

**CITY OF CHATTANOOGA, TENNESSEE**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004**

**DEPARTMENT OF FINANCE AND ADMINISTRATION  
DAVID R. EICHENTHAL, ADMINISTRATOR  
DAISY W. MADISON, DEPUTY ADMINISTRATOR**

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# Mayor's Letter

NOVEMBER 12, 2004

To the Members of the City Council and the Citizens of Chattanooga, Tennessee:

It is my great pleasure to present to you this comprehensive annual financial report for the City of Chattanooga for the fiscal year ended June 30, 2004.

It has been a great honor to serve as the Mayor of Chattanooga during the past four years. I am extremely proud of what we have been able to achieve over the past four years with the strong partnership of our citizens and of the vitality and growth our city is poised to enjoy for years to come.

We were elected to office based on an aggressive and specific platform. It focused on building a strong city by putting in place tools and infrastructure to strengthen the economy, building strong and safe neighborhoods, and driving up educational achievement in the city's nine high priority elementary schools.

Within six months in office, through the strong partnership of the City Council, we had implemented a series of initiatives that addressed each of these areas. After three and a half years in office, there are many projects firmly in place which are transforming the city.

Working closely with the Chamber of Commerce, we made the recruitment of new business and expansion of existing business a high priority.

Working with Hamilton County and the City Council, Enterprise South, a 1,200 acre industrial park, is complete and construction is already underway on the first companies to locate there. Through a partnership with the State, construction is also underway on a new \$23 million interchange dedicated to the site, along with the continued widening of I-75.



We have made the enhancement of air service a priority. We worked with the State General Assembly to change the makeup of the Airport Authority and appointed a strong nine-member board who have professionalized the airport and are aggressively pursuing improved air service. Since coming to office, new non-stop service to New York, the city's number one business destination, was added with two daily flights and as of July 2004 direct service to Reagan National Airport in Washington, D.C. began.

A key part of our platform was the recognition of the need for access to capital to assist start up and emerging businesses. Through concentrated efforts, Southeast Community Capital was recruited to the community and the Chattanooga Opportunity Fund, a debt-based fund, was created for small and minority owned businesses. In

addition, one of the State's most respected "pure" venture capital firms was recruited to the city and their presence here has already resulted in millions of dollars in commitments to Chattanooga companies.

Working with the Bush Administration, we were successful in securing a Renewal Community designation for the downtown and other areas, which has resulted in significant tax credits for eligible businesses that are expanding and adding jobs in Chattanooga.

We have worked to take full advantage of the city's location and establish Chattanooga as a hub of the technology corridor. The city, the county and Congressman Wamp have caused the Enterprise Center to become an umbrella organization for oversight and accountability to 12 innovative, federally funded initiatives. By coordinating the efforts of these initiatives, and building on them, Chattanooga's place in this technology corridor has been enhanced along with the community's relationships with the world class research institutions throughout the region.

In 2002, through a focused effort, Chattanooga became the first city in the state with a direct fiber optic connection to the Oak Ridge National Laboratory's super computer. This distinction was instrumental in UTC's recruitment of the SIM Center, a world-class computational engineering program, which also brought the first doctoral program to the university.

A few weeks after taking office, we worked with Hamilton County to put in place a tax abatement incentive for those who built new or rehabbed existing rental housing units in the downtown. This program has been successful and rounds out the diverse offering of housing options available in a downtown that is quickly becoming one of the most desired places to live in the city.

On May 22, 2002, after tremendous public input and with no identified funding source or architectural plans, we announced that the \$120 million 21<sup>st</sup> Century Waterfront Plan would be implemented and completed in 35 months, by May 2005.

The Waterfront Plan includes major expansions of the Tennessee Aquarium, the Hunter Museum of Art and an extensive renovation of the Creative Discovery Museum. On the south shore, the project includes the creation of public green spaces at Ross's Landing Park; riverfront mooring facilities; the connection of the art district to the downtown via First Street and a new pedestrian bridge; the creation of a new City Pier; a narrowed Riverfront Parkway that better accommodates pedestrian traffic; a passage-way underneath the Parkway which connects the Aquarium Plaza to the river; and additional parking facilities. On the North shore, the development of property adjacent to Coolidge Park will feature additional public spaces and the preservation of a natural wetland.

Several parcels have been set aside which will allow for immediate on-site private development, bringing additional housing and retail units to the urban core. Construction is well underway on a mixed-use housing development beside the Chattanooga Green, and construction will begin soon on two housing developments on either side of First Street adjacent to the Walnut Street Bridge. Other similar projects will undoubtedly be announced in the coming months. There is unprecedented vitality and energy in our community and over the next few months, I believe the momentum we are experiencing will continue to grow.

The waterfront plan represents the largest public/private undertaking in a community known for such partnerships. Funding is divided between the public and private sectors, with \$69 million in public funds generated primarily through a dedicated lodging tax. Through an effort we personally led, a 90-day fundraising effort led to \$51 million being put in place through the private sector. The ambitious goal set in 2002 will be met and has been funded in a way that leaves absolutely no financial burden on the citizens of Chattanooga.

As part of the Waterfront project, we launched a Public Art initiative and convened 500 people who gave

input on the formation of a Public Art Committee. The Public Art Committee's work of ingraining art into the fabric of the community will be focal points of the Waterfront development and is expanding to other areas of the city.

We created the Outdoor Chattanooga initiative designed to take advantage of the tremendous outdoor opportunities that exist throughout the region. In November of 2003, over 800 citizens gathered and provided input for the creation of the new initiative.

The Outdoor Initiative will be headquartered at the 23 acres being developed beside Coolidge Park through the 21<sup>st</sup> Century Waterfront Plan and will be one of the most unique settings in the country that features the outdoors.

Soon after coming to office, we formed the Community Education Alliance, and brought together business leaders to focus on the nine urban elementary schools in Chattanooga on the State's on notice list. There was a significant problem recruiting and retaining high performing teachers to these schools. They had become places where teachers felt they were on a losing team and were regularly transferring out to teach elsewhere.

After three years, 56 of the school system's most effective educators are taking advantage of the bonus incentive for high performing teachers and principals. Since the effort began, these schools have outpaced all other schools in the system in student gains and in the fall of 2003 they opened for the first time with not a single position vacant. These schools have become places where educators want to be. These educators and this effort have shown that if public education is supported appropriately, tremendous results can be achieved.

We have worked with departments in city government to streamline operations while enhancing services. Today there are 250 fewer jobs in city government than when we took office and services have been greatly enhanced. We have worked hard to keep city government lean but responsive, and our fourth budget is less than 1% higher than our first.

In addition, we introduced a long-term capital planning function within the city. The five-year capital plan allows projects to be prioritized, with definable timeframes which allow citizens to anticipate when the improvements will occur. This strategic approach has been important in helping Chattanooga prudently strengthen its infrastructure, ensuring that we continue the work of building a great city for generations to come.

During our administration, we launched a 311 call system giving citizens easy access to local government. With data collected through 311 and other sources, Chattanooga Results was implemented to evaluate department performance. The accountability and collaboration that has occurred as a result of monthly performance meetings has enhanced each department's ability to deliver efficient services and the administration's ability to monitor their efforts.

During the 2005 budget cycle, we announced the creation of "ChattanoogaInvests." By preventing poverty or crime, these programs will build a stronger economy leading to improved city revenues or reduced budgetary costs. Through the program, the city will serve as a partner to initiatives that help leverage efforts by other governments, the private sector, and the non-profit sector.

Early on, we implemented the Strategic Neighborhood Initiative, which has strengthened code enforcement, developed neighborhood leaders, and restored blighted property in 15 of Chattanooga's neighborhoods most in need. We spearheaded the development of tough new refuse policies and provided for additional garbage inspectors, which have given residents the tools they need to positively impact their neighborhoods and make the community a cleaner, better place to live.

Soon after being elected, a couple of neighborhood groups came to us with a plan which involved changing MLK Boulevard and McCallie Avenue from one-way to two-way traffic. Although initially controversial, after much discussion and planning, this request was ultimately

implemented and the change has had a positive impact on the community and to the neighborhoods that border these two streets. Through the leadership of the Lyndhurst Foundation, ML King Tomorrow, the Community Impact Fund, and Chattanooga Neighborhood Enterprise, 92 new housing units for all income levels are being constructed or rehabbed in this neighborhood resulting in a \$13 million investment to be completed by May of 2005.

Public Safety is an essential element to a strong community and we have focused significant energy on putting in place a strong leadership team in the Chattanooga Police Department. Since 2002, crime in Chattanooga is down 22% thanks to these efforts and to the diligence of the men and women in the Chattanooga Police Department. In addition, through 2003, violent crime has dropped more in Chattanooga than any other city in the State of Tennessee.

We have put in place a comprehensive plan to end chronic homelessness in ten years. Through this initiative, a total paradigm shift has occurred in how the chronic homeless population is viewed; the ten percent of that population who go through long periods of homelessness and eat up the bulk of resources. The city's focus has gone away from temporary band-aid fixes, to giving these citizens more permanent solutions to address their needs.

In 2002, we leveraged federal resources to implement a comprehensive bicycle facilities plan which created 31 miles of bike facilities in the City of Chattanooga and connected the region's primary North/South and East/West corridors.

During the 2004 tax season, 2,183 Chattanoogaans were assisted through an aggressive initiative to help low to moderate income citizens claim their full tax refund. Through the program, low and moderate income taxpayers were helped at eight sites around the City, and received \$2.6 million back from the Federal Government. In its inaugural year, Chattanooga became a leader in the growing national effort to help low and moderate income

workers receive the benefits under the Earned Income Tax Credit, the Child and Dependent Care Credit, and other tax credits for which they may be eligible.

By creatively leveraging existing funds coupled with the utilization of a federal grant, we were able to fully implement the \$84 million Hope VI project that is now underway in the Alton Park community. When complete, the development will provide 400 new units of housing for that community.

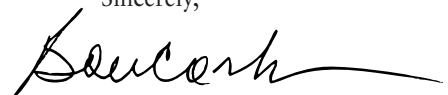
We have established strong partnerships between the City of Chattanooga and federal and state governments. As a result of those partnerships, millions of dollars in federal appropriations have been secured to move Chattanooga forward and every piece of legislation the city has introduced at the State General Assembly has been adopted.

In addition, we have focused on making the former Butcher Block, bordered by MLK Boulevard, 10<sup>th</sup>, Market, and Broad Streets, ready for development. Working with the state, the site has been put into productive use and the new headquarters of the Electric Power Board will open there in 2005.

An additionally important enhancement that has occurred in city government during this term is the establishment of a new position in the Parks and Recreation department to ensure that citizens with disabilities have access to recreational opportunities. This initiative goes hand in hand with other efforts to ensure we offer people of all abilities a great quality of life.

The accomplishments we have made in our community would not have been possible without the bold vision and cooperative spirit of our citizens. It has been a distinct privilege to be your Mayor and to have had the honor to play a role in this remarkable time in our city's history.

Sincerely,



Bob Corker  
Mayor





CITY OF CHATTANOOGA

# CHATTANOOGA CITY COUNCIL



W. JACK BENSON, SR.  
DISTRICT 4  
CHAIRPERSON

SALLY L. ROBINSON  
DISTRICT 2  
VICE CHAIRPERSON

JOHN M. LIVELY  
DISTRICT 1



DAN B. PAGE  
DISTRICT 3

JOHN P. FRANKLIN, JR.  
DISTRICT 5

RONALD C. LITTLEFIELD  
DISTRICT 6



JOHN R. TAYLOR, SR.  
DISTRICT 7

LEAMON PIERCE  
DISTRICT 8

YUSUF A. HAKEEM  
DISTRICT 9







# City of Chattanooga

DEPARTMENT OF FINANCE AND ADMINISTRATION  
CITY HALL ANNEX

Chattanooga, Tennessee 37402

OFFICE: (423) 757-5230 • FAX: (423) 757-0525

Bob Corker  
Mayor

David R. Eichenthal  
City Finance Officer

Daisy W. Madison, CPA  
Deputy City Finance Officer

**NOVEMBER 11, 2004**

To the Honorable Mayor Bob Corker, Members of the City Council and the Citizens of Chattanooga, Tennessee:

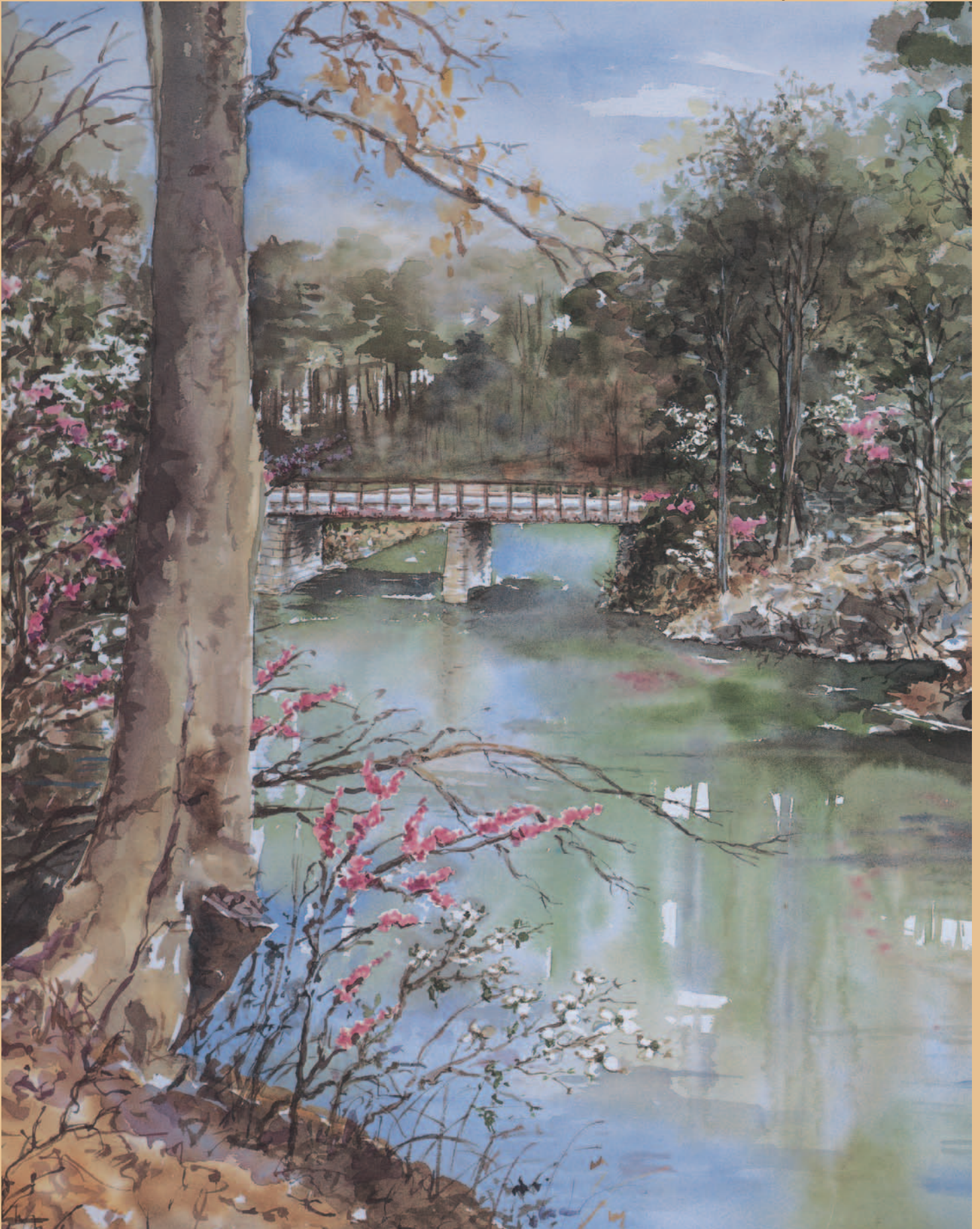
In compliance with state and local statutes, I am submitting the Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2004. These ordinances and statutes require that the City of Chattanooga issue annually a report on its financial position and activities, and that an independent firm of certified public accountants audit this report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management of the City of Chattanooga has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Chattanooga's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this report is complete and reliable in all material respects.

The City of Chattanooga's financial statements have been audited by Hazlett, Lewis & Bieter, PLLC, a firm

of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Chattanooga's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first item in the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. These reports are in a separate Single Audit section.





GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Chattanooga's MD&A can be found immediately following the financial statement report of the independent auditors.

## Governmental Structure, Economic Conditions And Major Initiatives

### PROFILE OF THE GOVERNMENT

Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. It encompasses an area of 144.16 square miles and a population of 157,532. The City is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2-1/2 hour drive of Chattanooga. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also has the power to extend its corporate limits by annexation in accordance with procedures under an "Urban Growth Plan" agreed to between the city and the county.

The City operates under a Mayor/Council form of government. The Mayor is elected at-large and is not a member of the City Council. The Council is composed of nine members, with each member being elected from one of nine districts within the geographic boundaries of the City. The Mayor and Council are elected for four-

year terms. The Mayor is the City's chief executive officer and oversees the operation of all City departments.

The City provides a full range of municipal services including but not limited to fire and police protection; sanitation services; construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a storm water maintenance program and a sewer and sewage facility system for its residents and for other communities in southeast Tennessee and northwest Georgia.

The annual budget serves as the foundation for the City's financial planning and control. The City Finance Officer obtains information from all departments and agencies of the City for which appropriations are made and/or revenues are collected and compiles the operating budget for submission to the Mayor. During the months of May and June, the City Council hears budget requests from the departments and agencies at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage. The budget is legally enacted through passage of an ordinance with an operative date of July 1. The appropriated budget is adopted on a departmental basis; the legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental transfers within the General Fund. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements for the governmental funds. The budget-to-actual comparisons for the remaining governmental funds with appropriated annual budgets are presented in the governmental fund subsection of this report.

## Factors Affecting Financial Condition

The information presented in the financial statements may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Chattanooga operates.

### THE CITY'S ECONOMIC FUTURE

Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (23.2%), government (14.7%), manufacturing (14.2%), professional and business services (10.6%), education and health (9.7%), and leisure and hospitality (8.3%) comprise 80.7% of the workforce. Employment in the retail service sector is driven, in part, by the presence of Hamilton Place Mall, Tennessee's largest. The 1.4 million-square-foot mall has brought in many tourists and locals with a mix of new and familiar stores, theme restaurants and movie theaters. Thanks to the mall, the area has become a retail hotbed with more than 15 million visitors a year.

Chattanooga is particularly well positioned to take advantage of future improvements in the national economy. Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. The local unemployment rate of 3.5% remains significantly below the national average.

Creating economic growth has been at the core of Mayor Bob Corker's agenda for Chattanooga since he took office in April 2001. He has successfully implemented his nine key strategies designed to grow jobs and the economy. As outlined in the Mayor's letter on pages one through four, tremendous progress has been made in each of these areas.

- Aggressive Business Recruitment
- Access to Capital for Local Businesses
- Access to Technology

- Development of Enterprise South
- New Partnerships with the University of Tennessee at Chattanooga
- Enhanced Airline Service
- Improved Education
- Crime Reduction
- Neighborhood Development

The City also succeeded in securing a Renewal Community designation for the downtown and other areas, which has resulted in significant tax credits for eligible businesses that are expanding and adding jobs in Chattanooga.

On May 22, 2002, after tremendous public input and with no identified funding source or architectural plans, Mayor Corker announced that the \$120 million 21<sup>st</sup> Century Waterfront Plan ([www.waterfrontchattanooga.com](http://www.waterfrontchattanooga.com)) would be implemented and completed in 35 months, by May 2005. Upon completion, these improvements will encompass 129 acres. Renewed interest has been generated in the downtown area as a direct result of this project. One developer has already purchased the "Smokestack Lot" and has begun construction of a \$17 million mixed-use development featuring residential, retail and a public parking facility. In all, groundbreaking for or planning of nearly \$100 million dollars in new housing in the downtown area, as well as over \$10 million dollars in office development has begun.

There are many other noteworthy plans for Chattanooga's future. The city will become home to one of the nation's newest national parks with the transfer of land on the Moccasin Bend peninsula to the National Park Service. The mayor's Outdoor Chattanooga program will highlight the region's diverse geography to promote a plan to make outdoor activities a significant portion of community life.

Development of the Southside continues. The creation of the Tourist Development Zone provided a funding mechanism for a more than \$117 million investment in a new conference center, the Development

Resource Center, a Trade Center expansion, and a parking facility. A new headquarters for the Electric Power Board of Chattanooga and a planned new federal court building will further bolster development on the Southside.

### **BUDGET IN BRIEF - SMALLER AND SMARTER GOVERNMENT**

During the last four years, the City's General Fund budget has grown by less than one percent and there are more than 250 fewer positions in City government. Tax increases and layoffs have been avoided by a combination of aggressive efforts in management and growth in economically sensitive taxes, especially the sales tax.

Greater accountability and savings have been achieved through implementation of a vacancy control plan and the *chattanoogaRESULTS* initiative. The Mayor, department heads, the City Finance Officer and other senior City officials regularly meet to review performance and spending.

### **CASH MANAGEMENT POLICIES AND PRACTICES**

Cash temporarily idle during the year is invested in commercial banks and savings and loan certificates of deposit as well as various instruments guaranteed by the United States Government. These instruments have terms ranging from one week to one year. Cash idle for a longer period of time is invested in longer-term government securities. Due to statutes of the State of Tennessee, the City is limited in the investment methods it may utilize. Changes in the fair value of investments are reported as investment income or loss.

### **RISK MANAGEMENT**

The City manages exposure to risk of loss through several methods including contracts with

commercial carriers for property insurance, surety bond coverage of officials and employees, and commercial liability coverage. The City assumes the risk of loss for general liability not covered by commercial carriers. To minimize its losses, the City has implemented various risk control techniques such as safety inspections and safety training classes. As part of the City's risk management program, resources are being accumulated in an Internal Service Fund to meet potential losses relating to general liabilities and tort claims. Reserves are accumulated in the General Fund to meet potential losses for all other exposures. Additional information on the City's risk management activity can be found in the notes to the financial statements.

### **PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

The City provides retirement benefits through three single-employer defined benefit pension plans that cover all employees. One plan covers general City employees; a second plan covers employees of the Electric Power Board; and the third covers firefighters and police officers. Each of these plans is maintained separately and engages an independent actuary to calculate the amount of annual contribution that must be made to each plan to ensure the plans will be able to fully meet their obligations to retired employees on a timely basis. As a result of the City's conservative funding policy, all plans are fully funded.

The City also provides postretirement health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 834 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Additional information on the City's pension arrangements and postretirement benefits can be found in the notes to the financial statements.





Each year the City focuses on a department of City government describing in detail services provided. This year's focus is the Public Works Department.



## FOCUS ON Public Works Department

The Public Works Department mission is to preserve and enhance the quality of the physical environment through prompt, cost effective and courteous delivery of services that protect the health, safety and welfare of citizens, and to maintain and improve the city's infrastructure. This is accomplished through seamless coordination among its five major divisions and two support offices.

**CITY-WIDE SERVICES** provides logistical planning, resource management and oversight for sewer and street construction and maintenance, emergency response, solid waste, sanitation, brush and trash collection, recycling and street cleaning.

**CODES AND INSPECTIONS** ensures that area construction meets local, state, and national building codes. Strong partnerships with citizens and contractors have been achieved through excellent customer service, educational programs, and improved processes.

**ENGINEERING** is dedicated to improving the appearance and development of the downtown area and providing technical assistance for sewer projects. Notable projects include the 4<sup>th</sup> Street widening, Market Street streetscape, McCallie/Martin Luther King Boulevard two-way conversion, Riverfront Parkway, Enterprise South, and Hope VI developments. **STORMWATER'S** emphasis is on water quality, National Pollutant Discharge Elimination System (NPDES) permit compliance, resolving program deficiencies and enforcement of the Stormwater ordinance. The **TECHNICAL INFORMATION CENTER** launched the Map Maker web page which allows citizens to access data to construct maps from layers such as easements,

collection routes, property information, public safety, transportation, flood data and imagery.

**TRAFFIC ADMINISTRATION** manages all traffic functions and provides oversight to Traffic Operations. Review of subdivision plats, building permits, roadway designs, traffic studies and correcting traffic operational safety deficiencies are examples of the functions of this office. **TRAFFIC OPERATIONS** utilizes technology, which includes video detection signal equipment, electronic parking meter timers, and state-of-the-art signage to provide safe and smooth traffic flow for pedestrian and vehicular traffic.

