>	 <u>\$ 146,171,739</u>
 Summary for Governmental Funds				
Balance Sheet:				
Nonspendable	\$ 2,669,652	\$ 1,199,532	\$ 4,657,647	\$ 8,526,831
Restricted	6,213,426	42,003,127	9,544,948	57,761,501
Committed	689,137	-	9,227,214	9,916,351
Assigned	5,100,983	-	827,293	5,928,276
Unassigned	<u>64,038,780</u>	<u>-</u>	<u>-</u>	<u>64,038,780</u>
 Total fund balances	 <u>\$ 78,711,978</u>	 <u>\$43,202,659</u>	 <u>\$24,257,102</u>	 <u>\$ 146,171,739</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	\$ 166,476
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	<u>204,418</u>
		<u>\$ 370,894</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.

NOTE 10. INTERFUND TRANSFERS

	<u>Transfers In:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Fund</u>	
Transfers out:					
General Fund	\$ -	\$ 11,556,663	\$ 21,498,746	\$ -	\$ 33,055,409
Capital Projects Fund	116,847	-	173	486,641	603,661
Nonmajor Governmental Funds:					
Narcotics Program	-	295,000	-	-	295,000
Community Development	-	526,861	455,509	-	982,370
Hotel/Motel Tax	-	503,450	3,881,438	-	4,384,888
Total	<u>\$ 116,847</u>	<u>\$ 12,881,974</u>	<u>\$ 25,835,866</u>	<u>\$ 486,641</u>	<u>\$ 39,321,328</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 \$50,000 depending on the type of damage. As of June 30, 2014, 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, 2014, the Internal Service Fund liability consists of \$4,680,510 related to torts and \$3,745,429 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>General Fund</u>	<u>Internal Service Fund</u>
Unpaid claims, June 30, 2012	\$ 247,143	\$ 7,615,821
Incurred claims, including IBNRs/reduction in estimated liabilities	1,519,629	23,708,822
Claim payments	(1,517,346)	(23,986,264)
Unpaid claims, June 30, 2013	249,426	7,338,379
Incurred claims, including IBNRs/reduction in estimated liabilities	1,632,318	29,501,425
Claim payments	<u>(1,616,087)</u>	<u>(28,413,865)</u>
Unpaid claims, June 30, 2014	<u>\$ 265,657</u>	<u>\$ 8,425,939</u>

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

NOTE 12. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and water quality systems, and acquisition and construction contracts related to general government capital projects. At year end the City's commitment with contractors was approximately \$36,297,719.

Airport Debt

In May 2009, the City guaranteed the 10-year, \$6.6 million Taxable Revenue Refunding Bonds of the Chattanooga Metropolitan Airport Authority, a legally separate component unit of the City of Chattanooga. The bonds mature annually through April 1, 2019, with semiannual interest payments. In the event the Airport is unable to make payment, the City will be required to make that payment.

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 11.5 percent of the City Landfill Area III capacity and 100 percent usage of the Summit Landfill and the City Landfill Area II. At the current yield of utilization rate, we expect the landfill to have a remaining life of 40 years.

Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2014, are as follows:

Estimated liability, June 30, 2013	\$ 5,774,563
Expenses recognized	196,683
Costs incurred	<u>(247,681)</u>
Estimated liability, June 30, 2014	<u>\$ 5,723,565</u>
Due within one year	<u>\$ 239,991</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 year-end. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

Consent Decree

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

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

Pollution Remediation

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

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

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

During the fiscal year, the City spent \$93,334 in pollution remediation obligation related activities. At June 30, 2014, the City had an outstanding pollution remediation liability of \$3,196,568 with an estimated \$2,002,073 in grant revenue and donated services to offset these costs leaving a net pollution remediation obligation of \$1,194,495 related to Montague Park as described in the subsequent paragraph.

Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) site list, is an old landfill site. The park was closed in 2003 when methane gas leaks were found. The City is in the process of re-capping a small area in compliance with TDEC; work is being done by volunteer contractors leaving City resources to pay for cover topsoil and erosion control. Eventually the entire area will be remediated for use as athletic fields and a sculpture garden. Total costs are estimated at \$4,000,000 for the entire project but are not currently divided into remediation and construction costs. The reasonable range of potential outlays was estimated and multiplied by the probability of occurrence. This estimate was reduced by anticipated volunteer participation for a total estimate of \$1,194,495 at the end of fiscal year 2014.