**WASTE RESOURCES** manages the operation of the wastewater system, landfill, and wood recycle center. The wastewater system consists of 1200 miles of sewer, 62 pump stations, 8 combined sewer overflow facilities, and the Moccasin Bend Wastewater Treatment Plant. The Landfill is a Class 1 lined landfill and processes 100,000 tons annually. The Wood Recycle Center processes 40,000 tons of vegetative materials and collects 160,000 pounds of household hazardous waste annually.

The Information Technology office tracks and manages Public Works internal activity. Citizens can access new electronic systems such as building permits 24 hours per day, 7 days per week.

The Office of Capital Planning prioritizes and coordinates all capital projects in the 5-year Capital Improvements Plan, and prepares the annual Capital Budget. The office serves as a liaison to the State of Tennessee on transportation system issues.

Public Works Administration has managed the Dry Cleaner Environmental Response Program (DCERP) remediation grant for environmental clean up of the "Butcher Block" and coordinated clean up efforts with construction of Electric Power Board Corporate offices. Administration also managed application and administration of an EPA environmental assessment grant for the Civic Forum site.



## Awards And Acknowledgements

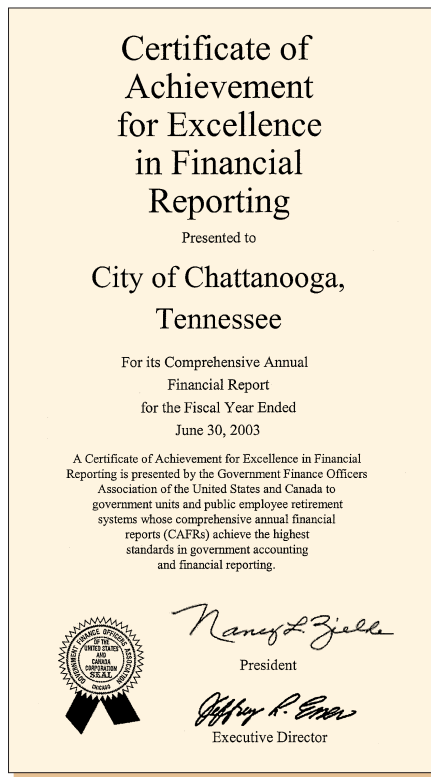
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chattanooga, Tennessee for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the twelfth consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA Award for Distinguished Budget Presentation for its annual

appropriated budget for each of the six fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Finance Department and the City's independent public accountants, Hazlett, Lewis & Bieter, PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.



Respectfully submitted,

David Eichenthal  
City Finance Officer

# City Officials as of June 30, 2004

**BOB CORKER, MAYOR**

Michael E. Compton, Chief of Staff

## CITY COUNCIL:

W. Jack Benson, Sr., Chairperson .....	District 4
Sally L. Robinson, Vice Chairperson .....	District 2
John M. Lively .....	District 1
Dan B. Page .....	District 3
John P. Franklin, Jr. ....	District 5
Ronald C. Littlefield .....	District 6
John R. Taylor, Sr. ....	District 7
Leamon Pierce .....	District 8
Yusuf A. Hakeem .....	District 9

## COURTS:

(Vacant) .....	City Court Judge
Russell J. Bean .....	City Court Judge
Edward C. Hammonds .....	City Court Clerk

## DEPARTMENT ADMINISTRATORS AND DIRECTORS:

Legal .....	Randall Nelson .....	City Attorney
Legislative .....	Carol O'Neal .....	Clerk of the Council
Personnel .....	Donna Kelley .....	Administrator
Neighborhood Services .....	Kenardo K. Curry .....	Administrator
Human Services .....	Bernadine Turner .....	Administrator
	Tommie Pruitt .....	Deputy Administrator
Parks, Recreation, Arts & Culture .....	Jerry Mitchell .....	Administrator
	Janice Hester .....	Deputy Administrator
Public Works .....	William C. McDonald, Jr. ....	Administrator
	Beverly P. Johnson .....	Deputy Administrator
Police .....	Chief Steven M. Parks .....	Administrator
Fire .....	Chief Jim M. Coppinger .....	Administrator
Finance & Administration .....	David R. Eichenthal .....	Administrator
	Daisy W. Madison .....	Deputy Administrator
Office Of Performance Review .....	David R. Eichenthal .....	Director

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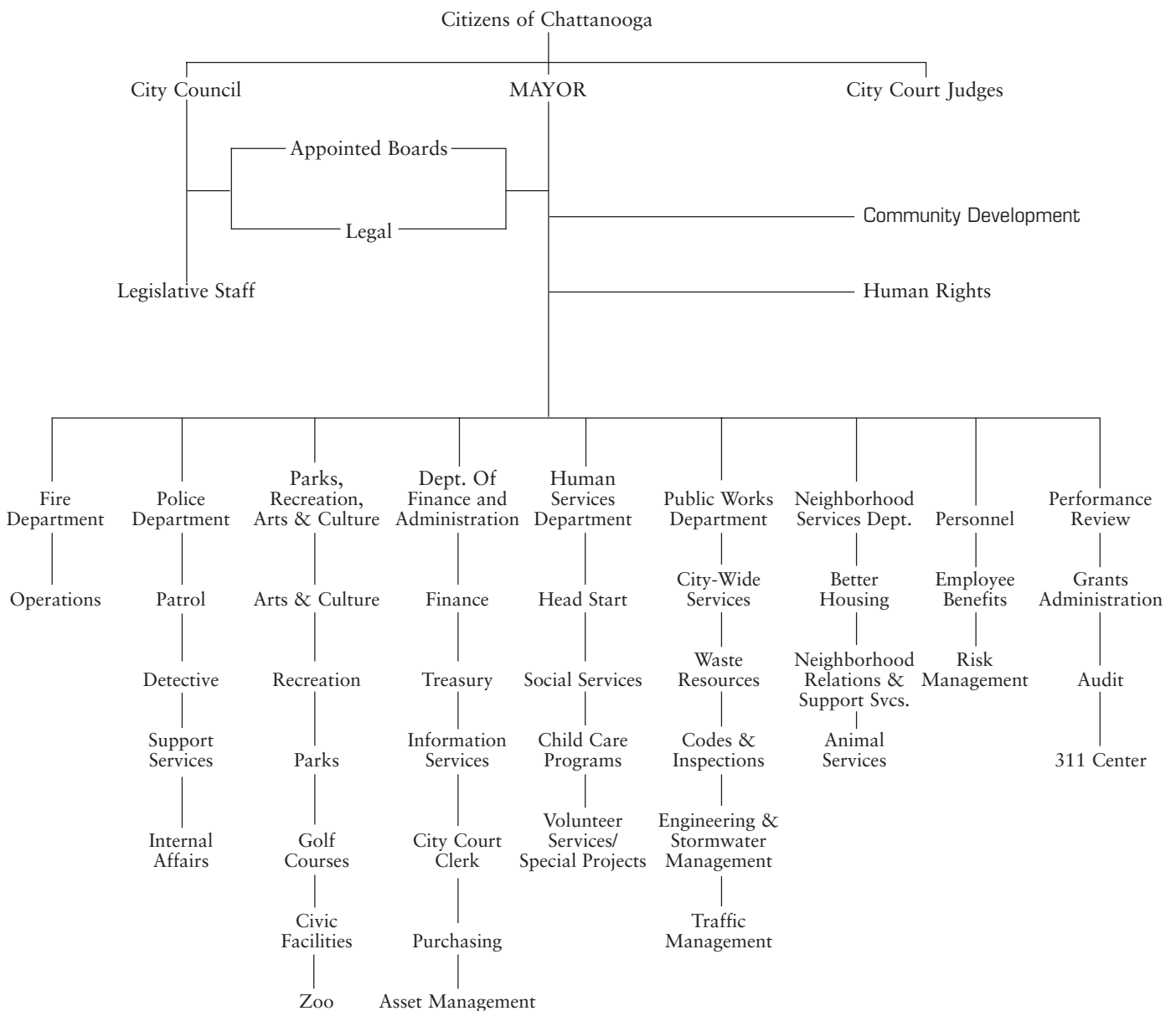
Brian Smart .....	Manager, Financial Operations
Fredia F. Kitchen .....	Budget Officer
Daisy W. Madison .....	Treasurer
Mark J. Keil .....	Director, Information Services
Gene D. Settles .....	Purchasing Agent
Rayburn Traughber .....	Administrator of Community Services
(Vacant) .....	Director of Asset Management
Jeffrey E. Claxton .....	Risk Manager
Henry W. Yankowski .....	Director, Codes and Inspection
D. Lee Norris .....	Director, City Wide Services
Jerry W. Stewart .....	Director, Waste Resources
Phillip Lynn .....	City Engineer
John Van Winkle .....	City Traffic Engineer
Harold E. DePriest .....	President and CEO, Electric Power Board
David F. Clapp .....	Director, Chattanooga - Hamilton County Bicentennial Library
(Vacant) .....	President, Metropolitan Airport Authority
Barry M. Bennett .....	Director, Regional Planning Agency
Robert H. Colby .....	Director, Air Pollution Control
(Vacant) .....	Director, Scenic Cities Beautiful Commission





CITY OF CHATTANOOGA

# Organizational Chart





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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of EPB, which represent 46 percent and 89 percent, respectively, of the assets and revenues of the business-type activities. We also did not audit the financial statements of the Chattanooga Metropolitan Airport Authority, which represent 25 percent and 25 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for EPB and the Chattanooga Metropolitan Airport Authority, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages iii through xiv of the Financial Section and the required supplementary information on pages 53-54 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Haslett, Lewis & Bieler, PLLC*

Chattanooga, Tennessee  
October 15, 2004

# Management's Discussion and Analysis

This section of the City of Chattanooga's annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2004. Please read it in conjunction with the transmittal letter found at the front of this report and the City's financial statements, which follow this section.

## Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by \$1.83 billion (*net assets*). Of this amount, \$70.4 million may be used to meet the government's ongoing obligations to citizens and creditors (*unrestricted net assets*), a \$19.2 million decrease over last year.
- While the net assets of our business-type activities increased \$10.9 million, or 2.4 percent, the net assets of our governmental activities increased \$14.9 million, or 1.1 percent. During the year, the City generated \$233.5 million in taxes and other revenues for governmental programs. This compares with \$217.8 million of expenses for these programs.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year our governmental activities recognized depreciation expense of \$32.2 million including \$21.9 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$106.8 million, a decrease of \$22.7 million in comparison to last year. The decrease is a result of capital construction funded from prior year bond proceeds.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$36.6 million, 22.4 percent of total General Fund expenditures and transfers out.
- The City's primary government debt increased by \$4.8 million (1.0 percent) during the current fiscal year. The increase was predominately from a State Revolving Loan to finance Interceptor Sewer System improvements.

## Overview of the Financial Statements

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

**Government-wide financial statements.** The first two statements are government-wide financial statements. They are designed to provide readers with both long-term and short-term information about the City's overall financial status in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Assets** — presents information about the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- **Statement of Activities** — presents information showing how the City’s net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Chattanooga Metropolitan Airport Authority P. O. Box 22444 Chattanooga, TN 3742	CARTA 1617 Wilcox Boulevard Chattanooga, TN 37406
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The Chattanooga Downtown Redevelopment Corporation is audited as part of the City of Chattanooga, therefore no separately issued, audited financial report is available. However, the audited financial statements of The Chattanooga, one business within the corporation, is available from the City of Chattanooga Finance Department; 100 East 11<sup>th</sup> Street; Chattanooga, Tennessee 37402.

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

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

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

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

The City maintains a general fund, multiple special revenue funds, a debt service fund and a capital projects 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 supplementary section of this report.

The City of Chattanooga adopts a budget for all governmental funds. A budgetary comparison for the General Fund is found in the fund statements of this report; comparisons for the other governmental funds, except the capital projects fund, are provided in the supplementary section of this report. Budgetary comparisons for funds with an annual budget are provided to demonstrate compliance with the budget. The capital projects fund is excluded since it is budgeted on a project basis.

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

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

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

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

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

- **Fiduciary funds** — These funds provide information about the financial relationships where the City acts solely as a trustee or fiduciary for the benefit of others to whom the resources belong. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance City operations. All of the City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets in the fund financial statements.

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

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

**Notes to the financial statements.** The financial statements also include notes that provide additional information. These notes are essential to a full understanding of the information provided in the government-wide and fund financial statements.

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

**Other information.** In addition to the basic financial statements discussed above, this report also presents required supplemental information about the City's progress in funding its obligation to provide pension benefits to its employees. This required supplemental information can be found following the notes to the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented as additional supplemental information. Also included as additional supplemental information are budget to actual comparisons for governmental funds other than the capital projects fund. This additional supplemental information can also be found following the notes to the financial statements.

## Financial Analysis of the City as a Whole

**Net Assets.** Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$1.83 billion at the close of the most recent fiscal year, an increase of \$25.9 million, or 1.4 percent, from last year. By far the largest portion of the City's net assets (93 percent) reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending.

An additional portion of the City's net assets, \$52.4 million or 2.8 percent, represents resources that are restricted in how they may be used. The remaining balance of \$70.4 million may be used to meet the City's ongoing obligations. At the end of the fiscal year, the City of Chattanooga is able to report a positive net asset balance for the government as a whole, as well as for its governmental and business-type activities.

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

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 231,551	\$ 253,568	\$ 184,459	\$ 183,476	\$ 416,010	\$ 437,044
Capital assets	1,505,270	1,465,929	625,078	598,418	2,130,348	2,064,347
Total assets	<u>1,736,821</u>	<u>1,719,497</u>	<u>809,537</u>	<u>781,894</u>	<u>2,546,358</u>	<u>2,501,391</u>
Long-term debt outstanding	272,032	270,179	214,912	212,614	486,944	482,793
Other liabilities	105,945	105,420	120,441	106,051	226,386	211,471
Total liabilities	<u>377,977</u>	<u>375,599</u>	<u>335,353</u>	<u>318,665</u>	<u>713,330</u>	<u>694,264</u>
Net assets:						
Invested in capital assets, net of debt	1,281,946	1,259,163	428,284	406,079	1,710,230	1,665,242
Restricted	32,162	21,805	20,236	30,443	52,398	52,248
Unrestricted	44,736	62,930	25,664	26,707	70,400	89,637
Total net assets	<u>\$ 1,358,844</u>	<u>\$ 1,343,898</u>	<u>\$ 474,184</u>	<u>\$ 463,229</u>	<u>\$ 1,833,028</u>	<u>\$ 1,807,127</u>

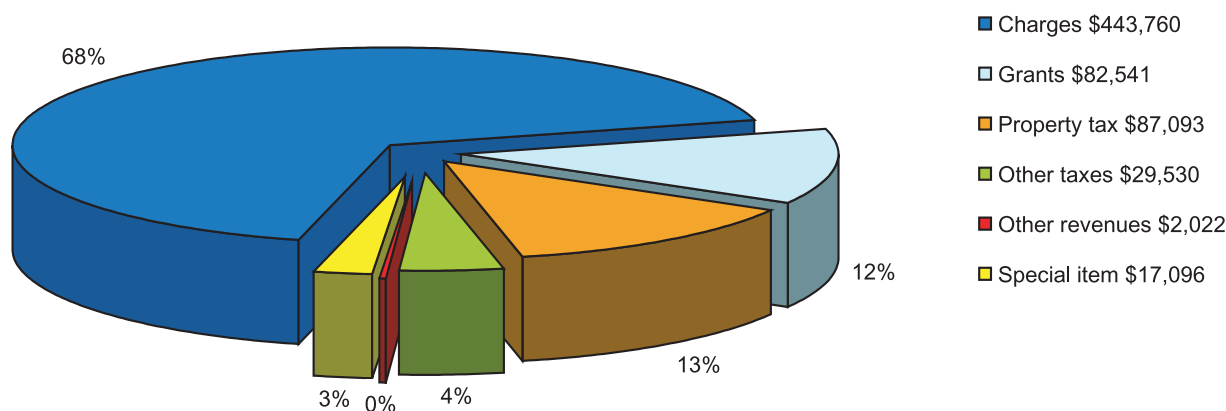
**Changes in Net Assets.** Net assets of the City's governmental activities increased 1.1 percent to \$1.36 billion. Of that balance \$1.31 billion are either restricted on how they may be used or are invested in capital assets (buildings, roads, bridges, and so on). Therefore \$44.7 million remains to meet the City's ongoing obligations to citizens and creditors.

During the same period the net assets of the business-type activities increased 2.4 percent to \$474.2 million. However the City can only use these net assets to finance the continuing operations of the electric system, sewer system, storm water system, solid waste disposal and housing management.

The graphs below summarize the sources of the City's total revenues of \$662.0 million and total program expenses of \$636.1 million. These graphs combine governmental and business-type information.

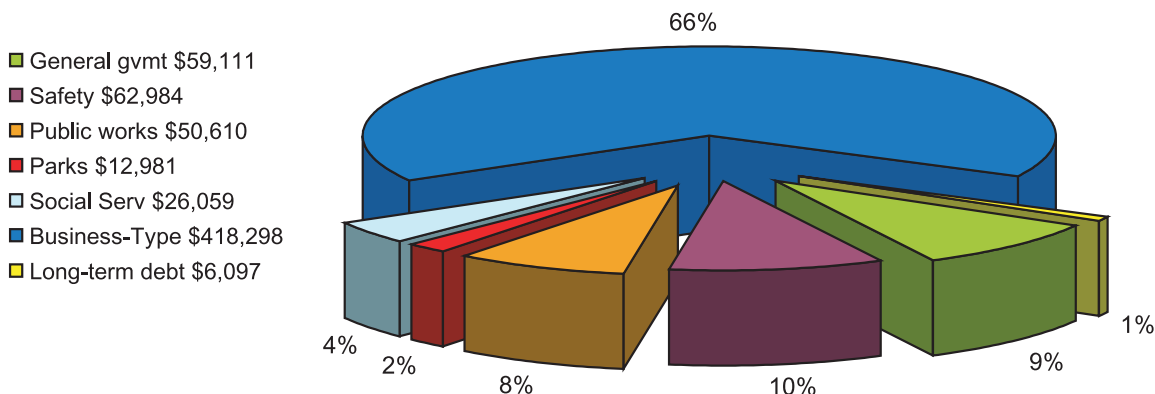
### City Wide Sources of Revenue

(in thousands)



### City Wide Program Expenses

(in thousands)



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

## City of Chattanooga's Changes in Net Assets

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 18,836	\$ 17,910	\$ 424,924	\$ 403,230	\$ 443,760	\$ 421,140
Grants and contributions	45,590	32,960	2,055	2,366	47,645	35,326
General revenues:						
Property taxes	87,093	87,063	-	-	87,093	87,063
Other taxes	29,530	26,520	-	-	29,530	26,520
Investment income	183	1,274	1,578	2,251	1,761	3,525
Miscellaneous	-	-	12	138	12	138
Unrestricted grants	34,896	35,090	-	-	34,896	35,090
Gain on sale of assets	249	-	-	-	249	-
Total revenues	<u>216,377</u>	<u>200,817</u>	<u>428,569</u>	<u>407,985</u>	<u>644,946</u>	<u>608,802</u>
<b>Expenses</b>						
Governmental activities:						
General government	59,111	58,698	-	-	59,111	58,698
Public safety	62,984	60,193	-	-	62,984	60,193
Public works	50,610	42,984	-	-	50,610	42,984
Parks and recreation	12,981	14,193	-	-	12,981	14,193
Social services	26,059	20,758	-	-	26,059	20,758
Interest on long-term debt	6,097	4,418	-	-	6,097	4,418
Business-type activities:						
Electric utility	-	-	374,823	365,187	374,823	365,187
Sewer	-	-	32,726	31,852	32,726	31,852
Solid waste	-	-	4,719	5,386	4,719	5,386
Storm water	-	-	4,312	4,523	4,312	4,523
Housing management	-	-	1,718	1,496	1,718	1,496
Total expenses	<u>217,842</u>	<u>201,244</u>	<u>418,298</u>	<u>408,444</u>	<u>636,140</u>	<u>609,688</u>
Excess (deficiency) before special item and transfers	(1,465)	(427)	10,271	(459)	8,806	(886)
Special item-state highway contribution	17,096	-	-	-	17,096	-
Transfers	(684)	(3,856)	684	3,856	-	-
Increase (decrease) in net assets	<u>\$ 14,947</u>	<u>\$ (4,283)</u>	<u>\$ 10,955</u>	<u>\$ 3,397</u>	<u>\$ 25,902</u>	<u>\$ (886)</u>

The following will consider the operations of governmental and business-type activities separately and in greater detail.

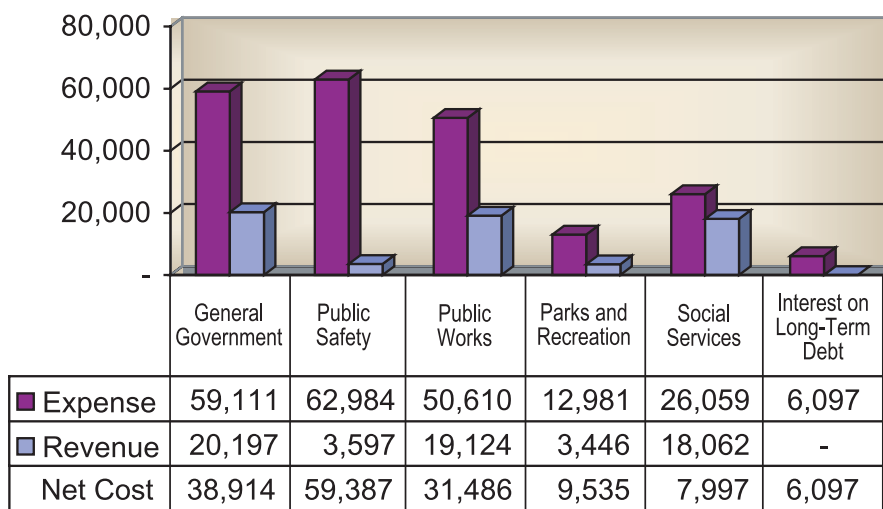
**Governmental Activities.** Current fiscal year revenues for the City's governmental activities were \$ 216.4 million compared to \$200.8 million last year, up 7.8 percent. There is also a \$17.1 million special revenue item discussed below. Current year expenses were \$217.8 million compared with \$201.2 million last year, an increase of 8.25 percent.



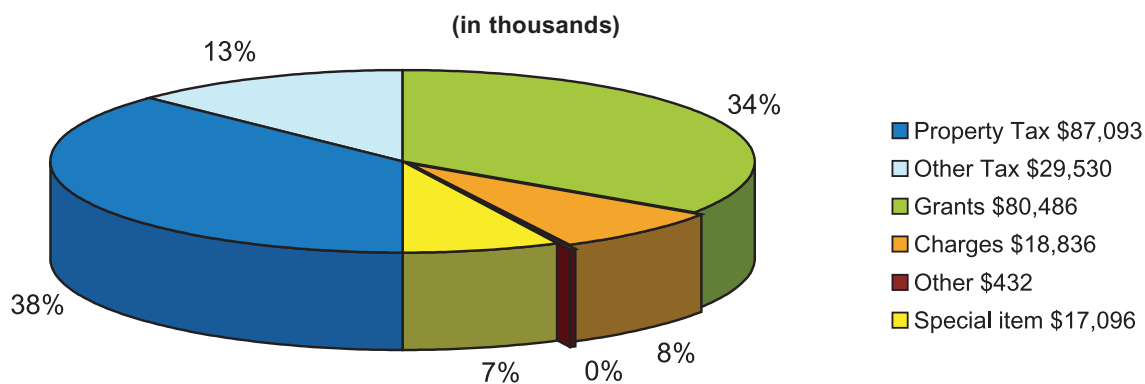
- During fiscal year 2004, transfer of custody of several highways between the City and the State of Tennessee resulted in a \$17.1 million special item on the Statement of Activities.
- The single largest source of governmental activity revenue, property taxes and in-lieu of tax receipts was flat for the year.
- Personnel costs rose approximately 2 percent primarily due to a step increase for employees and an increase in employer pension contributions.

The graphs below show the revenue generated by the programs of the City as compared with the expenses associated with providing each service. This will show the net cost, or the financial burden placed on City taxpayers for each program. Also presented are the major sources of revenue for governmental activities.

### Expenses and Program Revenues Governmental Activities (in thousands)



### Revenues by Source – Governmental Activities (in thousands)



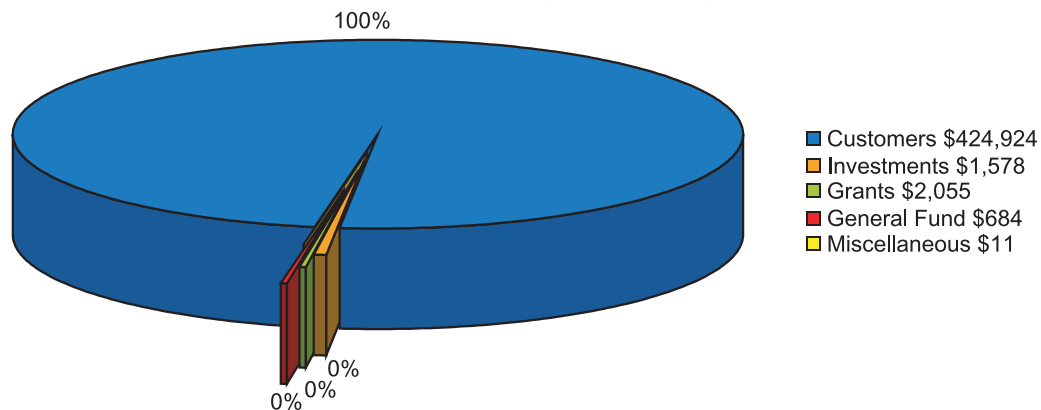
**Business-type Activities.** Revenues for the City’s business-type activities were \$428.6 million for the year just completed, an increase of \$20.6 million or 5.0 percent. The increase was partially offset by a \$9.9 million or 2.4 percent increase in expenses to \$418.3 million.

- The largest source of business-type activity revenue is generated from the Electric Power Board. Revenue from electric customers rose \$11.9 million, 3.4 percent, while the telecommunications segment rose \$1.7 million, 20.1 percent. Total operating expenses increased only \$9.7 million or 2.7 percent. Both operating revenues and power purchases reflect the Tennessee Valley Authority rate increase effective October 1, 2003. Other operating costs were down since the area did not experience the types of major storms that occurred in fiscal year 2003. Net assets increased \$4.8 million for the year.
- The Interceptor Sewer System increased net assets by \$3.3 million in fiscal year 2004. Operating expenses were flat while operating revenues rose \$2.4 million or 7.3 percent. Increased revenues are primarily due to a rate change for sewer service charges, the largest component of revenue, which increased \$2.2 million. There was also increased usage among the regional customers.
- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. To date the City has accrued liabilities of \$5.2 million for a closed landfill and \$4.1 million for a landfill currently in operation; a \$190,000 or 2.1 percent increase over last year. Many of these costs are being financed through general obligation bonds.
- The Stormwater Fund, established to comply with EPA guidelines, now has \$24.9 million in net assets, an increase of \$1.8 million from last year. \$18.6 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City.
- The Housing Management Fund reported \$1.4 million in rental income, an increase of 17.6 percent from last year. During the same period operating expenses increased 12.1 percent to \$1.5 million as a result of increased management fees, depreciation expense and interest expense. The fund ended the year with net assets of \$4.6 million, a decrease of \$212,000, all of which is invested in capital assets.

The graph below presents the major sources of revenue for business-type activities. Also presented is a chart showing the operating revenue generated by each business-type activity as compared with the operating expenses associated with providing each service.

### Revenues by Source – Business-Type Activities

(in thousands)



## Expenses and Revenues – Business-Type Activities

(in thousands)

	Electric	Sewer	Solid Waste	Storm Water	Housing
Expense	\$ 374,823	\$ 32,726	\$ 4,718	\$ 4,312	\$ 1,718
Revenue	379,656	36,037	5,978	6,075	1,506
Change in net assets	<u>\$ 4,833</u>	<u>\$ 3,311</u>	<u>\$ 1,260</u>	<u>\$ 1,763</u>	<u>\$ (212)</u>

## Financial Analysis of the City's Funds

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

**Governmental Funds.** Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of \$106.8 million at the end of the fiscal year. 55.6 percent of this amount (\$59.4 million) is available for day-to-day operations (unreserved fund balance). All of the governmental funds reported a positive ending fund balance. Information about the major governmental funds is presented below.

**General Fund.** This is the chief operating fund of the City of Chattanooga. At the end of the current fiscal year, unreserved fund balance was \$44.1 million, of which \$7.5 million is designated for future spending. Total fund balance of the City's General Fund increased by 21.3 percent or \$8.7 million to \$49.4 million during the fiscal year. Key factors in this growth are as follows:

- Total revenues increased \$3.3 million over the prior year. A large portion of the increase was city sales tax, up 6.8 percent or \$1.2 million, based solely on increased consumer spending. Intergovernmental revenues saw a \$522,000 increase in tourist development money and a \$692,700 increase in Federal funds for emergency response and law enforcement grants while miscellaneous revenue included a \$489,000 refund for prior year health insurance premiums and an additional \$445,000 collected from costs charged to other funds to cover indirect costs.
- Expenditures and transfers to other funds, when combined, decreased from \$164.0 million to \$163.3 million, well below anticipated budget.

**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 \$41.8 million in fund balance of which \$21.6 million was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; for fiscal year 2004 there was a \$27.2 million decrease. Analysis of project income and expenditures follows.

- Cash inflows for the year include the issuance of \$2.4 million in notes, \$1.4 million from sale of property and \$6.2 million received from federal, state and county governments for projects.
- Current year expenditures of \$42.5 million include \$23.1 million for continuation of the waterfront development, \$7.3 million for street and lighting improvements, \$3.4 million for parks facilities improvements, \$3.0 million for industrial development at Enterprise South and \$2.6 for fire and police equipment.

**Proprietary Funds.** As the City completed the fiscal year its proprietary funds, which include both enterprise funds and internal service funds, had combined net assets of \$475.9 million. Of this amount, \$26.9 million was available to meet on-going obligations with the majority, \$428.8 million, invested in capital assets. Information about the major enterprise funds is presented below.

**Electric Power Board.** This fund accounts for the electric utility in the City of Chattanooga. It also has telecommunications and internet operations.

- Net assets of the Electric Power Board increased \$4.8 million to \$235.0 million for fiscal year 2004. The increase is primarily due to net investment in utility plant of \$15.1 million.
- EPB has \$16.9 million available to finance day-to-day operations (unrestricted net assets).

**Interceptor Sewer System.** This fund accounts for the operations and capital improvements of the wastewater treatment plant.

- The Interceptor Sewer System reported an increase of \$3.3 million in net assets to \$228.0 million.
- Unrestricted net assets, those that can be used to finance on-going operations, increased \$9.0 million to \$28.8 million. An additional \$11.0 million is restricted for future capital spending.

**Solid-waste Fund.** This fund accounts for solid waste disposal including a municipal landfill and various recycling programs.

- As a result of an aggressive program to meet State and Federal landfill requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2004, net assets increased by \$1.3 million.
- The major customer of the landfill is the City itself. Accordingly we have begun reporting City payments as tipping fees instead of transfers. For fiscal year 2004 this was \$4.8 million.

**Stormwater Management.** This fund accounts for operations and capital improvements for the City's storm water management program as mandated by the EPA.

- Fiscal year 2004 is the first year for the Stormwater Fund to be presented as a major fund.
- All components of net assets increased during the year. Investment in capital increased \$1.2 million to \$18.6 million, the amount set aside for capital improvements increased, and the amount available to fund day-to-day operations increased to \$5.4 million from \$5.2 million. This overall increase is a result of improved revenue collections as well as reduced operating costs.

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

When comparing the final budgeted revenues to actual, there was a \$2.5 million surplus for the year primarily due to additional intergovernmental and miscellaneous revenue. Expenditures were less than budgetary estimates in all departments by a combined \$5.0 million resulting in excess revenues over expenditures of \$7.5 million on a budgetary basis in General Fund. The reduction in expenditures is largely due to the implementation of a vacancy control and performance management program.

# Capital Asset and Debt Administration

**Capital Assets.** At the end of this year, the City had \$2.1 billion (net of accumulated depreciation) invested in capital assets, an increase of 3.2 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The table below shows the investment in capital assets by both governmental activities and business-type activities.

## City of Chattanooga's Capital Assets (net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Non-depreciable:						
Land & Easements	\$ 950,594	\$ 930,234	\$ 13,596	\$ 14,648	\$ 964,190	\$ 944,882
Work in progress	88,656	57,126	17,678	9,061	106,334	66,187
Depreciable:						
Buildings	70,061	76,590	52,071	52,437	122,132	129,027
Equipment	27,815	26,155	218,078	213,134	245,893	239,289
Improvements	6,888	6,628	-	-	6,888	6,628
Infrastructure	361,256	369,196	323,655	309,138	684,911	678,334
Total	<u>\$ 1,505,270</u>	<u>\$ 1,465,929</u>	<u>\$ 625,078</u>	<u>\$ 598,418</u>	<u>\$ 2,130,348</u>	<u>\$ 2,064,347</u>

This year's major capital asset additions include:

- Street improvements of \$30.3 million, including \$8 million of donated streets from contractors and \$17.1 million resulting from custodial changes in highways.
- \$22.4 million on the 21<sup>st</sup> Century Waterfront development, \$1.2 million Dupont Soccer Complex and \$1.1 million for development of the Enterprise South Industrial Park in work-in-progress.
- Electric Power Board investment of \$27.1 million in plant assets for the year. This includes \$25.3 million in power distribution systems and \$1.8 million for telecommunications and internet.
- \$21.3 million was capitalized as new infrastructure for the Interceptor Sewer System.

The City's capital improvement program anticipates spending another \$111.4 million for various capital projects over the next five years. There are plans to issue an additional \$11.2 million in debt during fiscal year 2005 to help finance these projects.

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

**Debt Administration.** At year-end the City had \$469.5 million in long-term debt outstanding. This is a \$4.8 million increase (1.0 percent) increase over last year. Detail is shown in the table and narrative that follow.

**City of Chattanooga’s Long-Term Debt**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds (backed by the City)	\$ 128,898	\$ 132,761	\$ 137,667	\$ 149,195	\$ 266,565	\$ 281,956
Revenue bonds (backed by specific revenues)	-	-	35,200	36,800	35,200	36,800
Notes payable	7,159	5,620	40,606	24,118	47,765	29,738
Capital leases	119,725	115,925	253	271	119,978	116,196
Total	<u>\$ 255,782</u>	<u>\$ 254,306</u>	<u>\$ 213,726</u>	<u>\$ 210,384</u>	<u>\$ 469,508</u>	<u>\$ 464,690</u>

- The City of Chattanooga maintains a “AA” rating from both Standard & Poor’s and Fitch Investor’s Service for general obligation debt.
- City Charter limits the amount of general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City’s corporate limits. For the current fiscal year that limit is \$323.7 million. The City’s tax-supported debt of \$80.7 million is well within that limit.

During the year the City issued the following new debt:

- \$16.9 in additional draws on a \$37.3 million state revolving loan approved in fiscal year 2003. The loan is financing Interceptor Sewer System (a business-type activity) projects already in progress.
- A \$3.8 million capital lease agreement for the purchase of a digital upgrade to the City’s 800 MHz system. This lease is to be entirely funded by a Hamilton County Homeland Security Grant and the Hamilton County 911 Board. The lease is a governmental activity.
- \$6.0 million in state revolving loan funds were approved for governmental activities capital. At year-end \$1.9 million had been drawn down for the projects.
- Draws of \$321,300 were made on a \$5.0 million Fannie Mae loan approved in FY04 to fund the Hope VI project, a governmental activity. The loan will be repaid by Community Development Block Grant program revenue.
- Final draws of \$137,900 and \$145,700 for governmental and business-type activities respectively were made on 1997 and 1998 loan agreements.

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

# Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the General Fund budget for 2005:

- The local unemployment rate remains significantly below the national average at 3.5 percent.
- Interest rates on investments are expected to remain near an historical low.
- Expected increase of 5.1 percent in State sales tax.

Anticipated revenues in the General Fund budget are \$164.9 million, down 5.7 percent from the 2004 budget. This decrease is primarily due to the passage of a referendum to increase the county-wide sales tax by one-half cent (from 1.75% to 2.25%) effective July 1, 2004. This county-wide tax supercedes the City-only half cent sales tax which generated over \$17 million during fiscal year 2004 and was used exclusively for education and economic development on a 50/50 basis. Fifty percent of the half-cent tax collections will remain with the County for education while the remainder will be distributed to the City in accordance with TCA 67-6-701 et seq. Distributions to the City are estimated at \$8.9 million for fiscal year 2005.

Budgeted expenditures are expected to increase 1.3 percent to \$164.9 million from \$162.8 million. With the exception of salaries and medical costs, departmental operations are expected to grow less than 1 percent over the prior year. No change in fund balance of the General Fund is expected for fiscal year 2005.

As for the City's business-type activities, we expect that the 2005 results should see a modest increase to net assets.

## Contacting the City's Financial Management

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

City of Chattanooga Finance Department  
100 East 11<sup>th</sup> Street  
Chattanooga, Tennessee 37402  
(423) 757-5232  
[www.chattanooga.gov](http://www.chattanooga.gov)





# Chattanooga

TENNESSEE

*Guy Lee*  
'93



CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Components Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,785,572	\$ 59,937,979	\$ 96,723,551	\$ 7,061,810
Investments	37,125,400	53,341,559	90,466,959	131,425
Receivables, net of allowance for uncollectibles	114,855,268	41,149,088	156,004,356	2,609,020
Net investment in capital lease	-	-	-	115,925,472
Due from component units	400,000	-	400,000	-
Due from primary government	-	-	-	531,730
Deferred charges	-	3,749,794	3,749,794	1,842,064
Inventories	1,936,054	5,576,020	7,512,074	302,282
Prepaid items	8,000	-	8,000	602,903
Other assets	-	7,471,671	7,471,671	-
Restricted assets:				
Cash and cash equivalents	3,784,380	3,690,784	7,475,164	1,167,792
Investments	28,377,192	8,725,453	37,102,645	14,294,235
Receivables	-	816,752	816,752	231,252
Net pension assets	8,279,442	-	8,279,442	161,485
Land and other nondepreciable assets	1,039,250,126	31,274,466	1,070,524,592	10,032,475
Other capital assets, net of accumulated depreciation	466,020,078	593,803,656	1,059,823,734	67,745,587
<b>Total assets</b>	<b>1,736,821,512</b>	<b>809,537,222</b>	<b>2,546,358,734</b>	<b>222,639,532</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	14,766,458	77,787,646	92,554,104	4,885,283
Customer deposits	-	12,539,000	12,539,000	-
Due to component units	531,730	-	531,730	-
Due to primary government	-	-	-	400,000
Contracts payable	403,801	979,671	1,383,472	962,450
Deferred revenue	90,242,992	-	90,242,992	265,219
Accrued closure and post-closure care	-	9,295,666	9,295,666	-
Accrued postretirement benefits	-	10,269,000	10,269,000	-
Other liabilities	-	9,570,002	9,570,002	-
Long-term liabilities:				
Due within one year	10,908,129	14,314,113	25,222,242	545,000
Due in more than one year	261,124,061	200,597,678	461,721,739	144,324,090
<b>Total liabilities</b>	<b>377,977,171</b>	<b>335,352,776</b>	<b>713,329,947</b>	<b>151,382,042</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,281,946,535	428,283,728	1,710,230,263	61,554,861
Restricted for:				
Capital projects	32,161,572	-	32,161,572	-
Debt service	-	-	-	14,755,064
Renewal and replacement	-	20,235,990	20,235,990	398,064
Unrestricted	44,736,234	25,664,728	70,400,962	(5,450,499)
<b>Total net assets</b>	<b>\$ 1,358,844,341</b>	<b>\$ 474,184,446</b>	<b>\$ 1,833,028,787</b>	<b>\$ 71,257,490</b>

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental activities:				
General government	\$ 59,111,511	\$ 11,498,936	\$ 5,687,665	\$ 3,010,965
Public safety	62,984,029	860,843	885,703	1,850,541
Public works	50,609,639	2,362,151	4,958,304	11,803,502
Parks and recreation	12,981,174	2,781,111	472,102	192,958
Social services	26,058,655	1,333,014	16,728,168	-
Interest on long-term debt	6,097,267	-	-	-
Total governmental activities	<u>217,842,275</u>	<u>18,836,055</u>	<u>28,731,942</u>	<u>16,857,966</u>
Business-type activities:				
Electric utility	374,823,000	377,241,000	-	1,334,000
Sewer	32,725,763	35,153,919	-	521,640
Solid waste/sanitation	4,718,858	5,635,502	199,048	-
Storm water	4,312,010	5,388,577	-	-
Housing management	1,718,091	1,505,627	-	-
Total business-type activities	<u>418,297,722</u>	<u>424,924,625</u>	<u>199,048</u>	<u>1,855,640</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 636,139,997</u>	<u>\$ 443,760,680</u>	<u>\$ 28,930,990</u>	<u>\$ 18,713,606</u>
Component units:				
Airport authority	7,499,489	6,205,712	\$ -	\$ 4,049,255
Transportation authority	14,552,481	3,940,500	5,640,929	4,082,850
Downtown redevelopment	17,322,392	17,019,755	-	-
<b>TOTAL COMPONENT UNITS</b>	<u>\$ 39,374,362</u>	<u>\$ 27,165,967</u>	<u>\$ 5,640,929</u>	<u>\$ 8,132,105</u>
			General revenues:	
			Property taxes	
			City-levied sales tax	
			Liquor and beer taxes	
			Other taxes	
			Unrestricted investment earnings	
			Miscellaneous	
			Grants and contributions not allocated to specific programs	
			Gain on sale of capital assets	
			Special item - contribution of highways by state government	
			Transfers	
			Total general revenues and transfers	
			Change in net assets	
			Net assets, beginning	
			Net assets, ending	

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Components Units
Governmental Activities	Business-type Activities	Total	
\$ (38,913,945)	\$ -	\$ (38,913,945)	\$ -
(59,386,942)	-	(59,386,942)	-
(31,485,682)	-	(31,485,682)	-
(9,535,003)	-	(9,535,003)	-
(7,997,473)	-	(7,997,473)	-
(6,097,267)	-	(6,097,267)	-
<u>(153,416,312)</u>	<u>-</u>	<u>(153,416,312)</u>	<u>-</u>
-	3,752,000	3,752,000	-
-	2,949,796	2,949,796	-
-	1,115,692	1,115,692	-
-	1,076,567	1,076,567	-
-	(212,464)	(212,464)	-
<u>-</u>	<u>8,681,591</u>	<u>8,681,591</u>	<u>-</u>
<u>(153,416,312)</u>	<u>8,681,591</u>	<u>(144,734,721)</u>	<u>-</u>
-	-	-	2,755,478
-	-	-	(888,202)
-	-	-	(302,637)
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,564,639</u>
87,092,991	-	87,092,991	-
19,643,028	-	19,643,028	-
6,082,207	-	6,082,207	-
3,804,195	-	3,804,195	-
182,951	1,577,971	1,760,922	621,939
-	11,435	11,435	4,077,325
34,896,500	-	34,896,500	-
249,007	-	249,007	-
17,096,131	-	17,096,131	-
(683,952)	683,952	-	-
<u>168,363,058</u>	<u>2,273,358</u>	<u>170,636,416</u>	<u>4,699,264</u>
14,946,746	10,954,949	25,901,695	6,263,903
<u>1,343,897,595</u>	<u>463,229,497</u>	<u>1,807,127,092</u>	<u>64,993,587</u>
<u>\$ 1,358,844,341</u>	<u>\$ 474,184,446</u>	<u>\$ 1,833,028,787</u>	<u>\$ 71,257,490</u>

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,425,913	\$ 12,400,830	\$ 15,299,925	\$ 39,126,668
Investments	34,443,731	29,666,125	1,392,736	65,502,592
Receivables, net of allowance for uncollectibles:				
Taxes	86,429,552	-	-	86,429,552
Accounts	-	62,301	2,154,093	2,216,394
Notes	1,500,000	-	-	1,500,000
Other	3,889,066	-	-	3,889,066
Due from other funds	-	1,183,524	-	1,183,524
Due from component units	400,000	-	-	400,000
Due from other governments	16,986,068	2,841,759	744,312	20,572,139
Inventories	1,037,298	-	-	1,037,298
Prepaid items	8,000	-	-	8,000
	<u>\$ 156,119,628</u>	<u>\$ 46,154,539</u>	<u>\$ 19,591,066</u>	<u>\$ 221,865,233</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,215,106	\$ 3,083,920	\$ 1,403,780	\$ 8,702,806
Due to other funds	2,145,333	-	1,183,524	3,328,857
Due to other governments	1,029,467	354,103	-	1,383,570
Due to component unit	-	531,730	-	531,730
Deferred revenue	99,370,361	-	1,320,923	100,691,284
Contracts payable	-	403,801	-	403,801
	<u>106,760,267</u>	<u>4,373,554</u>	<u>3,908,227</u>	<u>115,042,048</u>
<b>Fund balances:</b>				
Reserved for:				
Encumbrances	2,754,314	21,634,315	356,327	24,744,956
Inventories	1,037,298	-	-	1,037,298
Prepaid items	8,000	-	-	8,000
Capital improvements	-	20,146,670	-	20,146,670
Notes receivable	1,500,000	-	-	1,500,000
Unreserved, designated for:				
Debt service	-	-	5,222,704	5,222,704
Subsequent years' expenditures	7,456,854	-	-	7,456,854
Unreserved, undesignated, reported in:				
General fund	36,602,895	-	-	36,602,895
Special revenue	-	-	10,103,808	10,103,808
	<u>49,359,361</u>	<u>41,780,985</u>	<u>15,682,839</u>	<u>106,823,185</u>
Total liabilities and fund balances	<u>\$ 156,119,628</u>	<u>\$ 46,154,539</u>	<u>\$ 19,591,066</u>	<u>\$ 221,865,233</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 ASSETS  
 June 30, 2004

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

Fund balances - total governmental funds		\$ 106,823,185
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.		1,504,785,694
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		10,448,292
The General Pension Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.		8,279,442
Internal service funds are 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 funds are included in governmental activities in the statement of net assets.		1,697,334
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:		
General obligation serial bonds	\$ (128,897,803)	
Less net deferred refunding and original premiums and discounts	114,615	
Notes payable	(7,158,924)	
Capital leases	(119,725,472)	
Compensated absences	(15,804,790)	
Accrued interest payable	<u>(1,717,232)</u>	
		<u>(273,189,606)</u>
Net assets of governmental activities		<u>\$ 1,358,844,341</u>

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



CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 113,383,882	\$ -	\$ 2,040,244	\$ 115,424,126
Licenses and permits	7,168,267	-	-	7,168,267
Intergovernmental	40,985,665	6,163,609	24,455,047	71,604,321
Charges for services	3,166,443	-	123,317	3,289,760
Fines, forfeitures, and penalties	1,112,159	-	-	1,112,159
Investment income	676,088	590,850	256,603	1,523,541
Miscellaneous	<u>5,455,941</u>	<u>3,433,629</u>	<u>1,590,149</u>	<u>10,479,719</u>
Total revenues	<u>171,948,445</u>	<u>10,188,088</u>	<u>28,465,360</u>	<u>210,601,893</u>
<b>EXPENDITURES</b>				
Current:				
General government	49,532,529	-	19,632,084	69,164,613
Public safety	61,216,949	-	132,865	61,349,814
Public works	25,772,165	-	4,051,621	29,823,786
Parks and recreation	12,157,458	-	-	12,157,458
Community development	-	-	8,278,495	8,278,495
Capital outlay/fixed assets	-	42,457,922	919,278	43,377,200
Debt service:				
Principal retirement	-	-	4,725,541	4,725,541
Interest and fiscal charges	-	-	6,168,282	6,168,282
Total expenditures	<u>148,679,101</u>	<u>42,457,922</u>	<u>43,908,166</u>	<u>235,045,189</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,269,344</u>	<u>(32,269,834)</u>	<u>(15,442,806)</u>	<u>(24,443,296)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	5,130,128	13,858,926	18,989,054
Transfers out	(14,587,963)	(2,481,063)	(2,603,980)	(19,673,006)
Proceeds of bonds and notes	<u>-</u>	<u>2,401,534</u>	<u>-</u>	<u>2,401,534</u>
Total other financing sources (uses)	<u>(14,587,963)</u>	<u>5,050,599</u>	<u>11,254,946</u>	<u>1,717,582</u>
Net change in fund balance	8,681,381	(27,219,235)	(4,187,860)	(22,725,714)
FUND BALANCE, beginning	<u>40,677,980</u>	<u>69,000,220</u>	<u>19,870,699</u>	<u>129,548,899</u>
FUND BALANCE, ending	<u>\$ 49,359,361</u>	<u>\$ 41,780,985</u>	<u>\$ 15,682,839</u>	<u>\$ 106,823,185</u>

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

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2004

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

Net change in fund balances - total governmental funds		\$ (22,725,714)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.		43,819,372
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.		(32,088,161)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of the following:		
Streets contributed by developers	\$ 8,037,701	
Highways contributed by state government	<u>17,096,131</u>	
		25,133,832
The net effect of various transactions involving capital assets is to decrease net assets.		(1,219,738)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		2,372,526
The net revenues of internal service funds are reported with governmental activities.		795,596
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.		(329,676)
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. Revenues relating to prior periods that become available in the current year are not reported as revenues in the statement of activities.		<u>(811,291)</u>
Change in net assets of governmental activities		<u>\$ 14,946,746</u>