Site investigation, planning, cleanup and site monitoring are typical remediation activities underway across the City. The 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 has completed the remediation work as of June 30, 2014.

On August 27, 2014, City and County decided that the new downtown firing range will not be built and the old firing range located at Moccasin Bend will continue to be used. Due to this change, the mandated clean-up at the Moccasin Bend Firing Range is no longer necessary. Thus the estimated remediation cost of \$10,000 is removed from the City's liabilities.

Contingencies

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

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

Conduit Debt Obligations

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

The Industrial Development Board currently has eighteen (18) outstanding bond issues, the original amounts of which were \$293,250,000. The Health, Educational and Housing Facility Board currently has thirty-seven (37) bond issues, the original amount of which were \$840,295,727. 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	\$ 182,770,000	\$ 7,596,000	\$ 336,000	\$ 190,702,000
Restricted assets	2,580,000	-	-	2,580,000
Capital assets	<u>518,493,000</u>	<u>74,969,000</u>	-	<u>593,462,000</u>
Total assets	<u>703,843,000</u>	<u>82,565,000</u>	<u>336,000</u>	<u>786,744,000</u>
Liabilities:				
Current liabilities	124,626,000	15,729,000	336,000	140,691,000
Noncurrent liabilities	<u>305,692,000</u>	<u>52,172,000</u>	-	<u>357,864,000</u>
Total liabilities	<u>430,318,000</u>	<u>67,901,000</u>	<u>336,000</u>	<u>498,555,000</u>
Net position:				
Net investment in capital assets	240,696,000	74,969,000	-	315,665,000
Unrestricted	<u>32,829,000</u>	<u>(60,305,000)</u>	-	<u>(27,476,000)</u>
Total net position	<u>\$ 273,508,000</u>	<u>\$14,664,000</u>	<u>\$ -</u>	<u>\$ 288,189,000</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	\$ 566,519,000	\$99,883,000	\$(11,791,000)	\$ 654,611,000
Depreciation expense	(33,662,000)	(15,073,000)	-	(48,735,000)
Other operating expense	<u>(513,198,000)</u>	<u>(67,354,000)</u>	<u>11,791,000</u>	<u>(568,761,000)</u>
Operating income	19,659,000	17,456,000	-	37,115,000
Nonoperating revenues (expenses):				
Investment earnings	263,000	-	-	263,000
Interest expense	(12,082,000)	(1,697,000)	-	(13,779,000)
Other nonoperating	207,000	-	-	207,000
Tax equivalent	<u>(5,910,000)</u>	<u>(576,000)</u>	<u>-</u>	<u>(6,486,000)</u>
Change in net position	2,137,000	15,183,000	-	17,320,000
Net position, beginning of year	<u>271,388,000</u>	<u>(519,000)</u>	<u>-</u>	<u>270,869,000</u>
Net position, end of year	<u>\$ 273,525,000</u>	<u>\$14,664,000</u>	<u>\$ -</u>	<u>\$ 288,189,000</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	\$ 52,238,000	\$33,102,000	\$ -	\$ 85,340,000
Capital and related financing activities	(77,038,000)	(33,624,000)	-	(110,662,000)
Investing activities	<u>291,000</u>	<u>-</u>	<u>-</u>	<u>291,000</u>
Net increase (decrease)	(24,509,000)	(522,000)	-	(25,031,000)
Beginning cash and cash equivalents	<u>123,629,000</u>	<u>859,000</u>	<u>-</u>	<u>124,488,000</u>
Ending cash and cash equivalents	<u>\$ 99,120,000</u>	<u>\$ 337,000</u>	<u>\$ -</u>	<u>\$ 99,457,000</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	\$ 11,225,853
Multiplied by two-thirds	<u>x 2/3</u>
City's equity interest	<u>\$ 7,483,902</u>

Condensed financial information for Carter Street Corporation as of June 30, 2014, is as follows:

STATEMENT OF NET POSITION

Assets:	
Cash	\$ 1,618,176
Accounts receivable, net	450,807
Prepaid expenses	51,135
Inventories	48,359
Capital assets, net	<u>9,308,494</u>
Total assets	<u>\$ 11,476,971</u>
Liabilities:	
Accounts payable	\$ 44,100
Accrued expenses	123,132
Deferred revenue	10,000
Advanced deposits	<u>73,886</u>
Total liabilities	<u>251,118</u>
Net Position:	
Net investment in capital assets	9,308,494
Restricted	22,797
Unrestricted	<u>1,894,562</u>
Total net position	<u>11,225,853</u>
Total liabilities and net position	<u>\$ 11,476,971</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues	\$ 3,592,510
Total operating expenses	<u>3,994,634</u>
Loss from operations	(402,124)
Nonoperating revenues	300,000
Capital contributions	<u>200,000</u>
Net increase	97,876
Net position, beginning of year	<u>11,127,977</u>
Net position, end of year	<u>\$ 11,225,853</u>

Complete financial statements 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, 2014, the City of Chattanooga implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* for EPB. This statement 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. Implementation resulted in a direct decrease of \$2,315,000 to net position in business-type activities to eliminate bond issue costs.

The City opted to early implement GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*; this early implementation does not apply to the EPB Pension Plan or the portion of the General Pension Plan attributable to the Airport Authority. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This resulted in a direct decrease to net position of \$223,423,753 for governmental activities and \$6,812,237 for business-type activities.

	<u>General Pension</u>	<u>Fire & Police Pension</u>	<u>Total Governmental Activities</u>	
Remove net pension assets	\$ (556,528)	\$ (4,848,557)	\$ (5,405,085)	
Record beginning net pension liability	(36,263,302)	(193,350,490)	(229,613,792)	
Record beginning deferred outflow	<u>6,124,876</u>	<u>5,470,248</u>	<u>11,595,124</u>	
	<u>\$ (30,694,954)</u>	<u>\$ (192,728,799)</u>	<u>\$ (223,423,753)</u>	

	<u>Interceptor Sewer System</u>	<u>Solid Waste</u>	<u>Water Quality Management</u>	<u>Total Business-Type Activities</u>
Record beginning net pension liability	\$ (4,136,221)	\$ (523,826)	\$ (3,536,605)	\$ (8,196,652)
Record beginning deferred outflow	<u>698,608</u>	<u>88,474</u>	<u>597,333</u>	<u>1,384,415</u>
	<u>\$ (3,437,613)</u>	<u>\$ (435,352)</u>	<u>\$ (2,939,272)</u>	<u>\$ (6,812,237)</u>

Also during the year, an adjustment was made to the beginning net position of governmental activities for Long-term Debt and the General Fund as well as business-type activities for the Water Quality Fund to reflect a compromise of litigation involving the City of Chattanooga and Hamilton County Department of Education relative to past liquor-by-the-drink tax revenues due to the Hamilton County Department of Education and past-due water quality fees due to the City of Chattanooga. The compromise agreement resulted in a direct reduction of \$11,763,477 for long-term debt to record the amount due to the Department of Education, a direct addition of \$299,899 to General Fund to reverse a prior year expense and a direct addition of \$1,466,036 to Water Quality to record receivables from prior years.

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

	<u>Governmental Activities</u>			
Beginning balance, as previously reported	\$ 1,332,845,129			
Prior period adjustment:				
Change in accounting principle (GASB 68)	(223,423,753)			
Long-term debt	(11,763,477)			
Reverse prior year expense	<u>299,899</u>			
Beginning balance, as restated	<u>\$ 1,097,957,798</u>			

	<u>Business-Type Activities</u>			
	<u>EPB</u>	<u>Interceptor Sewer System</u>	<u>Solid Waste</u>	<u>Water Quality Management</u>
Beginning balance, as previously reported	\$ 273,184,000	\$ 258,270,407	\$ (2,828,509)	\$ 50,318,821
Prior period adjustment:				
Change in accounting principle (GASB 65)	(2,315,000)	-	-	-
Change in accounting principle (GASB 68)	-	(3,437,613)	(435,352)	(2,939,272)
Prior years' revenue	-	-	-	<u>1,466,036</u>
Beginning balance, as restated	<u>\$ 270,869,000</u>	<u>\$ 254,832,794</u>	<u>\$ (3,263,861)</u>	<u>\$ (48,845,585)</u>

NOTE 16. SUBSEQUENT EVENTS

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

On July 2014, the City issued \$25,925,000 General Obligation Refunding Bonds. The bonds were issued to refund \$13,545,000 General Obligation Refunding Bonds, Series 2005A and \$13,200,000 General Obligation Bonds, Series 2006A resulting in \$2,508,103 net present value savings.