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

CITY OF CHATTANOOGA, TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 112,919,073	\$ 112,919,073	\$ 113,383,882	\$ 464,809
Licenses and permits	6,636,139	6,636,139	7,168,267	532,128
Intergovernmental	39,297,625	39,297,625	40,985,665	1,688,040
Charges for services	3,820,460	3,820,460	3,166,443	(654,017)
Fines, forfeitures, and penalties	1,616,082	1,616,082	1,112,159	(503,923)
Miscellaneous	5,142,135	5,142,135	6,132,029	989,894
Total revenues	<u>169,431,514</u>	<u>169,431,514</u>	<u>171,948,445</u>	<u>2,516,931</u>
<b>EXPENDITURES</b>				
General government	45,043,568	45,043,568	43,112,771	(1,930,797)
Finance and Administration	9,037,596	9,037,596	8,215,844	(821,752)
Police	37,462,731	37,462,731	37,075,400	(387,331)
Fire	25,852,681	25,852,681	24,337,120	(1,515,561)
Public Works	25,823,672	25,823,672	25,810,148	(13,524)
Parks and Recreation	12,467,079	12,467,079	12,172,151	(294,928)
Total expenditures	<u>155,687,327</u>	<u>155,687,327</u>	<u>150,723,434</u>	<u>(4,963,893)</u>
Excess of revenues over expenditures	<u>13,744,187</u>	<u>13,744,187</u>	<u>21,225,011</u>	<u>7,480,824</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(14,804,750)</u>	<u>(14,804,750)</u>	<u>(14,587,963)</u>	<u>216,787</u>
Total other financing sources (uses)	<u>(14,804,750)</u>	<u>(14,804,750)</u>	<u>(14,587,963)</u>	<u>216,787</u>
Net change in fund balance	<u>\$ (1,060,563)</u>	<u>\$ (1,060,563)</u>	6,637,048	<u>\$ 7,697,611</u>
Adjustment for encumbrances			<u>2,044,333</u>	
Net change in fund balance (GAAP basis)			8,681,381	
FUND BALANCE at beginning of year (GAAP basis)			<u>40,677,980</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 49,359,361</u>	
<b>EXPLANATION OF DIFFERENCES:</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 171,948,445	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 171,948,445</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 150,723,434	
Adjustment for encumbrances			<u>(2,044,333)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 148,679,101</u>	

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 42,343,000	\$ 6,798,689	\$ 4,029,632	\$ 6,569,693	\$ 196,965	\$ 59,937,979	\$ 1,443,284
Investments	28,768,000	24,573,559	-	-	-	53,341,559	-
Receivables:							
Customer service	35,187,000	4,556,623	138,928	713,266	-	40,595,817	91,174
Other	373,000	42,044	-	-	7,746	422,790	-
Less allowance for doubtful accounts	(599,000)	(1,750)	(1,420)	(351,090)	-	(953,260)	-
Inventories	4,980,000	596,020	-	-	-	5,576,020	898,756
Due from other funds	-	-	-	-	-	-	2,145,333
Due from other governments	-	-	85,000	-	122,741	207,741	156,943
Other current assets	3,034,000	-	-	-	62,671	3,096,671	-
<b>Total current assets</b>	<b>114,086,000</b>	<b>36,565,185</b>	<b>4,252,140</b>	<b>6,931,869</b>	<b>390,123</b>	<b>162,225,317</b>	<b>4,735,490</b>
<b>NONCURRENT ASSETS</b>							
Restricted assets:							
Cash and cash equivalents	-	-	3,690,784	-	-	3,690,784	-
Investments	-	1,346,571	7,378,882	-	-	8,725,453	-
Accounts receivable	-	804,056	12,696	-	-	816,752	-
<b>Total restricted assets</b>	<b>-</b>	<b>2,150,627</b>	<b>11,082,362</b>	<b>-</b>	<b>-</b>	<b>13,232,989</b>	<b>-</b>
Capital assets:							
Land	3,079,000	7,928,833	1,517,514	987,330	83,789	13,596,466	-
Buildings	16,110,000	41,277,997	1,717,098	-	8,687,987	67,793,082	589,948
Vehicles and machinery	375,501,000	11,616,514	5,053,529	1,144,998	957	393,316,998	1,154,632
Construction in progress	17,678,000	-	-	-	-	17,678,000	-
Sewer system	-	410,053,295	-	-	-	410,053,295	-
Storm water system	-	-	-	41,142,881	-	41,142,881	-
Telecommunications system	17,644,000	-	-	-	-	17,644,000	-
	430,012,000	470,876,639	8,288,141	43,275,209	8,772,733	961,224,722	1,744,580
Less accumulated depreciation	(177,144,000)	(148,618,681)	(4,064,242)	(5,617,579)	(702,098)	(336,146,600)	(1,260,070)
<b>Net capital assets</b>	<b>252,868,000</b>	<b>322,257,958</b>	<b>4,223,899</b>	<b>37,657,630</b>	<b>8,070,635</b>	<b>625,078,122</b>	<b>484,510</b>
Other assets:							
Deferred charges	2,174,000	1,282,407	170,149	123,238	-	3,749,794	-
Conservation loans receivable	876,000	-	-	-	-	876,000	-
TVA discounted energy units	4,375,000	-	-	-	-	4,375,000	-
<b>Total other assets</b>	<b>7,425,000</b>	<b>1,282,407</b>	<b>170,149</b>	<b>123,238</b>	<b>-</b>	<b>9,000,794</b>	<b>-</b>
<b>Total noncurrent assets</b>	<b>260,293,000</b>	<b>325,690,992</b>	<b>15,476,410</b>	<b>37,780,868</b>	<b>8,070,635</b>	<b>647,311,905</b>	<b>484,510</b>
<b>Total assets</b>	<b>\$ 374,379,000</b>	<b>\$ 362,256,177</b>	<b>\$ 19,728,550</b>	<b>\$ 44,712,737</b>	<b>\$ 8,460,758</b>	<b>\$ 809,537,222</b>	<b>\$ 5,220,000</b>

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

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Current maturities of long-term liabilities	\$ 1,600,000	\$ 9,428,095	\$ 1,842,382	\$ 1,443,636	\$ -	\$ 14,314,113	\$ -
Accounts payable and accrued liabilities	70,817,000	2,230,822	624,381	363,205	3,752,238	77,787,646	467,202
Accrued claims	-	-	-	-	-	-	2,674,000
Deposits	12,539,000	-	-	-	-	12,539,000	-
Contracts payable	-	979,671	-	-	-	979,671	-
Conservation advances	384,000	-	-	-	-	384,000	-
Other current liabilities	5,085,000	-	-	-	-	5,085,000	-
<b>Total current liabilities</b>	<b>90,425,000</b>	<b>12,638,588</b>	<b>2,466,763</b>	<b>1,806,841</b>	<b>3,752,238</b>	<b>111,089,430</b>	<b>3,141,202</b>
<b>LONG-TERM LIABILITIES</b>							
Notes and capital leases payable	-	38,979,942	-	1,297,915	-	40,277,857	-
Compensated absences	1,021,000	553,940	97,287	129,881	-	1,802,108	381,464
Accrued closure and post closure care	-	-	9,295,666	-	-	9,295,666	-
Revenue bonds payable	33,600,000	-	-	-	-	33,600,000	-
General obligation bonds payable	-	83,325,692	26,167,218	16,439,734	-	125,932,644	-
Deferred refunding	-	(3,991,727)	(612,416)	(438,160)	-	(5,042,303)	-
Original issue premium	-	2,699,809	761,226	566,337	-	4,027,372	-
Other noncurrent liabilities	4,043,000	-	-	-	58,002	4,101,002	-
Accrued postretirement benefits	10,269,000	-	-	-	-	10,269,000	-
<b>Total long-term liabilities</b>	<b>48,933,000</b>	<b>121,567,656</b>	<b>35,708,981</b>	<b>17,995,707</b>	<b>58,002</b>	<b>224,263,346</b>	<b>381,464</b>
<b>Total liabilities</b>	<b>139,358,000</b>	<b>134,206,244</b>	<b>38,175,744</b>	<b>19,802,548</b>	<b>3,810,240</b>	<b>335,352,776</b>	<b>3,522,666</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	218,100,000	188,234,666	(1,450,396)	18,562,835	4,836,623	428,283,728	484,510
Restricted for renewal and replacement	-	11,037,994	8,251,200	946,796	-	20,235,990	-
Unrestricted	16,921,000	28,777,273	(25,247,998)	5,400,558	(186,105)	25,664,728	1,212,824
<b>Total net assets</b>	<b>\$ 235,021,000</b>	<b>\$ 228,049,933</b>	<b>\$ (18,447,194)</b>	<b>\$ 24,910,189</b>	<b>\$ 4,650,518</b>	<b>\$ 474,184,446</b>	<b>\$ 1,697,334</b>



CITY OF CHATTANOOGA, TENNESSEE  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN NET ASSETS  
 Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>OPERATING REVENUES</b>							
Charges for sales and services:							
Electric sales	\$ 360,507,000	\$ -	\$ -	\$ -	\$ -	\$ 360,507,000	\$ -
Sewer charges	-	35,153,919	-	-	-	35,153,919	-
Waste charges	-	-	5,635,502	-	-	5,635,502	-
Stormwater fees	-	-	-	5,303,080	-	5,303,080	-
Rent	-	-	-	-	1,399,490	1,399,490	-
Other services	16,734,000	-	-	85,497	106,137	16,925,634	10,071,382
Other	-	-	199,048	-	-	199,048	-
Total operating revenues	<u>377,241,000</u>	<u>35,153,919</u>	<u>5,834,550</u>	<u>5,388,577</u>	<u>1,505,627</u>	<u>425,123,673</u>	<u>10,071,382</u>
<b>OPERATING EXPENSES</b>							
Power purchases	295,544,000	-	-	-	-	295,544,000	-
Sewer plant operations	-	16,118,439	-	-	-	16,118,439	-
Solid waste operations	-	-	2,247,325	-	-	2,247,325	-
Storm water operations	-	-	-	2,561,350	-	2,561,350	-
Pump station operations	-	1,832,865	-	-	-	1,832,865	-
Housing management operations	-	-	-	-	928,637	928,637	-
Municipal garage operations	-	-	-	-	-	-	1,590,178
Maintenance and repairs	12,809,000	-	-	-	-	12,809,000	6,026,907
Depreciation and amortization	15,093,000	9,608,433	611,108	889,434	374,507	26,576,482	103,723
Closure/postclosure costs	-	-	430,624	-	-	430,624	-
Liability insurance	-	-	-	-	-	-	1,554,978
Other	48,377,000	97,340	-	-	189,618	48,663,958	-
Total operating expenses	<u>371,823,000</u>	<u>27,657,077</u>	<u>3,289,057</u>	<u>3,450,784</u>	<u>1,492,762</u>	<u>407,712,680</u>	<u>9,275,786</u>
<b>OPERATING INCOME</b>	<u>5,418,000</u>	<u>7,496,842</u>	<u>2,545,493</u>	<u>1,937,793</u>	<u>12,865</u>	<u>17,410,993</u>	<u>795,596</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment income	1,081,000	356,615	137,285	2,607	464	1,577,971	-
Interest expense	(1,572,000)	(5,068,686)	(1,429,801)	(860,751)	(225,329)	(9,156,567)	-
Other income (expense)	(1,428,000)	4,779	6,656	(475)	-	(1,417,040)	-
Total nonoperating revenues (expenses)	<u>(1,919,000)</u>	<u>(4,707,292)</u>	<u>(1,285,860)</u>	<u>(858,619)</u>	<u>(224,865)</u>	<u>(8,995,636)</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>3,499,000</u>	<u>2,789,550</u>	<u>1,259,633</u>	<u>1,079,174</u>	<u>(212,000)</u>	<u>8,415,357</u>	<u>795,596</u>
Capital contributions	1,334,000	521,640	-	-	-	1,855,640	-
Transfers in	-	-	-	683,952	-	683,952	-
<b>CHANGE IN NET ASSETS</b>	4,833,000	3,311,190	1,259,633	1,763,126	(212,000)	10,954,949	795,596
<b>NET ASSETS, beginning</b>	<u>230,188,000</u>	<u>224,738,743</u>	<u>(19,706,827)</u>	<u>23,147,063</u>	<u>4,862,518</u>	<u>463,229,497</u>	<u>901,738</u>
<b>NET ASSETS, ending</b>	<u>\$ 235,021,000</u>	<u>\$ 228,049,933</u>	<u>\$ (18,447,194)</u>	<u>\$ 24,910,189</u>	<u>\$ 4,650,518</u>	<u>\$ 474,184,446</u>	<u>\$ 1,697,334</u>

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS  
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 374,431,000	\$ 37,300,829	\$ 5,493,172	\$ 5,313,946	\$ 1,456,827	\$ 423,995,774	\$ 690,743
Receipts from interfund services provided	-	-	-	-	-	-	8,964,024
Receipts from operating grants	-	-	199,048	-	-	199,048	-
Payments to suppliers	(315,244,000)	(13,361,903)	(1,939,519)	(873,428)	(1,037,127)	(332,455,977)	(6,295,876)
Payments to employees	(20,250,000)	(5,067,059)	(650,868)	(1,681,495)	(146,620)	(27,796,042)	(2,757,951)
Payments in lieu of taxes	(8,935,000)	-	-	-	-	(8,935,000)	-
Net cash provided by (used in) operating activities	<u>30,002,000</u>	<u>18,871,867</u>	<u>3,101,833</u>	<u>2,759,023</u>	<u>273,080</u>	<u>55,007,803</u>	<u>600,940</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers in	-	-	-	683,952	-	683,952	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>683,952</u>	<u>-</u>	<u>683,952</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital debt	-	17,003,841	-	-	(4,627)	16,999,214	-
Principal paid on capital debt	(1,600,000)	(9,046,514)	(1,719,811)	(1,295,335)	(45,863)	(13,707,523)	-
Interest paid on capital debt	(1,813,000)	(4,994,518)	(1,402,369)	(879,510)	(225,329)	(9,314,726)	-
Capital grants and contributions	1,334,000	521,640	-	-	-	1,855,640	-
Additions to capital assets	(32,027,000)	(21,945,429)	(225,527)	(798,129)	(26,802)	(55,022,887)	-
Net cash flows used in capital and related financing activities	<u>(34,106,000)</u>	<u>(18,460,980)</u>	<u>(3,347,707)</u>	<u>(2,972,974)</u>	<u>(302,621)</u>	<u>(59,190,282)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Purchases of investments	(3,500,000)	(178,767,789)	(53,412,951)	-	-	(235,680,740)	-
Proceeds from sales and maturities of investments	19,195,000	175,230,606	50,500,464	-	-	244,926,070	-
Interest on investments	667,000	356,432	164,513	2,607	464	1,191,016	-
Net cash flows provided by (used in) investing activities	<u>16,362,000</u>	<u>(3,180,751)</u>	<u>(2,747,974)</u>	<u>2,607</u>	<u>464</u>	<u>10,436,346</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	12,258,000	(2,769,864)	(2,993,848)	472,608	(29,077)	6,937,819	600,940
Cash and cash equivalents, beginning of year	<u>30,085,000</u>	<u>9,568,553</u>	<u>10,714,264</u>	<u>6,097,085</u>	<u>226,042</u>	<u>56,690,944</u>	<u>842,344</u>
Cash and cash equivalents, end of year	<u>\$ 42,343,000</u>	<u>\$ 6,798,689</u>	<u>\$ 7,720,416</u>	<u>\$ 6,569,693</u>	<u>\$ 196,965</u>	<u>\$ 63,628,763</u>	<u>\$ 1,443,284</u>
<b>CLASSIFIED AS:</b>							
Current assets	\$ 42,343,000	\$ 6,798,689	\$ 4,029,632	\$ 6,569,693	\$ 196,965	59,937,979	\$ 1,443,284
Restricted assets	-	-	3,690,784	-	-	3,690,784	-

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

(continued on next page)

(continued from previous page)

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Major Funds				Other Fund	Total	
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Storm Water	Housing Management		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES							
OPERATING INCOME	\$ 5,418,000	\$ 7,496,842	\$ 2,545,493	\$ 1,937,793	\$ 12,865	\$ 17,410,993	\$ 795,596
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	15,780,000	9,608,433	611,108	889,434	374,507	27,263,482	103,723
Provision for uncollectible accounts	-	88,049	220	(8,343)	-	79,926	-
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(3,146,000)	2,021,269	(142,770)	(66,288)	(55,930)	(1,389,719)	(15,446)
Decrease in due from other funds	-	32,813	-	528	-	33,341	(500,000)
Increase in due from other governments	-	-	-	-	-	-	98,831
Decrease in inventory	677,000	220,926	-	-	-	897,926	20,586
(Increase) decrease in prepaid items	(1,022,000)	-	-	-	17,473	(1,004,527)	-
Increase in deferred charges	(1,813,000)	(22,530)	-	-	-	(1,835,530)	-
Increase (decrease) in accounts payable	10,342,000	(714,322)	(32,746)	(8,934)	(68,018)	9,517,980	89,091
Increase (decrease) in accrued liabilities	(390,000)	(125,566)	134,059	2,549	-	(378,958)	139,000
Increase (decrease) in other assets/liabilities	2,185,000	265,953	7,610	12,284	(7,817)	2,463,030	-
Increase (decrease) in compensated absences	1,971,000	-	(21,141)	-	-	1,949,859	(130,441)
TOTAL ADJUSTMENTS	24,584,000	11,375,025	556,340	821,230	260,215	37,596,810	(194,656)
Net cash provided by (used in) operating activities	\$ 30,002,000	\$ 18,871,867	\$ 3,101,833	\$ 2,759,023	\$ 273,080	\$ 55,007,803	\$ 600,940

CITY OF CHATTANOOGA, TENNESSEE  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 June 30, 2004

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 6,664
Investments:		
U.S. Government securities	38,858,853	-
Municipal bonds	120,953	-
Corporate bonds	36,377,708	-
Foreign bonds	2,803,771	-
Corporate stocks	174,159,290	-
Mutual funds	110,811,568	67,922
Temporary investments	18,564,095	4,666
Limited partnerships	12,452,248	-
Other investments	875,000	-
Receivables:		
Accrued income	1,109,670	212
Contributions	251,642	-
Due from plan custodian	2,926,664	-
Total assets	399,311,462	79,464
<b>LIABILITIES</b>		
Due to plan custodian	2,506,776	-
Accounts payable and accrued expenses	546,795	-
Total liabilities	3,053,571	-
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	\$ 396,257,891	\$ 79,464

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

CITY OF CHATTANOOGA, TENNESSEE  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 Year Ended June 30, 2004

	Pension Trust Funds	Private-Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 8,159,926	\$ -
Employee	3,489,597	-
Total contributions	<u>11,649,523</u>	<u>-</u>
Investment income:		
Net appreciation in fair market value of investments	55,312,028	2,477
Interest	5,880,466	1,191
Dividends	3,243,372	-
	<u>64,435,866</u>	<u>3,668</u>
Less investment expense	<u>(1,632,355)</u>	<u>-</u>
Net investment income	<u>62,803,511</u>	<u>3,668</u>
Total additions	<u>74,453,034</u>	<u>3,668</u>
<b>DEDUCTIONS</b>		
Benefits paid to participants	24,494,322	-
Administrative expenses	709,295	261
Total deductions	<u>25,203,617</u>	<u>261</u>
<b>CHANGE IN NET ASSETS</b>	49,249,417	3,407
Net assets, beginning	<u>347,008,474</u>	<u>76,057</u>
Net assets, ending	<u>\$ 396,257,891</u>	<u>\$ 79,464</u>

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



CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF NET ASSETS

June 30, 2004

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,646,634	\$ 1,547,561	\$ 3,867,615	\$ 7,061,810
Investments	24,516	106,909	-	131,425
Accounts receivable	1,717,975	485,146	405,899	2,609,020
Net investment in capital lease	-	-	115,925,472	115,925,472
Due from primary government	-	-	531,730	531,730
Deferred charges	213,180	-	1,628,884	1,842,064
Inventories	-	143,142	159,140	302,282
Prepaid items	213,938	235,826	153,139	602,903
Net pension asset	-	161,485	-	161,485
Restricted assets:				
Cash and cash equivalents	269,792	898,000	-	1,167,792
Investments	4,511,211	-	9,783,024	14,294,235
Receivables	84,052	-	147,200	231,252
Land and other nondepreciable assets	6,285,179	3,097,296	650,000	10,032,475
Other capital assets, net of accumulated depreciation	<u>39,887,650</u>	<u>27,181,333</u>	<u>676,604</u>	<u>67,745,587</u>
<b>Total assets</b>	<u>54,854,127</u>	<u>33,856,698</u>	<u>133,928,707</u>	<u>222,639,532</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	459,062	869,154	3,557,067	4,885,283
Contracts payable	962,450	-	-	962,450
Due to primary government	-	400,000	-	400,000
Revenue bonds payable	15,573,201	-	129,200,000	144,773,201
Original issue premium	-	-	95,889	95,889
Deferred revenue	<u>3,574</u>	<u>261,645</u>	<u>-</u>	<u>265,219</u>
<b>Total liabilities</b>	<u>16,998,287</u>	<u>1,530,799</u>	<u>132,852,956</u>	<u>151,382,042</u>
<b>NET ASSETS</b>				
Invested in capital assets (net of related debt)	30,599,628	30,278,629	676,604	61,554,861
Restricted for:				
Debt service	4,865,055	106,909	9,783,100	14,755,064
Renewal and replacement	-	-	398,064	398,064
Unrestricted	<u>2,391,157</u>	<u>1,940,361</u>	<u>(9,782,017)</u>	<u>(5,450,499)</u>
<b>Total net assets</b>	<u>\$ 37,855,840</u>	<u>\$ 32,325,899</u>	<u>\$ 1,075,751</u>	<u>\$ 71,257,490</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, 2004

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CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

In June 1999, the GASB issued Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provided the most significant change in financial reporting in over twenty years and included a phased implementation (based on size of government) starting with fiscal years ending in 2002. As a part of this Statement, there is a new reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.). The City implemented the basic reporting model required by GASB Statement No. 34 and the infrastructure-related portion of GASB Statement No. 34 during 2002.

## (A) Reporting Entity

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

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2004. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

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

### **Discretely Presented Component Units**

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

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

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



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

Chattanooga Metropolitan  
Airport Authority  
P.O. Box 22444  
Chattanooga, TN 37422

CARTA  
1617 Wilcox Boulevard  
Chattanooga, TN 37406

Chattanooga Downtown Redevelopment Corporation  
427 City Hall Annex  
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

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

**Carter Street Corporation** – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee jointly and severally lease the trade center and parking garage. Additional information regarding the City's participation in this joint venture is disclosed in Note 13.

**Related Organizations** – City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga. During 2004 the City appropriated no funds to these organizations.

(C) Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities

reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permits, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is designed to view the City as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, public works, etc.).

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the proprietary fund statements should directly reconcile to the business-type activities column presented in the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension and private-purpose trust). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The focus of the new reporting model is on the City as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

(D) Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by generic classification within the financial statements.

The GASB Statement No. 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the combining section.

The City reports the following major funds and other fund types:

**1) Governmental Funds:**

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

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

**2) Proprietary Funds:**

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

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

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

**Storm Water Fund** – The Storm Water Fund accounts for costs associated with the City’s storm water management program as mandated by the Environmental Protection Agency and the State of Tennessee.

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

### 3) Other Fund Types:

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

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

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

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

**Private-Purpose Trust Funds** - The Private-Purpose Trust Funds account for resources, including both principal and earnings, which must be expended for specific individuals and purposes according to the provisions of a trust agreement. These funds are accounted for in the same manner as business enterprises providing similar services.

### 4) Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminated the presentation of Account Groups, but provided for these records to be maintained and incorporated the information into the governmental activities column in the government-wide Statement of Net Assets.

#### (E) Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The Government-wide Financial Statements and the Proprietary, Fiduciary and Component Unit Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

**Accrual** - Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be thirty days, except for property taxes, for which the time period is sixty days. The major revenue sources meeting the availability criterion are intergovernmental revenues and taxes.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. The recipient should under most circumstances, report resources transmitted before the eligibility requirements are met as advances by the provider and as deferred revenue.

(F) **Budget Policy and Budgetary Data**

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

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

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

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

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

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

The budgets are prepared on a basis consistent with generally accepted accounting principles except that encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

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

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2004, no supplemental appropriations were necessary.

**(G) Assets, Liabilities and Fund Equity**

**1) Cash and Cash Equivalents**

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

**2) Investments**

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



### 3) Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### 4) Restricted Assets

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

### 5) Capital Assets

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

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

	<u>Useful Life</u>
Buildings	5 – 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Storm water system	50 years
Telecommunications	5 – 40 years
Public domain infrastructure	10 – 50 years

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

## 5) Bond Discounts and Issuance Costs

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

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

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

## 6) Deferred Gain/Loss from Advance Refunding of Debt

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

## 7) Fund Balance

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

## (H) Revenues, Expenditures and Expenses

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

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

### 1) Property Taxes

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

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

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2003 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2003, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, 2004, are recorded as deferred revenues at June 30, 2004.

## **2) Grant Revenue**

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

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

## **3) Investment Income**

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

## **4) Compensated Absences**

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to one hundred fifty (150) days for employees hired on or before March 27, 1990, and one hundred (100) days for employees hired thereafter. The liability for compensated absences attributable to the City's governmental funds is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable business-type funds.

## **5) Interfund Transactions**

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

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

## **6) Payments Between the City and Component Units**

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

## **7) Indirect Costs**

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

## **8) Estimates**

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

### **(I) Net Assets**

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

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

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

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

## NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### **Compliance with Finance Related Legal and Contractual Provisions**

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

### **Excess of Expenditures Over Appropriations in Individual Funds**

For the year ended June 30, 2004, the City had no material excess of expenditures over appropriations in individual funds.

### **Net Assets/Fund Balance Deficit**

The Solid Waste/Sanitation Fund has a deficit in net assets of \$18,447,194 at June 30, 2004. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both.

## NOTE 3. CASH AND INVESTMENTS

The City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” for financial reporting of deposit and investment risks.

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

At June 30, 2004, investments of the primary government (except for Pension Trust Funds) and component units consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value or Carrying Amount</u>
Primary Government – Governmental Activities:		
U.S. Government agency securities	0.49	\$63,313,419
Certificates of deposit classified as investments	<u>0.84</u>	<u>2,189,173</u>
Total	<u>0.50</u>	<u>\$65,502,592</u>
Primary Government – Business-Type Activities:		
U.S. Government agency securities	0.46	\$51,160,441
Certificates of deposit classified as investments	<u>0.44</u>	<u>10,906,571</u>
Total	<u>0.47</u>	<u>\$62,067,012</u>
Component Units:		
U.S. Treasury Notes	0.52	\$ 3,758,703
U.S. Government agency securities	0.46	10,641,547
Cash equivalents classified as investments	<u>0.00</u>	<u>25,410</u>
Total	<u>0.48</u>	<u>\$14,425,660</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 to less than one year. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

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

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At June 30, 2004, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) or Moody's Investor Service (Moody's).



Component unit investments in U.S. Government agency securities of \$10,641,547 were securities of the Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, which were rated AAA by S & P.

Pension Trust funds - The City's Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Pension Trust funds a broader range of investments than other City investments. The credit risk of investments of the Pension Trust funds is summarized as follows:

	<u>S &amp; P or Moody's Rating</u>	<u>Fair Value</u>
<u>City of Chattanooga General Pension Plan</u>		
U.S. Government securities	AAA	\$ 2,608,938
U.S. Treasury bills	AAA	2,148,450
U.S. Government agency securities	AAA	19,136,738
Domestic corporate bonds	AAA	208,379
Domestic corporate bonds	AA	1,050,899
Domestic corporate bonds	A	8,668,922
Domestic corporate bonds	B	9,337
Domestic corporate bonds	BA	996,290
Domestic corporate bonds	BAA	2,091,910
Domestic corporate bonds	D	411,250
Mutual funds	Not rated	53,614,153
Domestic equity securities	Not rated	81,631,476
Limited Partnerships	Not rated	<u>12,452,248</u>
		<u>\$185,028,990</u>
	<u>S &amp; P or Moody's Rating</u>	<u>Fair Value</u>
<u>Firemen's and Policemen's Insurance and Pension Fund</u>		
U.S. Government securities	AAA	\$ 3,203,189
U.S. Government agency securities	AAA	11,761,538
Domestic corporate bonds	AAA	3,188,195
Domestic corporate bonds	AA	6,806,167
Domestic corporate bonds	A	9,648,063
Foreign bonds	A	1,576,805
Domestic corporate bonds	BAA	3,298,296
Municipal bonds	BAA	120,953
Foreign bonds	BAA	1,226,966
Mutual funds	Not rated	57,197,415
Domestic equity securities	Not rated	92,527,814
Money market funds	Not rated	18,564,095
Investment in real estate corporation	Not rated	<u>875,000</u>
		<u>\$209,994,496</u>

NOTE 4. RECEIVABLES

Receivables at June 30, 2004, consist of the following:

	Governmental Activities Funds			Business-Type Activities	Total
	General	Capital Projects	Other Governmental		
<b>Primary Government</b>					
Receivables:					
Taxes	\$ 88,885,395	\$ -	\$ -	\$ -	\$ 88,885,395
Accounts	-	62,301	2,157,636	816,752	3,036,689
Notes	1,500,000	-	-	-	1,500,000
Customer service	-	-	-	40,595,817	40,595,817
Other	3,889,066	-	-	1,383,790	5,272,856
Intergovernmental	<u>16,986,068</u>	<u>2,841,759</u>	<u>744,312</u>	<u>122,741</u>	<u>20,694,880</u>
Gross receivables	111,260,529	2,904,060	2,901,948	42,919,100	159,985,637
Less:					
Allowance for uncollectibles	<u>(2,455,843)</u>	<u>-</u>	<u>(3,543)</u>	<u>(953,260)</u>	<u>(3,412,646)</u>
Net receivables	<u>\$108,804,686</u>	<u>\$2,904,060</u>	<u>\$2,898,405</u>	<u>\$41,965,840</u>	<u>\$156,572,991</u>

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2004.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Receivable Fund	Payable Fund	Amount
Liability Insurance	General Fund	\$ 2,145,333
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	<u>1,183,524</u>
		<u>\$ 3,328,857</u>

NOTE 6. INTERFUND TRANSFERS

Transfer To	Transfer From	Amount
Nonmajor Governmental Funds	General Fund	\$11,376,042
Debt Service		\$7,636,840
Human Services		1,333,477
Public Library		2,405,725
Nonmajor Enterprise Funds (Storm Water)	General Fund	683,952
Nonmajor Governmental Funds (Debt Service)	Nonmajor Governmental Funds	2,482,884
	Community Development	\$ 1,821
	Capital Projects	2,481,063
Capital Projects Fund	Nonmajor Governmental Funds	2,602,159
	Community Development Fund	614,020
	Hotel/Motel Tax	1,988,139
Capital Projects Fund	General Fund	<u>2,527,969</u>
Total interfund transfers		<u>\$19,673,006</u>

## NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 is as follows:

### Primary Government

#### Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Non-Depreciable Assets:</b>				
Land and land improvements	\$ 930,233,565	\$24,452,192	\$ 4,092,171	\$ 950,593,586
Construction in Progress	<u>57,126,003</u>	<u>37,051,478</u>	<u>5,520,941</u>	<u>88,656,540</u>
Total non-depreciable assets	<u>987,359,568</u>	<u>61,503,670</u>	<u>9,613,112</u>	<u>1,039,250,126</u>
<b>Depreciable Assets:</b>				
Buildings	109,268,720	988,958	4,420,737	105,836,941
Vehicles and machinery	78,157,639	8,850,784	2,490,122	84,518,301
Improvements other than buildings	19,566,358	852,511	94,961	20,323,908
Infrastructure	<u>548,325,573</u>	<u>20,315,220</u>	<u>7,238,701</u>	<u>561,402,092</u>
Total depreciable assets	<u>755,318,290</u>	<u>31,007,473</u>	<u>14,244,521</u>	<u>772,081,242</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	32,679,267	3,093,420	(3,628)	35,776,315
Vehicles and machinery	52,002,804	6,614,417	1,913,891	56,703,330
Improvements other than buildings	12,938,046	542,392	44,287	13,436,151
Infrastructure	<u>179,129,119</u>	<u>21,941,655</u>	<u>925,406</u>	<u>200,145,368</u>
Total accumulated depreciation	<u>276,749,236</u>	<u>32,191,884</u>	<u>2,879,956</u>	<u>306,061,164</u>
Depreciable Assets, net	<u>478,569,054</u>	<u>(1,184,411)</u>	<u>11,364,565</u>	<u>466,020,078</u>
Governmental activities capital assets, net	<u>\$1,465,928,622</u>	<u>\$60,319,259</u>	<u>\$20,977,677</u>	<u>\$1,505,270,204</u>

#### Business-Type Activities:

<b>Non-Depreciable Assets:</b>				
Land	\$ 14,647,976	\$ 38,490	\$ 1,090,000	\$ 13,596,466
Construction in Progress	<u>9,060,686</u>	<u>9,738,000</u>	<u>1,120,686</u>	<u>17,678,000</u>
Total non-depreciable assets	<u>23,708,662</u>	<u>9,776,490</u>	<u>2,210,686</u>	<u>31,274,466</u>
<b>Depreciable Assets:</b>				
Buildings	66,665,988	1,197,094	70,000	67,793,082
Vehicles and machinery	376,781,941	20,524,095	3,989,038	393,316,998
Sewer system	388,523,966	21,529,329	-	410,053,295
Storm water system	39,872,304	1,270,577	-	41,142,881
Telecommunications	<u>15,857,000</u>	<u>1,840,000</u>	<u>53,000</u>	<u>17,644,000</u>
Total depreciable assets	<u>887,701,199</u>	<u>46,361,095</u>	<u>4,112,038</u>	<u>929,950,256</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	14,229,191	2,116,067	623,000	15,722,258
Vehicles and machinery	163,647,393	14,390,592	2,799,025	175,238,960
Sewer system	127,774,122	7,671,358	-	135,445,480
Storm water system	3,796,437	815,465	-	4,611,902
Telecommunications	<u>3,545,000</u>	<u>1,583,000</u>	<u>-</u>	<u>5,128,000</u>
Total accumulated depreciation	<u>312,992,143</u>	<u>26,576,482</u>	<u>3,422,025</u>	<u>336,146,600</u>
Depreciable Assets, net	<u>574,709,056</u>	<u>19,784,613</u>	<u>690,013</u>	<u>593,803,656</u>
Business-type activities capital assets, net	<u>\$ 598,417,718</u>	<u>\$29,561,103</u>	<u>\$ 2,900,699</u>	<u>\$ 625,078,122</u>

**Discretely Presented Component Units**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 4,380,320	\$ -	\$ -	\$ 4,380,320
Construction in Progress	<u>2,170,684</u>	<u>4,327,813</u>	<u>846,342</u>	<u>5,652,155</u>
Total non-depreciable assets	<u>6,551,004</u>	<u>4,327,813</u>	<u>846,342</u>	<u>10,032,475</u>
Depreciable Assets:				
Buildings	47,598,324	809,057	-	48,407,381
Vehicles and machinery	36,818,077	2,629,882	686,161	38,761,798
Improvements other than buildings	<u>29,629,273</u>	<u>2,504,678</u>	<u>1,660</u>	<u>32,132,291</u>
Total depreciable assets	<u>114,045,674</u>	<u>5,943,617</u>	<u>687,821</u>	<u>119,301,470</u>
Less Accumulated Depreciation for:				
Buildings	23,138,150	2,098,085	-	25,236,235
Vehicles and machinery	20,797,283	1,529,433	682,441	21,644,275
Improvements other than buildings	<u>2,581,950</u>	<u>2,093,423</u>	<u>-</u>	<u>4,675,373</u>
Total accumulated depreciation	<u>46,517,383</u>	<u>5,720,941</u>	<u>682,441</u>	<u>51,555,883</u>
Depreciable Assets, net	<u>67,528,291</u>	<u>222,676</u>	<u>5,380</u>	<u>67,745,587</u>
Component units capital assets, net	<u>\$ 74,079,295</u>	<u>\$ 4,550,489</u>	<u>\$ 851,722</u>	<u>\$ 77,778,062</u>

**Depreciation expense is charged to functions as follows:**

## Primary Government – Governmental Activities:

General government	\$ 7,788,440
Public Safety	1,923,887
Public Works	21,491,470
Parks and Recreation	836,455
Social Services	<u>151,632</u>

Total \$32,191,884

## Primary Government – Business-Type Activities:

Sewer	\$ 9,608,433
Solid Waste/Sanitation	611,108
Storm Water	889,434
Housing Management	374,507
Electric Utility	<u>15,093,000</u>

Total \$26,576,482

## Discretely Presented Component Units:

Transportation Authority	\$ 3,193,863
Airport Authority	2,487,064
Downtown Redevelopment	<u>40,014</u>

Total \$ 5,720,941

NOTE 8. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2004, were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
<b>Primary Government</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General obligation serial bonds	\$132,760,450	\$ -	\$ 3,862,647	\$128,897,803	\$ 3,990,447
Notes payable	5,620,284	2,401,534	862,894	7,158,924	904,104
Capital leases payable	115,925,472	3,800,000	-	119,725,472	882,809
Compensated absences	<u>15,939,075</u>	<u>7,898,856</u>	<u>7,473,325</u>	<u>16,364,606</u>	<u>5,130,769</u>
Total governmental activities	<u>\$270,245,281</u>	<u>\$14,100,390</u>	<u>\$12,198,866</u>	272,146,805	<u>\$10,908,129</u>
Net deferred refunding and original issue premiums and discounts				(114,615)	
				<u>\$272,032,190</u>	
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>EPB:</b>					
Revenue bonds	\$ 36,800,000	\$ -	\$ 1,600,000	\$ 35,200,000	\$ 1,600,000
Compensated absences	<u>1,179,000</u>	<u>-</u>	<u>158,000</u>	<u>1,021,000</u>	<u>-</u>
	<u>37,979,000</u>	<u>-</u>	<u>1,758,000</u>	<u>36,221,000</u>	<u>1,600,000</u>
<b>Interceptor Sewer System:</b>					
General obligation serial bonds	100,678,646	-	8,648,654	92,029,992	8,704,300
Notes payable	22,541,798	17,003,841	379,968	39,165,671	420,183
Capital leases payable	271,196	-	17,892	253,304	18,850
Compensated absences	<u>814,478</u>	<u>455,373</u>	<u>431,149</u>	<u>838,702</u>	<u>284,762</u>
	<u>124,306,118</u>	<u>17,459,214</u>	<u>9,477,663</u>	<u>132,287,669</u>	<u>9,428,095</u>
<b>Solid Waste/Sanitation Fund:</b>					
General obligation serial bonds	29,697,177	-	1,719,811	27,977,366	1,810,147
Compensated absences	<u>150,662</u>	<u>21,774</u>	<u>42,915</u>	<u>129,521</u>	<u>32,235</u>
	<u>29,847,839</u>	<u>21,774</u>	<u>1,762,726</u>	<u>28,106,887</u>	<u>1,842,382</u>
<b>Storm Water Fund:</b>					
General obligation serial bonds	18,818,729	-	1,158,889	17,659,840	1,220,106
Notes payable	1,576,339	-	136,446	1,439,893	141,978
Compensated absences	<u>195,153</u>	<u>149,038</u>	<u>132,758</u>	<u>211,433</u>	<u>81,552</u>
	<u>20,590,221</u>	<u>149,038</u>	<u>1,428,093</u>	<u>19,311,166</u>	<u>1,443,636</u>
Total business-type activities	<u>\$212,723,178</u>	<u>\$17,630,026</u>	<u>\$14,426,482</u>	215,926,722	<u>\$14,314,113</u>
Net deferred refunding and original issue premiums and discounts				(1,014,931)	
				<u>\$214,911,791</u>	

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
<b>Discretely Presented Component Units</b>					
Metropolitan Airport Authority:					
Revenue bonds	\$ 16,175,000	\$ -	\$ 505,000	\$ 15,670,000	\$ 545,000
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	<u>129,200,000</u>	<u>-</u>	<u>-</u>	<u>129,200,000</u>	<u>-</u>
Total component units	<u>\$145,375,000</u>	<u>\$ -</u>	<u>\$ 505,000</u>	144,870,000	<u>\$ 545,000</u>
Original issue premiums and discounts				<u>(910)</u>	
				<u>\$144,869,090</u>	

In prior years the City refunded certain general obligation and sewage facility 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, 2004, the liabilities for the bonds refunded in 1986, 1992, 1996, 1998, 2002, and 2003 were \$8,575,000, \$21,630,000, \$13,350,000, \$26,715,000, \$50,350,000, and \$44,120,000, respectively.

Debt related to governmental activities at June 30, 2004, 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. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Public Improvement Refunding, Series 1998	4.13% - 5.50%	\$ 7,235,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	36,995,200
Public Improvement Refunding, Series 2002	4.00% - 5.375%	12,588,100
Refunding Bonds, 2002 Series A	3.00% - 5.00%	5,303,903
Hotel-Motel Tax Pledge, Series 2002	3.00% - 5.00%	54,990,000
General Obligation, 2003 Series A	2.50% - 4.20%	<u>11,785,000</u>
Total payable from the Debt Service Fund		<u>\$128,897,803</u>

Hamilton County Series 1991 - Parking Garage - The City entered into an agreement with Hamilton County for cost sharing with respect to the parking garage for the Hamilton County/City of Chattanooga Courts/Jail complex in the principal amount of \$917,418. Hamilton County issued 15-year serial bonds to cover the cost of construction at rates ranging from 4.5% to 6.5%. Principal and interest payments are due annually to the County beginning 1992 through 2007. The remaining balance at June 30, 2004, is \$182,343.



Tennessee Municipal Bond Fund Loan - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2004, is \$4,990,023.

Tennessee Municipal Bond Fund Loan - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2004, is \$1,629,320.

Fire Hall Land Note - During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2004, is \$35,949.

Fannie Mae American Communities Fund - In July 2003, the City entered into an agreement with Fannie Mae to borrow up to \$5,000,000 for the purpose of funding HOPE VI projects. The loan will be repaid over a 10-year period at variable rates of interest. Interest rates are adjusted quarterly to the published 3-month LIBOR plus 1.5% (2.62% at June 30, 2004). The balance at June 30, 2004, is \$321,289.

Southside Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), formerly the Southside Redevelopment Corporation, 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 semiannual payments in amounts sufficient to meet the annual debt service requirements on \$129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by one-half of the 1/2% local option sales tax allocated to economic development, 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 was \$4,447,999 for the year ended June 30, 2004. The recorded liability under this capital lease at June 30, 2004, is \$115,925,472.

The debt service reserve fund held by the fiscal agent at June 30, 2004 is \$9,783,024. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling \$3,800,000. The lease term is six years and provides for annual payments beginning July 1, 2004.

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

Debt related to business-type activities at June 30, 2004, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
EPB:		
Electric System Revenue Bonds, Series 2000	4.25% - 5.38%	\$ 35,200,000
Interceptor Sewer System Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	16,787,209
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	13,389,700
Municipal Public Improvement Refunding, Series 2002	3.00% - 4.50%	22,381,986
Refunding Bonds, 2002 Series A	3.00% - 5.00%	28,331,097
Refunding Bonds, 2003 Series B	3.00% - 3.25%	11,140,000
1992 State Revolving Sewer Loan*	3.98%	1,439,893
Northwest Georgia Sewer Expansion Project	4.00%	5,845,918
State Revolving Loan 2003	2.98%	31,879,860
City of Collegedale Capital Lease	Variable	253,304
Solid Waste/Sanitation Fund:		
Municipal Public Improvement, Series 1998	4.75% - 5.375%	9,247,402
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	3,686,100
Municipal Public Improvement, Series 2001	4.50% - 5.00%	6,295,100
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	8,748,764
Storm Water Fund:		
1992 State Revolving Sewer Loan*	3.98%	1,439,893
Municipal Public Improvement, Series 1998	4.75% - 5.375%	6,910,389
Municipal Public Improvement Refunding, Series 1998	4.13% - 5.50%	2,528,600
Municipal Public Improvement, Series 2001	4.50% - 5.00%	1,869,700
Municipal Public Improvement Refunding, Series 2002	4.00% - 5.375%	<u>6,351,151</u>
Total payable from business-type activities		<u>\$213,726,066</u>

\*State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2004, is \$2,879,786.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2004, is \$5,845,918.

State Revolving Loan 2003 - The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2023 at 2.98% interest. The principal is not due until the project is substantially complete. The balance at June 30, 2004, is \$31,879,860.

Capital Leases - The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2014 at variable rates of interest. The balance on this capital lease at June 30, 2004, is \$253,304.

Component Units debt at June 30, 2004, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	1.70%	\$ 12,625,000
Series B Refunding Revenue Bonds, Series 2002	1.97%	3,045,000
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.625%	<u>129,200,000</u>
Total payable from Component Units		<u>\$144,870,000</u>

Principal and interest requirements to maturity for bonds, notes and capital leases, excluding amounts for compensated absences, 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>
2005	\$ 5,777,360	\$ 13,382,605	\$ 13,915,564	\$ 9,157,774
2006	5,923,136	13,181,502	13,988,009	8,587,949
2007	9,027,812	13,250,335	14,443,305	7,961,572
2008	8,092,242	12,873,613	12,785,591	7,384,023
2009	9,525,953	12,483,997	14,748,420	6,833,007
2010-2014	44,264,497	55,677,169	55,701,908	25,476,957
2015-2019	44,383,231	44,316,992	41,169,317	13,824,677
2020-2024	50,989,810	31,416,482	42,588,752	7,357,986
2025-2029	60,111,666	15,201,052	4,385,200	261,680
2030-2031	<u>17,686,492</u>	<u>1,024,447</u>	-	-
	<u>\$255,782,199</u>	<u>\$212,808,194</u>	<u>\$213,726,066</u>	<u>\$86,845,625</u>

<u>Year</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 545,000	\$ 7,415,667
2006	585,000	7,408,028
2007	3,200,000	7,335,577
2008	3,490,000	7,194,997
2009	4,295,000	7,045,575
2010-2014	21,085,000	32,605,998
2015-2019	28,435,000	27,255,645
2020-2024	28,050,000	20,005,497
2025-2029	37,175,000	10,606,500
2030-2032	18,010,000	1,026,844
	<u>\$144,870,000</u>	<u>\$127,900,328</u>

## NOTE 9. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan). All employees are eligible to participate in one of these retirement benefit plans. The City acts as Trustee for the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City does not administer the assets of the EPB Pension Plan. The following is a summary of each of these plans:

### City of Chattanooga Administered Pension Plans

#### **Significant Accounting Policies:**

##### Basis of Accounting

The financial statements of the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

##### Cash and Cash Equivalents

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

##### Method Used to Value Investments

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

## **Plan Descriptions:**

### **(1) City of Chattanooga General Pension Plan**

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The remaining cost of administering the plan is borne by the City.

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

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

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

### **(2) Firemen's and Policemen's Insurance and Pension Fund**

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 18.39 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the plan is borne by the City.

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

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

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

Current membership in each of these plans was comprised of the following as of June 30, 2004:

<u>Group</u>	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Retirees and beneficiaries currently receiving benefits	700	635
Vested terminated employees	60	5
Active employees	1,569	792
Actuarial update	1-1-2004	1-1-2004

**Trend Information:**

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
General Pension Plan	12/31/03	\$2,204,619	100.00%	\$(3,943,428)
	12/31/02	1,017,617	100.00%	(3,884,735)
	12/31/01	19,882	N/A	(4,498,226)
Firemen's and Policemen's Fund	12/31/03	5,719,267	100.00%	(4,336,014)
	12/31/02	4,518,985	100.00%	(4,372,825)
	12/31/01	2,104,019	100.00%	(4,350,397)

**Funding Policy and Other Information:**

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

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Contribution rates for employer	4.07%	18.39%
Contribution rates for plan members	2.00%	8.00%
Annual pension cost	\$2,204,619	\$5,719,267
Contributions made by employer	2,106,187	6,053,739
Contributions made by plan members	1,033,327	2,456,270
Actuarial valuation date for current contributions	January 1, 2004	January 1, 2004
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent
Remaining amortization period	30 Years Open	40 Years Open
Asset valuation method	Market Value, As Adjusted	5-Year Average
Actuarial assumptions:		
Investment rate of return	7.75%	8.00%
Projected salary increases	5.00%	3.25%
Inflation rate	3.00%	3.00%



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

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Annual required contribution	\$ 2,168,721	\$ 5,636,207
Interest on net pension obligation (asset)	(301,067)	(360,758)
Adjustment to annual required contribution	<u>336,965</u>	<u>443,818</u>
Annual pension cost	2,204,619	5,719,267
Contributions made	<u>(2,263,312)</u>	<u>(5,682,456)</u>
Increase in net pension obligation (asset)	(58,693)	36,811
Net pension obligation (asset) at beginning of year	<u>(3,884,735)</u>	<u>(4,372,825)</u>
Net pension obligation (asset) at end of year	<u><u>\$(3,943,428)</u></u>	<u><u>\$(4,336,014)</u></u>

### 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 Plan Net Assets:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Receivables:			
Accrued income	\$ 619,015	\$ 490,655	\$ 1,109,670
Contributions:			
Employer	169,315	-	169,315
Employee	82,327	-	82,327
Due from plan custodian	<u>-</u>	<u>2,926,664</u>	<u>2,926,664</u>
Total receivables	<u>870,657</u>	<u>3,417,319</u>	<u>4,287,976</u>
Investments, at fair value:			
U.S. Government securities	23,894,126	14,964,727	38,858,853
Municipal bonds	-	120,953	120,953
Corporate bonds	13,436,987	22,940,721	36,377,708
Foreign bonds	-	2,803,771	2,803,771
Corporate stocks	81,631,476	92,527,814	174,159,290
Mutual funds	53,614,153	57,197,415	110,811,568
Temporary investments	-	18,564,095	18,564,095
Limited Partnerships	12,452,248	-	12,452,248
Other investments	<u>-</u>	<u>875,000</u>	<u>875,000</u>
Total investments	<u>185,028,990</u>	<u>209,994,496</u>	<u>395,023,486</u>
Total assets	<u>185,899,647</u>	<u>213,411,815</u>	<u>399,311,462</u>

LIABILITIES

Due to plan custodian	-	2,506,776	2,506,776
Accrued expenses	<u>258,659</u>	<u>288,136</u>	<u>546,795</u>
Total liabilities	<u>258,659</u>	<u>2,794,912</u>	<u>3,053,571</u>

NET ASSETS HELD IN TRUST  
FOR PENSION BENEFITS

<u>\$185,640,988</u>	<u>\$210,616,903</u>	<u>\$396,257,891</u>
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**Combining Statement of Changes in Plan Net Assets:**

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 2,106,187	\$ 6,053,739	\$ 8,159,926
Employee	<u>1,033,327</u>	<u>2,456,270</u>	<u>3,489,597</u>
Total contributions	<u>3,139,514</u>	<u>8,510,009</u>	<u>11,649,523</u>
Investment income:			
Net appreciation in fair market value of investments	25,846,744	29,465,284	55,312,028
Interest	2,092,534	3,787,932	5,880,466
Dividends	<u>1,505,535</u>	<u>1,737,837</u>	<u>3,243,372</u>
	29,444,813	34,991,053	64,435,866
Less investment expense	(695,009)	(937,346)	(1,632,355)
Net investment income	<u>28,749,804</u>	<u>34,053,707</u>	<u>62,803,511</u>
Total additions	<u>31,889,318</u>	<u>42,563,716</u>	<u>74,453,034</u>
<b>DEDUCTIONS</b>			
Benefits paid to participants	8,503,403	15,990,919	24,494,322
Administrative expenses	<u>267,130</u>	<u>442,165</u>	<u>709,295</u>
Total deductions	<u>8,770,533</u>	<u>16,433,084</u>	<u>25,203,617</u>
NET INCREASE	23,118,785	26,130,632	49,249,417
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
Beginning of year	<u>162,522,203</u>	<u>184,486,271</u>	<u>347,008,474</u>
End of year	<u>\$185,640,988</u>	<u>\$210,616,903</u>	<u>\$396,257,891</u>

## EPB Pension Plan

### **Plan Description and Provision:**

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

### **Funding Policy:**

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

### **Annual Pension Cost and Net Pension Obligation:**

EPB's annual pension cost of the Plan for the current year was \$1,782,067. There is no net pension obligation as EPB has contributed the annual required contribution, adjusted with interest, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2003, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, (c) no postretirement benefit increases and (d) a discount rate of 8.0%.

### **Trend Information:**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$1,782,067	100%	\$ -
6/30/03	1,310,481	100%	-
6/30/02	1,148,796	100%	-

## EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 13 percent of salary in a tax-deferred savings plan. EPB contributes up to 3 percent of an employee's salary. EPB contributions are fully vested and amounted to \$538,000 in 2004.

## 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. Actuarially determined employer contribution requirements were met for the year ended June 30, 2004. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/04	\$397,790	100%	\$(161,485)
6/30/03	374,804	100%	(172,677)
6/30/02	347,184	100%	88,655

### Postretirement Benefits

The City provides postretirement health and medical benefits for retirees and their dependents in accordance with the applicable City ordinance. Substantially all of the City's employees may become eligible for the benefits if they reach normal retirement age while working for the City. At June 30, 2004, there were 834 employees who had retired and were receiving healthcare benefits. The City is insured for a portion of these benefits. All the associated costs are accounted for in the General Fund and Enterprise Funds. For the year ended June 30, 2004, the City recognized expenditures of approximately \$5,158,282, which was offset by \$1,254,387 of retiree contributions.

### NOTE 10. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2004, outstanding funds advanced by TVA totaled \$1,286,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2004, the outstanding receivables for loans made from these funds amounted to \$1,249,000. A total of approximately \$78,417,000 has been loaned to EPB's customers since the programs were begun in 1977.

### NOTE 11. DEFERRED COMPENSATION PLAN

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

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

Asset balance at July 1, 2003	\$12,054,077
Deferrals of compensation	741,553
Earnings	1,115,272
Withdrawals	(565,712)
Administrative expenses	<u>(370)</u>
Asset balance at June 30, 2004	<u>\$13,344,820</u>

## NOTE 12. COMMITMENTS AND CONTINGENCIES

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

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

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and storm water systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2004. The total contractual commitments outstanding as of June 30, 2004, aggregated approximately \$33,455,000. The City has sufficient funds available to cover these commitments.

## NOTE 13. JOINT VENTURE

The Industrial Development Board of Chattanooga, Tennessee, issued Lease Rental Revenue Bonds, Series 1985, dated March 1, 1985, in the amount of \$17,950,000 for the purpose of providing funds to pay the principal and interest on certain bond anticipation notes issued in anticipation of the issuance of the Series 1985 bonds. The proceeds of the bond anticipation notes were used to provide funds for the acquiring, construction, improving, and equipping of certain public building facilities comprised of a trade center and a parking garage owned by Carter Street Corporation, a not-for-profit organization, whose board consists of five members. Two of the members are appointed by the County Mayor and two by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Mayor and the Mayor of Chattanooga.

The City and Hamilton County, Tennessee, as tenants in common, jointly and severally lease from the Corporation the trade center and parking garage. The total amount of rent payable by the City and County is designed to fund the debt of the Corporation and a portion of the Corporation's operating expense. The lease shall remain in effect until such time as the bonds issued on behalf of the Corporation have been fully paid, or provision has been made for such payment. The lease may be terminated prior to such payment if the City or County shall exercise their respective options under the terms of the lease to purchase the project. Upon the repayment of the bonds, the City and County will have equity interests in the Corporation.

While the bonds owed by the Corporation do not constitute an indebtedness of the City or the County, under the terms of the lease the City and County are unconditionally obligated to make rental payments (one-third by the County and two-thirds by the City) to the Corporation which, in the aggregate, will be sufficient to pay principal and interest on the bonds. For the fiscal year ended June 30, 2004, lease payments from the City's General Fund were \$1,420,159.

The following is a schedule of future minimum lease payments required from the City under the terms of the lease:

2005	\$1,419,100
2006	1,415,389

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

Condensed financial information for Carter Street Corporation as of June 30, 2004, is as follows:

ASSETS

Cash	\$ 1,316,730
Accounts receivable, net	2,057,429
Inventories	66,032
Prepaid items	18,315
Capital assets, net	13,318,815
Other assets	<u>32,986</u>
Total assets	<u>\$16,810,307</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 391,587
Accrued interest	77,184
Advance deposits	65,880
Bonds payable	<u>4,058,048</u>
Total liabilities	<u>4,592,699</u>

NET ASSETS

Invested in capital assets, net of related debt	9,293,753
Unrestricted	<u>2,923,855</u>
Total net assets	<u>12,217,608</u>
Total liabilities and net assets	<u>\$16,810,307</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	\$ 5,619,864
Total operating expenses	<u>6,798,532</u>
Loss from operations	(1,178,668)
Nonoperating revenues	3,106,664
Nonoperating expenses	<u>257,625</u>
Net income	1,670,371
Net assets at July 1, 2003	<u>10,547,237</u>
Net assets at June 30, 2004	<u>\$12,217,608</u>

#### NOTE 14. CONDUIT DEBT OBLIGATIONS

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

As of June 30, 2004, 119 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was \$188,000,000. The aggregate principal amounts payable for the 108 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$253,648,700.

#### NOTE 15. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of closed landfills (Summit and 36<sup>th</sup> Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of \$9,295,666 at June 30, 2004, is based on the use of 100 percent of the capacity of the Summit landfill, and 82 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is 2.5 years. The City will recognize the remaining estimated costs of closure and postclosure care of \$903,289 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of \$10,198,955 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2004. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

#### NOTE 16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The General Fund accounts for all exposures, except for torts, which are accounted for in the Liability Insurance Fund. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2004, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.



City employees eligible for medical benefits are fully insured by Cigna Healthcare.

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). 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. The liabilities for claims other than tort claims are reported in governmental funds rather than the general long-term debt account group because they are expected to be liquidated with expendable available financial resources.

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

	General Fund	Liability Insurance Fund
	<u>                    </u>	<u>                    </u>
Unpaid claims, June 30, 2002	\$ 426,264	\$ 2,173,000
Incurred claims (including IBNRs)	20,344,579	866,956
Claim payments	<u>(20,289,459)</u>	<u>(504,956)</u>
Unpaid claims, June 30, 2003	481,384	2,535,000
Incurred claims (including IBNRs)	21,611,723	1,412,820
Claim payments	<u>(21,575,665)</u>	<u>(1,273,820)</u>
Unpaid claims, June 30, 2004	<u>\$ 517,442</u>	<u>\$ 2,674,000</u>

#### NOTE 17. COMPONENT UNIT SWAPTION

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

##### Objective:

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

Terms:

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

Fair value:

At June 30, 2004, the swap had a negative fair value of \$2,182,000, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

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

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
 PUBLIC EMPLOYEE RETIREMENT SYSTEMS  
 SCHEDULE OF FUNDING PROGRESS  
 June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>CITY OF CHATTANOOGA ADMINISTERED PLANS</b>						
<b>General Pension Plan</b>						
January 1, 2004	\$ 200,844,363	\$ 180,133,668	\$ (20,710,695)	111.50%	\$ 53,322,027	-38.84%
January 1, 2003	195,813,753	167,271,964	(28,541,789)	117.06%	53,221,374	-53.63%
January 1, 2002	219,767,852	171,457,511	(48,310,341)	128.20%	51,681,537	-93.48%
January 1, 2001	216,594,554	154,893,409	(61,701,145)	139.83%	47,490,020	-129.92%
January 1, 2000	209,084,823	144,143,794	(64,941,029)	145.10%	46,338,563	-140.14%
January 1, 1999	144,836,426	116,471,155	(28,365,271)	124.35%	43,969,283	-64.51%
<b>Firemen's and Policemen's Insurance and Pension Fund</b>						
January 1, 2004	\$ 205,955,526	\$ 254,328,956	\$ 48,373,430	80.98%	\$ 30,981,336	156.14%
January 1, 2003	201,373,183	238,423,840	37,050,657	84.46%	30,060,676	123.25%
January 1, 2002	202,140,350	226,644,488	24,504,138	89.19%	28,249,738	86.74%
July 1, 2000	201,503,400	203,104,100	1,600,700	99.21%	28,539,600	5.61%
July 1, 1999	192,166,300	179,230,000	(12,936,300)	107.22%	27,308,200	-47.37%
July 1, 1998	169,512,500	167,287,300	(2,225,200)	101.33%	25,140,400	-8.85%
<b>ELECTRIC POWER BOARD</b>						
August 1, 2003	\$ 27,296,000	\$ 27,296,000	\$ -	100.00%	\$ 20,081,000	0.00%
August 1, 2002	42,946,000	42,946,000	-	100.00%	22,387,000	0.00%
August 1, 2001	44,472,000	44,472,000	-	100.00%	20,757,000	0.00%
August 1, 2000	47,262,000	47,262,000	-	100.00%	20,407,000	0.00%
August 1, 1999	43,113,000	43,113,000	-	100.00%	19,610,000	0.00%
August 1, 1998	43,773,000	38,418,000	(5,355,000)	113.94%	19,437,000	-27.55%

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF REQUIRED SUPPLEMENTAL INFORMATION  
 PUBLIC EMPLOYEE RETIREMENT SYSTEMS  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 June 30, 2004

CITY OF CHATTANOOGA ADMINISTERED PLANS

Year Ended June 30	<u>General Pension Plan</u>		<u>Firemen's and Policemen's Insurance and Pension Fund</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2004	\$2,168,721	104.4%	\$5,636,207	100.8%
2003	974,113	41.5%	4,440,048	102.3%
2002	-	100%	1,821,269	108.6%
2001	-	100%	3,494,042	82.1%
2000	1,422,932	100%	3,071,820	122.1%
1999	1,796,507	100%	2,633,467	143.6%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>
Valuation date	1/1/2004	1/1/2004
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent
Remaining amortization period	30 Years Open	40 Years Open
Asset valuation method	Market value, as adjusted	5-Year Average
Actuarial assumptions:		
Investment rate of return	7.75%	8.00%
Projected salary increases	5.00%	3.25%
Includes inflation at	3.00%	3.00%
Cost-of-living adjustments	3.00%	3.00%

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

These are the operating funds which are restricted as to use by the federal or state governments and special purpose funds established by the City Council.

Public Library Fund accounts for revenues and expenditures of the Chattanooga-Hamilton County Bicentennial Library.

Downtown Development Fund accounts for revenues and expenditures associated with improvements to the Downtown area.

Human Services Program Fund accounts for revenues and expenditures associated with various grants and donations for specific programs administered by the City.

Narcotics Program Fund accounts for drug fines and grants received and usage of those monies to further drug education and investigations.

State Street Aid Fund accounts for revenues and expenditures of the City's share of state gasoline taxes. State law requires that gasoline taxes be used to maintain streets.

Community Development Fund accounts for Community Development Block Grant funds received from the federal government for the purpose of enhancing the economic condition and meeting various types of housing needs of low-to-moderate income residents of the City.

Hotel/Motel Tax Fund accounts for revenues and expenditures of the City's hotel/motel privilege tax. The City ordinance requires that hotel/motel taxes be used to develop and implement public improvements in the downtown and waterfront areas.

### DEBT SERVICE FUND

Debt Service Fund accounts for the accumulation of resources for, and payment of, general long-term obligations.

CITY OF CHATTANOOGA, TENNESSEE  
NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET  
June 30, 2004

	Special Revenue							Total Nonmajor Governmental Funds		
	Public Library	Downtown Development	Human Services Program	Narcotics Program	State Street Aid	Community Development	Hotel/ Motel Tax		Total	Debt Service
<b>ASSETS</b>										
Cash and cash equivalents	\$ 1,376,027	\$ 356,803	\$ 3,834,125	\$ 1,516,093	\$ 1,217,606	\$ 1,230,234	\$ 546,333	\$ 10,077,221	\$ 5,222,704	\$ 15,299,925
Investments	-	-	-	-	955,000	-	437,736	1,392,736	-	1,392,736
Accounts receivable	1,235	309	1,204,218	4,371	676	512,948	430,336	2,154,093	-	2,154,093
Due from other governments	-	-	-	-	744,312	-	-	744,312	-	744,312
<b>Total assets</b>	<b>\$ 1,377,262</b>	<b>\$ 357,112</b>	<b>\$ 5,038,343</b>	<b>\$ 1,520,464</b>	<b>\$ 2,917,594</b>	<b>\$ 1,743,182</b>	<b>\$ 1,414,405</b>	<b>\$ 14,368,362</b>	<b>\$ 5,222,704</b>	<b>\$ 19,591,066</b>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$ 97,577	\$ 7,379	\$ 545,517	\$ 436,464	\$ 67,439	\$ 245,443	\$ 3,961	\$ 1,403,780	\$ -	\$ 1,403,780
Deferred revenue	-	-	-	-	375,055	718,948	226,920	1,320,923	-	1,320,923
Due to other funds	-	-	-	-	-	-	1,183,524	1,183,524	-	1,183,524
<b>Total liabilities</b>	<b>97,577</b>	<b>7,379</b>	<b>545,517</b>	<b>436,464</b>	<b>442,494</b>	<b>964,391</b>	<b>1,414,405</b>	<b>3,908,227</b>	<b>-</b>	<b>3,908,227</b>
<b>FUND BALANCES</b>										
Reserved for encumbrances	-	-	116,383	-	8,300	231,644	-	356,327	-	356,327
Unreserved - designated for debt service	-	-	-	-	-	-	-	-	5,222,704	5,222,704
Unreserved - undesignated	1,279,685	349,733	4,376,443	1,084,000	2,466,800	547,147	-	10,103,808	-	10,103,808
<b>Total fund balances</b>	<b>1,279,685</b>	<b>349,733</b>	<b>4,492,826</b>	<b>1,084,000</b>	<b>2,475,100</b>	<b>778,791</b>	<b>-</b>	<b>10,460,135</b>	<b>5,222,704</b>	<b>15,682,839</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,377,262</b>	<b>\$ 357,112</b>	<b>\$ 5,038,343</b>	<b>\$ 1,520,464</b>	<b>\$ 2,917,594</b>	<b>\$ 1,743,182</b>	<b>\$ 1,414,405</b>	<b>\$ 14,368,362</b>	<b>\$ 5,222,704</b>	<b>\$ 19,591,066</b>

CITY OF CHATTANOOGA, TENNESSEE  
NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2004

	Special Revenue										Total Nonmajor Governmental Funds
	Public Library	Downtown Development	Human Services Program	Narcotics Program	State Street Aid	Community Development	Hotel/ Motel Tax	Total	Debt Service	Total	
<b>REVENUES</b>											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,040,244	\$ 2,040,244	\$ -	\$ 2,040,244	\$ 2,040,244
Intergovernmental	2,525,588	-	11,738,793	76,834	4,381,334	4,937,515	-	23,660,064	794,983	24,455,047	24,455,047
Charges for services	-	-	123,317	-	-	-	-	123,317	-	123,317	123,317
Investment income	48,968	31,486	11,676	638	18,397	127,522	17,916	256,603	-	256,603	256,603
Miscellaneous	173,988	-	32,258	205,655	-	964,570	-	1,376,471	213,678	1,590,149	1,590,149
<b>Total revenues</b>	<u>2,748,544</u>	<u>31,486</u>	<u>11,906,044</u>	<u>283,127</u>	<u>4,399,731</u>	<u>6,029,607</u>	<u>2,058,160</u>	<u>27,456,699</u>	<u>1,008,661</u>	<u>28,465,360</u>	<u>28,465,360</u>
<b>EXPENDITURES</b>											
General government	5,296,233	844,463	13,421,367	-	-	-	70,021	19,632,084	-	19,632,084	19,632,084
Police	-	-	-	132,865	-	-	-	132,865	-	132,865	132,865
Public works	-	-	-	-	4,051,621	-	-	4,051,621	-	4,051,621	4,051,621
Community development	-	-	-	-	-	8,278,495	-	8,278,495	-	8,278,495	8,278,495
Debt service	-	-	-	-	-	-	-	-	10,893,823	10,893,823	10,893,823
Capital outlay/fixed assets	390,820	2,586	426,589	39,346	44,070	15,867	-	919,278	-	919,278	919,278
<b>Total expenditures</b>	<u>5,687,053</u>	<u>847,049</u>	<u>13,847,956</u>	<u>172,211</u>	<u>4,095,691</u>	<u>8,294,362</u>	<u>70,021</u>	<u>33,014,343</u>	<u>10,893,823</u>	<u>43,908,166</u>	<u>43,908,166</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,938,509)</u>	<u>(815,563)</u>	<u>(1,941,912)</u>	<u>110,916</u>	<u>304,040</u>	<u>(2,264,755)</u>	<u>1,988,139</u>	<u>(5,557,644)</u>	<u>(9,885,162)</u>	<u>(15,442,806)</u>	<u>(15,442,806)</u>
<b>OTHER FINANCING SOURCES (USES)</b>											
Transfers in	2,405,725	-	1,333,477	-	-	-	-	3,739,202	10,119,724	13,858,926	13,858,926
Transfers out	-	-	-	-	-	(615,841)	(1,988,139)	(2,603,980)	-	(2,603,980)	(2,603,980)
<b>Total other financing sources (uses)</b>	<u>2,405,725</u>	<u>-</u>	<u>1,333,477</u>	<u>-</u>	<u>-</u>	<u>(615,841)</u>	<u>(1,988,139)</u>	<u>1,135,222</u>	<u>10,119,724</u>	<u>11,254,946</u>	<u>11,254,946</u>
Net change in fund balance	<u>(532,784)</u>	<u>(815,563)</u>	<u>(608,435)</u>	<u>110,916</u>	<u>304,040</u>	<u>(2,880,596)</u>	<u>-</u>	<u>(4,422,422)</u>	<u>234,562</u>	<u>(4,187,860)</u>	<u>(4,187,860)</u>
<b>FUND BALANCE, beginning</b>	<u>1,812,469</u>	<u>1,165,296</u>	<u>5,101,261</u>	<u>973,084</u>	<u>2,171,060</u>	<u>3,659,387</u>	<u>-</u>	<u>14,882,557</u>	<u>4,988,142</u>	<u>19,870,699</u>	<u>19,870,699</u>
<b>FUND BALANCE, ending</b>	<u>\$ 1,279,685</u>	<u>\$ 349,733</u>	<u>\$ 4,492,826</u>	<u>\$ 1,084,000</u>	<u>\$ 2,475,100</u>	<u>\$ 778,791</u>	<u>\$ -</u>	<u>\$ 10,460,135</u>	<u>\$ 5,222,704</u>	<u>\$ 15,682,839</u>	<u>\$ 15,682,839</u>



## PRIVATE-PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to account for resources, including both principal and earnings, which must be expended for specific individuals and purposes according to the provisions of a trust agreement. These funds are accounted for in the same manner as business enterprises providing similar services.

Chattanooga High School Medal Fund accounts for revenues and expenditures associated with awards to high school students at Chattanooga High School, which is now part of the Hamilton County Department of Education. Revenues are derived from interest earned on trust funds established by Mr. Ochs.

Ochs-Oakes Fire and Police Medal Fund accounts for the cost of providing awards to high school students within the Hamilton County Department of Education. Revenues are derived from interest earned on trust funds established by Mr. Ochs and Mr. Oakes.

Ochs-Oakes High School Medal Fund accounts for the cost of providing awards to high school students within the Hamilton County Department of Education. Revenues are derived from interest earned on trust funds established by Mr. Ochs and Mr. Oakes.

CITY OF CHATTANOOGA, TENNESSEE

PRIVATE-PURPOSE TRUST FUNDS

COMBINING STATEMENT OF NET ASSETS  
June 30, 2004

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	Chattanooga High School Medal	Ochs-Oakes Fire and Police Medal	Ochs-Oakes High School Medal	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 5,125	\$ 1,539	\$ 6,664
Accounts receivable	212	-	-	212
Investments:				
Mutual funds	-	59,129	8,793	67,922
Temporary investments	<u>4,666</u>	<u>-</u>	<u>-</u>	<u>4,666</u>
Total assets	<u>4,878</u>	<u>64,254</u>	<u>10,332</u>	<u>79,464</u>
<b>NET ASSETS</b>	<u>\$ 4,878</u>	<u>\$ 64,254</u>	<u>\$ 10,332</u>	<u>\$ 79,464</u>

CITY OF CHATTANOOGA, TENNESSEE

PRIVATE-PURPOSE TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended June 30, 2004

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	<u>Chattanooga High School Medal</u>	<u>Ochs-Oakes Fire and Police Medal</u>	<u>Ochs-Oakes High School Medal</u>	<u>Total</u>
<b>ADDITIONS</b>				
Investment income:				
Net appreciation in fair market value of investments	\$ -	\$ 2,400	\$ 77	\$ 2,477
Interest	<u>164</u>	<u>885</u>	<u>142</u>	<u>1,191</u>
Total additions	<u>164</u>	<u>3,285</u>	<u>219</u>	<u>3,668</u>
<b>DEDUCTIONS</b>				
Administrative expenses	<u>-</u>	<u>125</u>	<u>136</u>	<u>261</u>
<b>CHANGE IN NET ASSETS</b>	164	3,160	83	3,407
Net assets, beginning	<u>4,714</u>	<u>61,094</u>	<u>10,249</u>	<u>76,057</u>
Net assets, ending	<u>\$ 4,878</u>	<u>\$ 64,254</u>	<u>\$ 10,332</u>	<u>\$ 79,464</u>

## DISCRETELY PRESENTED COMPONENT UNITS

Discretely presented component units are entities that are legally separate from the City, but the City is considered to be financially accountable for these entities. These entities are presented in the same manner as Proprietary Funds.

Chattanooga Metropolitan Airport Authority accounts for the operations of the Chattanooga Metropolitan Airport.

Chattanooga Area Regional Transit Authority (CARTA) accounts for the operations of the mass transit system for the Chattanooga Metropolitan Area.

Chattanooga Downtown Redevelopment Corporation accounts for projects in the southside of Chattanooga funded by lease rental revenue bonds. Projects included are construction of the Convention and Trade Center expansion, Development Resource Center, a parking garage and the Chattanooga (a residential conference facility). Operations include the Chattanooga and parking garage.

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
Year Ended June 30, 2004

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 6,205,712	\$ 3,940,500	\$ 17,019,755	\$ 27,165,967
Other	<u>-</u>	<u>50,355</u>	<u>-</u>	<u>50,355</u>
Total operating revenues	<u>6,205,712</u>	<u>3,990,855</u>	<u>17,019,755</u>	<u>27,216,322</u>
<b>OPERATING EXPENSES</b>				
Airport operations	4,385,337	-	-	4,385,337
CARTA operations	-	8,937,925	-	8,937,925
CDRC operations	-	-	9,484,427	9,484,427
Management fees	266,463	-	379,956	646,419
Maintenance	146,556	2,420,693	-	2,567,249
Depreciation and amortization	<u>2,506,497</u>	<u>3,193,863</u>	<u>40,014</u>	<u>5,740,374</u>
Total operating expenses	<u>7,304,853</u>	<u>14,552,481</u>	<u>9,904,397</u>	<u>31,761,731</u>
OPERATING INCOME (LOSS)	<u>(1,099,141)</u>	<u>(10,561,626)</u>	<u>7,115,358</u>	<u>(4,545,409)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental revenue	-	5,640,929	-	5,640,929
Investment income	56,383	3,138	562,418	621,939
Interest expense	(194,636)	-	(7,257,375)	(7,452,011)
Other income (expense)	<u>938,970</u>	<u>-</u>	<u>2,927,380</u>	<u>3,866,350</u>
Total nonoperating revenues (expenses)	<u>800,717</u>	<u>5,644,067</u>	<u>(3,767,577)</u>	<u>2,677,207</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(298,424)	(4,917,559)	3,347,781	(1,868,202)
Capital contributions	<u>4,049,255</u>	<u>4,082,850</u>	<u>-</u>	<u>8,132,105</u>
CHANGE IN NET ASSETS	3,750,831	(834,709)	3,347,781	6,263,903
Net assets (deficit), beginning	<u>34,105,009</u>	<u>33,160,608</u>	<u>(2,272,030)</u>	<u>64,993,587</u>
Net assets (deficit), ending	<u>\$ 37,855,840</u>	<u>\$ 32,325,899</u>	<u>\$ 1,075,751</u>	<u>\$ 71,257,490</u>

CITY OF CHATTANOOGA, TENNESSEE  
 COMBINING STATEMENT OF CASH FLOWS  
 COMPONENT UNITS  
 Year Ended June 30, 2004

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 5,891,877	\$ 3,848,931	\$ 17,736,192	\$ 27,477,000
Receipts from other	-	1,393	-	1,393
Payments to suppliers	(5,474,588)	(3,028,783)	(5,086,209)	(13,589,580)
Payments to employees	-	(8,260,629)	(137,947)	(8,398,576)
Cost of services	-	-	(5,522,743)	(5,522,743)
Net cash provided by (used in) operating activities	<u>417,289</u>	<u>(7,439,088)</u>	<u>6,989,293</u>	<u>(32,506)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental payments received	-	<u>5,640,929</u>	<u>3,088,000</u>	<u>8,728,929</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on capital debt	(505,000)	(50,000)	-	(555,000)
Interest paid on capital debt	(193,453)	-	(7,198,975)	(7,392,428)
Capital contributions	3,994,104	4,701,362	-	8,695,466
Additions to capital assets	(4,846,598)	(2,406,352)	(711,974)	(7,964,924)
Proceeds from the sale of capital assets	-	3,720	-	3,720
Passenger facility charges collected	<u>942,830</u>	<u>-</u>	<u>-</u>	<u>942,830</u>
Net cash flows provided by (used in) capital and related financing activities	<u>(608,117)</u>	<u>2,248,730</u>	<u>(7,910,949)</u>	<u>(6,270,336)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of investments	-	-	(26,763,850)	(26,763,850)
Proceeds from sales and maturities of investments	511,188	-	26,764,125	27,275,313
Interest on investments	<u>56,383</u>	<u>-</u>	<u>562,612</u>	<u>618,995</u>
Net cash flows provided by (used in) investing activities	<u>567,571</u>	<u>-</u>	<u>562,887</u>	<u>1,130,458</u>
Net increase in cash and cash equivalents	376,743	450,571	2,729,231	3,556,545
Cash and cash equivalents, beginning of year	<u>1,539,683</u>	<u>1,994,990</u>	<u>1,138,384</u>	<u>4,673,057</u>
Cash and cash equivalents, end of year	<u>\$ 1,916,426</u>	<u>\$ 2,445,561</u>	<u>\$ 3,867,615</u>	<u>\$ 8,229,602</u>
<b>CLASSIFIED AS:</b>				
Current assets	\$ 1,646,634	\$ 1,547,561	\$ 3,867,615	\$ 7,061,810
Restricted assets	<u>269,792</u>	<u>898,000</u>	<u>-</u>	<u>1,167,792</u>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 COMBINING STATEMENT OF CASH FLOWS  
 COMPONENT UNITS  
 Year Ended June 30, 2004

(continued from previous page)

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
OPERATING INCOME (LOSS)	\$ (1,099,141)	\$ (10,561,626)	\$ 7,115,358	\$ (4,545,409)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation and Amortization	2,506,497	3,193,863	40,014	5,740,374
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(310,660)	7,581	704,985	401,906
(Increase) decrease in inventory	-	(15,085)	(1,884)	(16,969)
(Increase) decrease in prepaid items	40,272	(11,211)	8,573	37,634
Increase (decrease) in accounts payable and accrued liabilities	(51,314)	(52,610)	(877,753)	(981,677)
Increase (decrease) in contracts payable	(679,753)	-	-	(679,753)
Increase (decrease) in deferred revenue	(3,175)	-	-	(3,175)
Increase (decrease) in other	14,563	-	-	14,563
TOTAL ADJUSTMENTS	<u>1,516,430</u>	<u>3,122,538</u>	<u>(126,065)</u>	<u>4,512,903</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 417,289</u>	<u>\$ (7,439,088)</u>	<u>\$ 6,989,293</u>	<u>\$ (32,506)</u>
SIGNIFICANT NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Additions to property and equipment included in contracts payable	\$ 796,357	\$ -	\$ -	\$ 796,357
Additions to property and equipment included in accounts payable	<u>11,797</u>	<u>-</u>	<u>-</u>	<u>11,797</u>

## GENERAL FUND

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



## CITY OF CHATTANOOGA, TENNESSEE

## GENERAL FUND

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 82,002,860	\$ 82,002,860	\$ 81,030,075	\$ (972,785)
Property in lieu of taxes:				
EPB	2,928,731	2,928,731	2,928,731	-
EPB Telecommunications	199,508	199,508	199,508	-
Burner Systems	24,853	24,853	24,540	(313)
Chattanooga Housing Authority	20,420	20,420	29,994	9,574
Tennessee Valley Authority	1,056,075	1,056,075	1,070,298	14,223
Jaycee Towers 1 and 2	2,448	2,448	1,224	(1,224)
Chattanooga Neighborhood Enterprise	57,996	57,996	9,666	(48,330)
Good Neighbors	2,808	2,808	2,808	-
Kenco Group	21,619	21,619	82,373	60,754
Signal Mountain Cement	543,152	543,152	517,697	(25,455)
Metals USA	40,839	40,839	40,839	-
Covenant Transport	23,453	23,453	23,526	73
T. B. Woods	7,274	7,274	15,529	8,255
Regis Corporation	51,852	51,852	48,010	(3,842)
Culp, Inc.	451	451	-	(451)
Chattanooga Bakery, Inc.	4,471	4,471	-	(4,471)
JRB Company	24,486	24,486	45,689	21,203
National Print Group	5,069	5,069	-	(5,069)
Top Flight, Inc.	11,862	11,862	-	(11,862)
Dev Corp O Knob	476	476	476	-
Chattanooga Labeling System	9,151	9,151	9,151	-
E. I. DuPont	252,678	252,678	252,664	(14)
Messer Griesheim Ind.	64,571	64,571	64,272	(299)
Pavestone Company	26,493	26,493	21,561	(4,932)
Sears, Roebuck & Co.	2,394	2,394	1,723	(671)
Chattem Inc.	17,951	17,951	21,664	3,713
Central Block Corp.	2,700	2,700	2,700	-
Nabisco, Inc.	34,092	34,092	-	(34,092)
LJT of Tennessee	-	-	2,099	2,099
Provident Life & Accident Insurance Co.	-	-	10,249	10,249
South Market LLC	-	-	1,762	1,762
Corporate excise taxes - intangible property	183,932	183,932	103,564	(80,368)
Interest and penalty on taxes:				
Current year	67,168	67,168	111,770	44,602
Prior years	261,406	261,406	359,077	97,671
Collection fees - delinquent taxes	275,810	275,810	163,202	(112,608)
Other local taxes:				
Franchise taxes	1,711,092	1,711,092	1,654,588	(56,504)
Liquor taxes	1,400,700	1,400,700	1,528,939	128,239
Beer taxes	4,273,300	4,273,300	4,553,269	279,969
Litigation taxes - City Court	4,932	4,932	5,799	867
Designated revenues - City-only sales taxes	17,300,000	17,300,000	18,444,846	1,144,846
Total taxes	112,919,073	112,919,073	113,383,882	464,809
Licenses and permits:				
Motor vehicle licenses	393,564	393,564	411,090	17,526
Parking meters	441,634	441,634	446,796	5,162
Business licenses (excluding liquor)	120,000	120,000	130,285	10,285
Gross receipts taxes	2,772,411	2,772,411	2,891,899	119,488
Fees for issuing business licenses	57,000	57,000	56,821	(179)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

(continued from previous page)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Licenses and permits: (continued)				
Interest and penalty on business licenses	\$ 72,000	\$ 72,000	\$ 74,467	\$ 2,467
Wrecker permits	4,200	4,200	13,125	8,925
Building permits	917,863	917,863	1,195,554	277,691
Electrical permits	163,033	163,033	195,525	32,492
Plumbing fixtures connection permits	177,309	177,309	254,151	76,842
Street cut-in permits	319,080	319,080	292,592	(26,488)
Annual electrical contractors licenses	64,000	64,000	63,834	(166)
Plumbing examiner fees	25,000	25,000	36,285	11,285
Electrical examiner fees	35,000	35,000	39,895	4,895
Gas examiner fees	35,000	35,000	48,345	13,345
Beer permit application fees	85,000	85,000	97,292	12,292
Mechanical code permits	61,664	61,664	68,898	7,234
Mechanical examiner fees	62,000	62,000	60,995	(1,005)
Fees for issuing construction, renovation permits	53,790	53,790	60,990	7,200
Liquor by drink licenses	123,264	123,264	115,460	(7,804)
Liquor by drink, interest and penalty	3,208	3,208	3,472	264
Hotel permits	2,000	2,000	2,325	325
Gas permits	7,500	7,500	10,017	2,517
Exhibitor fees	3,000	3,000	10,312	7,312
Sign permits	117,570	117,570	124,499	6,929
Taxicab driver permits	3,700	3,700	3,055	(645)
Temporary use permits	3,300	3,300	1,000	(2,300)
Subdivision review/inspection fee	69,962	69,962	30,980	(38,982)
Miscellaneous licenses and permits	20,087	20,087	19,356	(731)
Designated revenues	423,000	423,000	408,952	(14,048)
<b>Total licenses and permits</b>	<b>6,636,139</b>	<b>6,636,139</b>	<b>7,168,267</b>	<b>532,128</b>
Intergovernmental revenues:				
City allocation - state beer tax	73,560	73,560	77,194	3,634
City allocation - state income tax	2,000,000	2,000,000	1,960,082	(39,918)
City allocation - state sales tax	8,497,319	8,497,319	9,144,562	647,243
County-wide sales tax	21,102,341	21,102,341	22,495,211	1,392,870
Mixed drink tax	1,074,629	1,074,629	1,210,027	135,398
State maintenance of streets	99,897	99,897	78,912	(20,985)
State gas inspection fees	323,061	323,061	352,187	29,126
State alcoholic beverage taxes	66,514	66,514	73,261	6,747
Hamilton County - Ross's Landing	528,391	528,391	397,496	(130,895)
Hamilton County - radio and electronics	134,000	134,000	130,000	(4,000)
State - Specialized training	415,800	415,800	369,020	(46,780)
State-telecommunication sales tax	25,806	25,806	26,247	441
Designated revenues	4,956,307	4,956,307	4,671,466	(284,841)
<b>Total intergovernmental revenues</b>	<b>39,297,625</b>	<b>39,297,625</b>	<b>40,985,665</b>	<b>1,688,040</b>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
(continued from previous page)				
Charges for services:				
City court costs	\$ 295,072	\$ 295,072	\$ 126,122	\$ (168,950)
State court costs	4,218	4,218	3,857	(361)
City Court Clerk fees	903,601	903,601	666,822	(236,779)
Charges for financial services, EPB	7,200	7,200	7,200	-
Variance request fees	9,270	9,270	7,941	(1,329)
Fire and ambulance service fees	1,153	1,153	734	(419)
Warner/Montague Park ballfield fees	2,100	2,100	8,950	6,850
Champion's Club fees	21,634	21,634	23,516	1,882
Memorial Auditorium credit card fees	43,500	43,500	28,206	(15,294)
Tivoli credit card fees	11,163	11,163	5,270	(5,893)
Kidz Kamp fees	81,788	81,788	85,229	3,441
Sports program fees	5,900	5,900	9,422	3,522
Non-traditional program fees	3,855	3,855	1,074	(2,781)
Fitness center fees	35,432	35,432	32,371	(3,061)
Outventure fees	10,016	10,016	19,472	9,456
Credit card convenience fee	7,391	7,391	12,684	5,293
Police reports: accidents, etc., fees	141,289	141,289	156,073	14,784
Applicant/Photo/ID card fees	11,698	11,698	3,924	(7,774)
Police records & fingerprinting fee	-	-	7,290	7,290
Skateboard park fees	9,290	9,290	11,023	1,733
Link2Gov internet fee	-	-	(6,512)	(6,512)
Construction board of appeals	2,280	2,280	2,484	204
Zoning letter	2,760	2,760	3,850	1,090
Sign board of appeals	3,840	3,840	3,600	(240)
Certificates of occupancy	8,430	8,430	1,595	(6,835)
Sewer verification letter	2,340	2,340	1,450	(890)
Modular homesite investigation	570	570	575	5
Plan checking fee	214,610	214,610	170,995	(43,615)
Phased construction plans review	6,607	6,607	3,503	(3,104)
Cell tower site/location review	3,840	3,840	3,000	(840)
Arts & culture fees	51,000	51,000	8,822	(42,178)
Therapeutic Kamp fee	-	-	15,062	15,062
Preservation fee - civic facilities	-	-	27,809	27,809
Dead animal pick up fee at vet	9,581	9,581	7,643	(1,938)
General pension administration cost	-	-	25,000	25,000
Designated revenues	1,909,032	1,909,032	1,680,387	(228,645)
<b>Total charges for services</b>	<b>3,820,460</b>	<b>3,820,460</b>	<b>3,166,443</b>	<b>(654,017)</b>
Fines, forfeitures, and penalties:				
City court fines	795,568	795,568	392,184	(403,384)
Criminal court fines	243,398	243,398	205,238	(38,160)
Parking tickets	365,706	365,706	426,487	60,781
Delinquent parking tickets	211,410	211,410	77,678	(133,732)
Air pollution penalties	-	-	5,369	5,369
Bond forfeitures	-	-	653	653
Miscellaneous forfeitures and penalties	-	-	4,550	4,550
<b>Total fines, forfeitures, and penalties</b>	<b>1,616,082</b>	<b>1,616,082</b>	<b>1,112,159</b>	<b>(503,923)</b>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

(continued from previous page)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Miscellaneous revenues:				
Interest earned	\$ 650,059	\$ 650,059	\$ 620,979	\$ (29,080)
Sale of property	65,000	65,000	72,888	7,888
Land and building rents	69,887	69,887	94,752	24,865
Dock rental (wharf)	26,321	26,321	19,443	(6,878)
Payroll deduction charges	6,815	6,815	4,973	(1,842)
Indirect cost	2,585,866	2,585,866	2,579,214	(6,652)
Plans and specification deposits	13,800	13,800	5,010	(8,790)
Condemnation	39,714	39,714	48,208	8,494
Memorial Auditorium box office	64,199	64,199	96,829	32,630
Memorial Auditorium rents	202,000	202,000	194,663	(7,337)
Memorial Auditorium concessions	50,000	50,000	41,769	(8,231)
Tivoli box office	31,877	31,877	24,384	(7,493)
Tivoli rents	138,462	138,462	118,191	(20,271)
Tivoli concessions	20,402	20,402	14,303	(6,099)
Swimming pools	23,468	23,468	30,922	7,454
Park concessions	16,413	16,413	12,174	(4,239)
Recreation center rental	31,259	31,259	31,431	172
Carousel ridership	109,206	109,206	94,673	(14,533)
Other miscellaneous revenue	344,055	344,055	1,077,732	733,677
Designated revenues	286,174	286,174	507,010	220,836
Departmental revenues:				
General Government	274,502	274,502	20,691	(253,811)
Finance and Administration	40,000	40,000	21,670	(18,330)
Police	24,600	24,600	143,032	118,432
Fire	790	790	9,705	8,915
Public Works	27,266	27,266	227,744	200,478
Parks and Recreation	-	-	19,639	19,639
Total miscellaneous revenues	<u>5,142,135</u>	<u>5,142,135</u>	<u>6,132,029</u>	<u>989,894</u>
Total revenues	<u>169,431,514</u>	<u>169,431,514</u>	<u>171,948,445</u>	<u>2,516,931</u>
EXPENDITURES				
General government:				
City Council	666,345	666,345	618,079	(48,266)
Allied Arts Council	250,000	250,000	250,000	-
Association of Visual Artists	15,000	15,000	15,000	-
Community Foundation scholarships	160,000	160,000	160,000	-
Carcog and Economic Development District	30,493	30,493	30,493	-
Carter Street lease agreement	1,420,529	1,420,529	1,420,159	(370)
Chattanooga Neighborhood Enterprises	2,000,000	2,000,000	2,000,000	-
City Court (Judicial)	622,277	622,277	571,969	(50,308)
Community Research Council	10,000	10,000	10,000	-
Children's Advocacy Center	30,000	30,000	30,000	-
Homeless Health Care Centers	17,500	17,500	17,500	-

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

(continued from previous page)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
General government: (continued)				
African-American Museum	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Regional History Museum	24,000	24,000	24,000	-
City Attorney's Office	750,101	750,101	744,352	(5,749)
Contingency fund	217,462	217,462	7,000	(210,462)
Chattanooga Area Urban League	50,000	50,000	50,000	-
Chattanooga Downtown Partnership	140,000	140,000	140,000	-
Pensions and UIC	23,937	23,937	48,072	24,135
Tennessee Riverpark	858,471	858,471	852,637	(5,834)
WTCI - Channel 45	60,000	60,000	60,000	-
Disaster recovery	580,273	580,273	323,485	(256,788)
Tuition assistance program	20,000	20,000	15,301	(4,699)
Regional Planning Agency	2,509,266	2,509,266	2,367,603	(141,663)
Renewal and replacement	2,768,000	2,768,000	2,712,109	(55,891)
Economic development and education	14,869,670	14,869,670	14,105,240	(764,430)
Downtown design center	218,535	218,535	155,315	(63,220)
311 call center	334,869	334,869	334,837	(32)
Air Pollution Control Bureau	1,336,374	1,336,374	1,258,498	(77,876)
Scenic Cities Beautiful Commission	103,725	103,725	56,170	(47,555)
Summer youth	30,050	30,050	21,425	(8,625)
Westside Development Corp.	75,000	75,000	75,000	-
Audits, dues and surveys	206,757	206,757	159,985	(46,772)
Renewal community	111,036	111,036	2,559	(108,477)
CARTA	3,158,650	3,158,650	3,158,650	-
Carter Street Corporation	176,324	176,324	176,324	-
Intergovernmental relations	248,850	248,850	325,991	77,141
City storm water fees	70,000	70,000	67,540	(2,460)
Business initiatives	8,100	8,100	8,028	(72)
Character education program	2,226	2,226	2,225	(1)
African American Chamber of Commerce	150,000	150,000	150,000	-
Chamber of economic development	400,000	400,000	400,000	-
Community education alliance	259,616	259,616	234,387	(25,229)
Community & economic development	1,330,355	1,330,355	1,234,495	(95,860)
Business development initiative	75,000	75,000	-	(75,000)
Personnel	5,843,797	5,843,797	5,152,684	(691,113)
Neighborhood services	1,640,980	1,640,980	1,579,659	(61,321)
Liability insurance premiums	1,100,000	1,100,000	1,916,000	816,000
<b>Total general government</b>	<b>45,043,568</b>	<b>45,043,568</b>	<b>43,112,771</b>	<b>(1,930,797)</b>
Finance and Administration:				
Finance administration	1,718,128	1,718,128	1,686,290	(31,838)
Information Services	2,558,064	2,558,064	2,483,693	(74,371)
Office of City Treasurer	526,254	526,254	504,495	(21,759)
Telecommunication operations	125,676	125,676	128,256	2,580
Telephone system	235,450	235,450	229,431	(6,019)
City Court Clerk's Office	917,856	917,856	916,146	(1,710)

(continued on next page)

## CITY OF CHATTANOOGA, TENNESSEE

## GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
(continued from previous page)				
Finance and Administration (continued)				
Building maintenance	\$ 746,866	\$ 746,866	\$ 575,930	\$ (170,936)
City court technology	97,043	97,043	15,450	(81,593)
Electronics division	389,097	389,097	362,971	(26,126)
Purchasing	801,230	801,230	782,117	(19,113)
Real estate - administration	123,739	123,739	117,634	(6,105)
Real estate - property maintenance	57,500	57,500	51,474	(6,026)
DRC building operations	516,002	516,002	138,557	(377,445)
Heritage center maintenance	114,211	114,211	113,900	(311)
Court space usage costs	110,480	110,480	109,500	(980)
Total Finance and Administration	9,037,596	9,037,596	8,215,844	(821,752)
Police:				
Operations	989,333	989,333	-	(989,333)
Administration	5,722,851	5,722,851	6,596,499	873,648
Uniformed Services	18,928,005	18,928,005	17,344,303	(1,583,702)
Investigative and support services	10,735,248	10,735,248	12,362,637	1,627,389
Law enforcement planning	847,783	847,783	563,320	(284,463)
Special programs	198,830	198,830	195,197	(3,633)
Reduction part I offenses	40,681	40,681	13,444	(27,237)
Total Police	37,462,731	37,462,731	37,075,400	(387,331)
Fire:				
Operations	24,908,087	24,908,087	23,450,250	(1,457,837)
Utilities	944,594	944,594	886,870	(57,724)
Total Fire	25,852,681	25,852,681	24,337,120	(1,515,561)
Public Works:				
Administration	899,576	899,576	892,794	(6,782)
Board of Appeals & Variances	10,000	10,000	7,365	(2,635)
City Engineer	1,733,322	1,733,322	1,736,237	2,915
City-wide services	946,183	946,183	928,670	(17,513)
Street cleaning	1,804,342	1,804,342	1,905,673	101,331
Emergency	734,806	734,806	705,973	(28,833)
Waste resources:				
Sewer construction and maintenance	1,899,986	1,899,986	1,870,621	(29,365)
Codes and inspections:				
Inspection Division	1,654,761	1,654,761	1,661,873	7,112
Board of Examiners	25,870	25,870	31,279	5,409
Utilities	146,755	146,755	142,624	(4,131)
Interceptor sewer system pump stations	96,025	96,025	92,880	(3,145)
Solid waste subsidy	4,832,016	4,832,016	4,832,016	-
Municipal forestry	511,108	511,108	461,515	(49,593)
Waste pickup	5,729,106	5,729,106	5,693,289	(35,817)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
(continued from previous page)				
Public Works (continued)				
Traffic management:				
Administration	\$ 645,328	\$ 645,328	\$ 663,291	\$ 17,963
Control	1,650,988	1,650,988	1,697,456	46,468
Street lighting	2,503,500	2,503,500	2,486,592	(16,908)
Total Public Works	25,823,672	25,823,672	25,810,148	(13,524)
Parks and Recreation:				
Administration	805,584	805,584	999,770	194,186
Recreation:				
Recreation centers	3,047,510	3,047,510	3,076,550	29,040
Fitness center	258,369	258,369	304,585	46,216
Late Night Programs	41,584	41,584	35,699	(5,885)
Arts and culture	218,969	218,969	92,204	(126,765)
OutVenture	123,654	123,654	109,689	(13,965)
Sports	20,011	20,011	33,743	13,732
Champion's Club	214,995	214,995	230,737	15,742
Aquatics	159,879	159,879	135,458	(24,421)
Special programs	20,650	20,650	19,779	(871)
Parks maintenance:				
Administration	452,139	452,139	514,916	62,777
Warner Park Zoo	378,541	378,541	389,200	10,659
Municipal parks	794,350	794,350	809,091	14,741
Tennessee Riverpark-Downtown	1,080,411	1,080,411	816,451	(263,960)
Carousel	85,779	85,779	52,209	(33,570)
Civic facilities:				
Administration	574,023	574,023	464,434	(109,589)
Memorial Auditorium	355,913	355,913	398,116	42,203
Tivoli Theatre	214,724	214,724	280,092	65,368
Concessions	46,818	46,818	31,019	(15,799)
Brainerd Golf Course	891,224	891,224	823,972	(67,252)
Brown Acres Golf Course	907,564	907,564	830,146	(77,418)
City-wide security	101,908	101,908	84,110	(17,798)
Landscape	449,222	449,222	387,557	(61,665)
Building and structures	823,782	823,782	905,530	81,748
Athletic facilities	399,476	399,476	347,094	(52,382)
Total Parks and Recreation	12,467,079	12,467,079	12,172,151	(294,928)
Total expenditures	155,687,327	155,687,327	150,723,434	(4,963,893)
Excess of revenues over expenditures	13,744,187	13,744,187	21,225,011	7,480,824

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

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(continued from previous page)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>\$ (14,804,750)</u>	<u>\$ (14,804,750)</u>	<u>\$ (14,587,963)</u>	<u>\$ 216,787</u>
Total other financing sources (uses)	<u>(14,804,750)</u>	<u>(14,804,750)</u>	<u>(14,587,963)</u>	<u>216,787</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses - (budgetary basis)	<u>\$ (1,060,563)</u>	<u>\$ (1,060,563)</u>	6,637,048	<u>\$ 7,697,611</u>
Adjustment for encumbrances			<u>2,044,333</u>	
Net change in fund balance (GAAP basis)			8,681,381	
FUND BALANCE at beginning of year (GAAP basis)			<u>40,677,980</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 49,359,361</u>	



CITY OF CHATTANOOGA, TENNESSEE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE - DESIGNATED REVENUES  
Year Ended June 30, 2004

	Final Budget						Actual						Variance - Over (Under)
	Taxes	Licenses and Permits	Inter- governmental Revenues	Charges for Services	Miscellaneous Revenues	Total	Taxes	Licenses and Permits	Inter- governmental Revenues	Charges for Services	Miscellaneous Revenues	Total	
Regional Planning Agency	\$ -	\$ -	\$ 1,588,997	\$ -	\$ 72,000	\$ 1,660,997	\$ -	\$ -	\$ 1,369,773	\$ -	\$ 94,714	\$ 1,464,487	\$ (196,510)
Air Pollution Bureau	-	423,000	642,554	-	-	1,065,554	-	408,952	688,965	-	1,735	1,099,652	34,098
Scenic Cities Beautiful Commission	-	-	66,431	-	-	66,431	-	-	75,081	-	1,566	76,647	10,216
Reduction - Part I offenses	-	-	-	-	4,068	4,068	-	-	-	-	4,139	4,139	71
Municipal golf courses	-	-	-	1,798,787	-	1,798,787	-	-	-	1,605,429	3,663	1,609,092	(189,695)
Free Public Library	-	-	-	-	-	-	-	-	-	4,752	4,752	4,752	4,752
Miller Park	-	-	-	-	100	100	-	-	-	74	74	74	(26)
Law enforcement planning	-	-	771,395	-	1,200	772,595	-	-	406,279	-	1,385	407,664	(364,931)
Summer youth work action	-	-	-	-	30,000	30,000	-	-	-	-	21,425	21,425	(8,575)
Confiscated and unclaimed property	-	-	-	-	553	553	-	-	-	-	553	553	-
Nonprofit request	-	-	-	-	-	-	-	-	-	-	900	900	900
Economic Development and Education fund	17,300,000	-	675,000	-	-	17,975,000	18,444,846	-	1,198,182	-	48,297	19,691,325	1,716,325
Special programs fund	-	-	1,176,930	110,245	160,253	1,447,428	-	-	898,186	74,958	305,807	1,278,951	(168,477)
African-American Museum	-	-	35,000	-	18,000	53,000	-	-	35,000	-	18,000	53,000	-
<b>Total designated revenues</b>	<b>\$ 17,300,000</b>	<b>\$ 423,000</b>	<b>\$ 4,956,307</b>	<b>\$ 1,909,032</b>	<b>\$ 286,174</b>	<b>\$ 24,874,513</b>	<b>\$ 18,444,846</b>	<b>\$ 408,952</b>	<b>\$ 4,671,466</b>	<b>\$ 1,680,387</b>	<b>\$ 507,010</b>	<b>\$ 25,712,661</b>	<b>\$ 838,148</b>

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

These are the operating funds which are restricted as to use by the federal or state governments and special purpose funds established by the City Council.

Public Library Fund accounts for revenues and expenditures of the Chattanooga-Hamilton County Bicentennial Library.

Downtown Development Fund accounts for revenues and expenditures associated with improvements to the Downtown area.

Human Services Program Fund accounts for revenues and expenditures associated with various grants and donations for specific programs administered by the City.

Narcotics Program Fund accounts for drug fines and grants received and usage of those monies to further drug education and investigations.

State Street Aid Fund accounts for revenues and expenditures of the City's share of state gasoline taxes. State law requires that gasoline taxes be used to maintain streets.

Community Development Fund accounts for Community Development Block Grant funds received from the federal government for the purpose of enhancing the economic condition and meeting various types of housing needs of low-to-moderate income residents of the City.

Hotel/Motel Tax Fund accounts for revenues and expenditures of the City's hotel/motel privilege tax. The City ordinance requires that hotel/motel taxes be used to develop and implement public improvements in the downtown and waterfront areas.

### DEBT SERVICE FUND

Debt Service Fund accounts for the accumulation of resources for, and payment of, general long-term obligations.

CITY OF CHATTANOOGA, TENNESSEE  
SPECIAL REVENUE FUND  
PUBLIC LIBRARY FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Hamilton County, Tennessee funds	\$ 2,405,725	\$ 2,405,725	\$ 2,405,725	\$ -
Federal Funds	-	-	28,863	28,863
State of Tennessee funds	100,000	100,000	91,000	(9,000)
Investment income	43,948	43,948	48,968	5,020
Book sales	36,630	36,630	35,969	(661)
Miscellaneous	130,546	130,546	138,019	7,473
<b>Total revenues</b>	<u>2,716,849</u>	<u>2,716,849</u>	<u>2,748,544</u>	<u>31,695</u>
<b>EXPENDITURES</b>				
Central branch and administration	4,464,394	4,464,394	4,055,976	(408,418)
Eastgate branch	414,712	414,712	408,392	(6,320)
Northgate branch	417,006	417,006	398,216	(18,790)
Ooltewah/Collegedale branch	318,381	318,381	296,158	(22,223)
South Chattanooga branch	150,227	150,227	137,491	(12,736)
Capital outlay	394,370	394,370	375,260	(19,110)
Other	4,000	4,000	-	(4,000)
<b>Total expenditures</b>	<u>6,163,090</u>	<u>6,163,090</u>	<u>5,671,493</u>	<u>(491,597)</u>
Deficiency of revenues under expenditures	(3,446,241)	(3,446,241)	(2,922,949)	523,292
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>2,405,725</u>	<u>2,405,725</u>	<u>2,405,725</u>	<u>-</u>
Net change in fund balance	<u>\$ (1,040,516)</u>	<u>\$ (1,040,516)</u>	(517,224)	<u>\$ 523,292</u>
Adjustment for encumbrances			(15,560)	
Net change in fund balance (GAAP basis)			(532,784)	
FUND BALANCE at beginning of year (GAAP basis)			<u>1,812,469</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 1,279,685</u>	
<b>EXPLANATION OF DIFFERENCES</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 2,748,544	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 2,748,544</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 5,671,493	
Adjustment for encumbrances			<u>15,560</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 5,687,053</u>	

CITY OF CHATTANOOGA, TENNESSEE  
SPECIAL REVENUE FUND  
DOWNTOWN DEVELOPMENT FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Investment income	\$ 33,800	\$ 33,800	\$ 31,486	\$ (2,314)
Total revenues	33,800	33,800	31,486	(2,314)
EXPENDITURES				
Enterprise Center	418,000	418,000	156,562	(261,438)
Downtown development	688,258	688,258	687,901	(357)
Capital outlay	-	-	2,586	2,586
Total expenditures	1,106,258	1,106,258	847,049	(259,209)
Net change in fund balance	\$ (1,072,458)	\$ (1,072,458)	(815,563)	\$ 256,895
Adjustment for encumbrances			-	
Net change in fund balance (GAAP basis)			(815,563)	
FUND BALANCE at beginning of year (GAAP basis)			1,165,296	
FUND BALANCE at end of year (GAAP basis)			\$ 349,733	
EXPLANATION OF DIFFERENCES				
REVENUES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 31,486	
Differences - none			-	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			\$ 31,486	
EXPENDITURES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 847,049	
Adjustment for encumbrances			-	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			\$ 847,049	

CITY OF CHATTANOOGA, TENNESSEE  
SPECIAL REVENUE FUND  
HUMAN SERVICES PROGRAM FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Federal funds	\$ 7,688,930	\$ 7,688,930	\$ 7,732,111	\$ 43,181
State of Tennessee funds	4,312,960	4,312,960	4,006,682	(306,278)
United Way	2,500	2,500	1,221	(1,279)
Project Warm Neighbors	20,000	20,000	25,597	5,597
Day care fees	118,471	118,471	123,317	4,846
Investment income	40,000	40,000	11,676	(28,324)
Other	4,000	4,000	5,440	1,440
<b>Total revenues</b>	<b>12,186,861</b>	<b>12,186,861</b>	<b>11,906,044</b>	<b>(280,817)</b>
<b>EXPENDITURES</b>				
Administration	862,880	862,880	878,545	15,665
Headstart program	7,787,841	7,787,841	7,827,927	40,086
Day care	826,025	826,025	826,346	321
Food program	98,410	98,410	104,960	6,550
Weatherization program	446,770	446,770	435,285	(11,485)
Foster grandparent program	484,890	484,890	477,163	(7,727)
Low-income energy assistance	1,101,298	1,101,298	1,097,071	(4,227)
Community services block grant	790,884	790,884	709,198	(81,686)
Title II commodities	75,435	75,435	103,985	28,550
Emergency food and shelter	29,107	29,107	32,949	3,842
Summer food service program	834,767	834,767	690,553	(144,214)
Other human services programs	197,188	197,188	237,745	40,557
Capital outlay	118,019	118,019	161,593	43,574
<b>Total expenditures</b>	<b>13,653,514</b>	<b>13,653,514</b>	<b>13,583,320</b>	<b>(70,194)</b>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
SPECIAL REVENUE FUND  
HUMAN SERVICES PROGRAM FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

(continued from previous page)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Deficiency of revenues under expenditures	\$ (1,466,653)	\$ (1,466,653)	\$ (1,677,276)	\$ (210,623)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	1,333,477	1,333,477	1,333,477	-
Net change in fund balance	\$ (133,176)	\$ (133,176)	(343,799)	\$ (210,623)
Adjustment for encumbrances			(264,636)	
Net change in fund balance (GAAP basis)			(608,435)	
FUND BALANCE at beginning of year (GAAP basis)			5,101,261	
FUND BALANCE at end of year (GAAP basis)			\$ 4,492,826	

EXPLANATION OF DIFFERENCES

REVENUES

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 11,906,044
Differences - none	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 11,906,044

EXPENDITURES

Actual amounts (budgetary basis) from the budgetary comparison schedule	\$ 13,583,320
Adjustment for encumbrances	264,636
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 13,847,956

CITY OF CHATTANOOGA, TENNESSEE

SPECIAL REVENUE FUND

NARCOTICS PROGRAM FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Federal funds	\$ 125,882	\$ 125,882	\$ 32,120	\$ (93,762)
State of Tennessee funds	44,714	44,714	44,714	-
Confiscated money, vehicles and equipment	119,406	119,406	119,406	-
Investment income	3,032	3,032	638	(2,394)
Other	88,249	88,249	86,249	(2,000)
Total revenues	<u>381,283</u>	<u>381,283</u>	<u>283,127</u>	<u>(98,156)</u>
<b>EXPENDITURES</b>				
Narcotics program	1,055,151	1,055,151	132,866	(922,285)
Capital outlay	-	-	37,466	37,466
Total expenditures	<u>1,055,151</u>	<u>1,055,151</u>	<u>170,332</u>	<u>(884,819)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(673,868)</u>	<u>(673,868)</u>	<u>112,795</u>	<u>786,663</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>696,073</u>	<u>696,073</u>	<u>-</u>	<u>(696,073)</u>
Net change in fund balance	<u>\$ 22,205</u>	<u>\$ 22,205</u>	112,795	<u>\$ 90,590</u>
Adjustment for encumbrances			<u>(1,879)</u>	
Net change in fund balance (GAAP basis)			110,916	
FUND BALANCE at beginning of year (GAAP basis)			<u>973,084</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 1,084,000</u>	
<b>EXPLANATION OF DIFFERENCES</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 283,127	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 283,127</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 170,332	
Adjustment for encumbrances			<u>1,879</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 172,211</u>	

CITY OF CHATTANOOGA, TENNESSEE

SPECIAL REVENUE FUND

STATE STREET AID FUND

BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
State of Tennessee funds	\$ 3,621,297	\$ 3,621,297	\$ 4,381,334	\$ 760,037
Investment income	<u>30,000</u>	<u>30,000</u>	<u>18,397</u>	<u>(11,603)</u>
Total revenues	<u>3,651,297</u>	<u>3,651,297</u>	<u>4,399,731</u>	<u>748,434</u>
<b>EXPENDITURES</b>				
Salaries and wages	2,586,662	2,586,662	2,559,739	(26,923)
Fringe benefits	698,245	698,245	693,604	(4,641)
Purchased services	44,141	44,141	37,822	(6,319)
Vehicle operations	405,124	405,124	487,891	82,767
Materials and supplies	305,775	305,775	270,472	(35,303)
Other services	1,350	1,350	2,093	743
Capital outlay	<u>74,825</u>	<u>74,825</u>	<u>52,370</u>	<u>(22,455)</u>
Total expenditures	<u>4,116,122</u>	<u>4,116,122</u>	<u>4,103,991</u>	<u>(12,131)</u>
Net change in fund balance	<u>\$ (464,825)</u>	<u>\$ (464,825)</u>	\$ 295,740	<u>\$ 760,565</u>
Adjustment for encumbrances			<u>8,300</u>	
Net change in fund balance (GAAP basis)			304,040	
FUND BALANCE at beginning of year (GAAP basis)			<u>2,171,060</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 2,475,100</u>	
<b>EXPLANATION OF DIFFERENCES</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 4,399,731	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 4,399,731</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 4,103,991	
Adjustment for encumbrances			<u>(8,300)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 4,095,691</u>	



CITY OF CHATTANOOGA, TENNESSEE  
SPECIAL REVENUE FUND  
COMMUNITY DEVELOPMENT FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 8,450,121	\$ 8,450,121	\$ 4,937,515	\$ (3,512,606)
Investment income	230,000	230,000	127,522	(102,478)
Miscellaneous	<u>955,229</u>	<u>955,229</u>	<u>964,570</u>	<u>9,341</u>
Total revenues	<u>9,635,350</u>	<u>9,635,350</u>	<u>6,029,607</u>	<u>(3,605,743)</u>
<b>EXPENDITURES</b>				
Community development projects	8,391,863	8,391,863	7,842,884	(548,979)
Administration	716,874	716,874	419,713	(297,161)
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>230,867</u>	<u>225,867</u>
Total expenditures	<u>9,113,737</u>	<u>9,113,737</u>	<u>8,493,464</u>	<u>(620,273)</u>
Excess of revenues over expenditures	521,613	521,613	(2,463,857)	(2,985,470)
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(615,841)</u>	<u>(615,841)</u>	<u>(615,841)</u>	<u>-</u>
Net change in fund balance	<u>\$ (94,228)</u>	<u>\$ (94,228)</u>	(3,079,698)	<u>\$ (2,985,470)</u>
Adjustment for encumbrances			<u>199,102</u>	
Net change in fund balance (GAAP basis)			(2,880,596)	
FUND BALANCE at beginning of year (GAAP basis)			<u>3,659,387</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 778,791</u>	
<b>EXPLANATION OF DIFFERENCES</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 6,029,607	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 6,029,607</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 8,493,464	
Adjustment for encumbrances			<u>(199,102)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 8,294,362</u>	

CITY OF CHATTANOOGA, TENNESSEE

SPECIAL REVENUE FUND

HOTEL/MOTEL TAX FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 2,040,244	\$ 2,040,244	\$ 2,040,244	\$ -
Investment income	17,916	17,916	17,916	-
Total revenues	<u>2,058,160</u>	<u>2,058,160</u>	<u>2,058,160</u>	<u>-</u>
EXPENDITURES				
Contracted services	<u>70,021</u>	<u>70,021</u>	<u>70,021</u>	<u>-</u>
Total expenditures	<u>70,021</u>	<u>70,021</u>	<u>70,021</u>	<u>-</u>
Excess of revenues over expenditures	1,988,139	1,988,139	1,988,139	-
OTHER FINANCING USES				
Transfers out	<u>(1,988,139)</u>	<u>(1,988,139)</u>	<u>(1,988,139)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Adjustment for encumbrances			-	
Net change in fund balance (GAAP basis)			-	
FUND BALANCE at beginning of year (GAAP basis)			-	
FUND BALANCE at end of year (GAAP basis)			<u>\$ -</u>	
EXPLANATION OF DIFFERENCES				
REVENUES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 2,058,160	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 2,058,160</u>	
EXPENDITURES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 70,021	
Adjustment for encumbrances			<u>-</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 70,021</u>	

CITY OF CHATTANOOGA, TENNESSEE

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Hamilton County, Tennessee funds	\$ 794,983	\$ 794,983	\$ 794,983	\$ -
911 contribution	200,000	200,000	200,000	-
Refund	-	-	13,678	13,678
Total revenues	<u>994,983</u>	<u>994,983</u>	<u>1,008,661</u>	<u>13,678</u>
<b>EXPENDITURES</b>				
Principal retirement	4,556,613	4,556,613	4,725,541	168,928
Interest	6,546,273	6,546,273	6,141,098	(405,175)
Fiscal charges	10,000	10,000	27,184	17,184
Total expenditures	<u>11,112,886</u>	<u>11,112,886</u>	<u>10,893,823</u>	<u>(219,063)</u>
Deficiency of revenues under expenditures	(10,117,903)	(10,117,903)	(9,885,162)	232,741
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>10,119,724</u>	<u>10,119,724</u>	<u>10,119,724</u>	-
Net change in fund balance	<u>\$ 1,821</u>	<u>\$ 1,821</u>	234,562	<u>\$ 232,741</u>
FUND BALANCE at beginning of year			<u>4,988,142</u>	
FUND BALANCE at end of year			<u>\$ 5,222,704</u>	
<b>EXPLANATION OF DIFFERENCES</b>				
<b>REVENUES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 1,008,661	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 1,008,661</u>	
<b>EXPENDITURES</b>				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$ 10,893,823	
Differences - none			<u>-</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$ 10,893,823</u>	

## FINANCIAL SCHEDULES

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF CERTIFICATES OF DEPOSIT BY FUND  
 June 30, 2004

	Interest Rate	Maturity Date	Amount
<b>GENERAL FUND</b>			
First Tennessee	1.00%	07/07/04	\$ 3,500,000
First Tennessee	1.14%	07/08/04	1,600,000
First Tennessee	1.10%	07/21/04	3,000,000
First Tennessee	1.15%	07/30/04	1,500,000
First Tennessee	1.15%	08/04/04	3,500,000
<b>SPECIAL REVENUE FUNDS</b>			
Downtown Development First Tennessee	1.15%	07/06/04	300,000
State Street Aid: First Tennessee	1.15%	07/06/04	600,000
First Tennessee	1.15%	07/12/04	500,000
<b>DEBT SERVICE FUND</b>			
First Tennessee	1.05%	07/29/04	3,500,000
<b>CAPITAL PROJECTS FUNDS</b>			
Capital Improvement Bond: First Tennessee	1.15%	07/28/04	356,766
<b>ENTERPRISE FUNDS</b>			
Interceptor Sewer System: First Tennessee	1.15%	07/29/04	4,000,000
Solid Waste Fund: First Tennessee	1.04%	07/26/04	3,690,784
Stormwater First Tennessee	1.06%	07/06/04	500,000
<b>COMPONENT UNITS</b>			
Chattanooga Downtown Redevelopment Corporation First Tennessee	1.15%	07/30/04	<u>2,893,561</u>
Total certificates of deposit			<u>\$ 29,441,111</u>

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF INVESTMENTS BY FUND  
June 30, 2004

	Interest Rate	Maturity Date	Amount
<b>GENERAL FUND</b>			
Federal National Mortgage Association	1.37%	04/01/05	\$ 34,046,399
Certificate of Deposit	1.85%	05/19/05	391,009
Certificate of Deposit	1.84%	05/19/05	6,323
<b>CAPITAL PROJECTS</b>			
Federal National Mortgage Association	1.33%	08/09/04	3,000,354
Federal National Mortgage Association	3.50%	09/15/04	1,179,771
Federal National Mortgage Association	3.88%	03/15/05	1,216,872
Federal Home Loan Bank	1.15%	07/14/04	4,875,711
Federal Home Loan Bank	3.25%	08/15/05	1,322,288
Federal Home Loan Bank	1.15%	07/14/04	8,142,837
Federal National Mortgage Association	6.50%	08/15/04	6,762,000
Federal Home Loan Bank	3.63%	10/15/04	2,767,187
Certificate of Deposit	1.32%	03/03/05	306,220
Certificate of Deposit	1.23%	03/02/05	92,885
<b>SPECIAL REVENUE FUND</b>			
State Street Aid			
Certificate of Deposit	2.00%	06/27/05	500,000
Certificate of Deposit	2.00%	06/27/05	455,000
Hotel/Motel Tax:			
Certificate of Deposit	1.24%	11/12/04	108,470
Certificate of Deposit	1.12%	03/14/05	132,345
Certificate of Deposit	1.10%	03/16/05	196,921
Total governmental fund investments			<u>\$ 65,502,592</u>
<b>ENTERPRISE FUNDS</b>			
Electric Power Board			
Federal Home Loan Bank	1.14%	10/20/04	\$ 3,271,000
Federal Home Loan Bank	2.00%	11/15/04	1,750,000
Federal Home Loan Bank	2.00%	11/15/04	2,150,000
Federal Home Loan Mortgage Corporation	1.72%	06/03/05	1,599,000
Federal Home Loan Bank	2.13%	12/15/04	4,787,000
Federal Home Loan Bank	1.88%	12/15/04	4,065,000
Federal Home Loan Bank	1.75%	01/15/05	4,632,000
Federal National Mortgage Association	3.88%	03/15/05	1,014,000
Federal Home Loan Mortgage Corporation	1.75%	05/15/05	2,000,000
Certificate of Deposit	1.14%	08/27/04	3,500,000
Interceptor Sewer Fund:			
Federal National Mortgage Association	1.42%	11/24/04	21,573,559
Certificate of Deposit	1.00%	08/23/04	3,000,000
Certificate of Deposit	1.12%	02/01/05	1,346,571
Solid Waste/Sanitation Fund:			
Federal National Mortgage Association	1.42%	11/24/04	4,318,882
Certificate of Deposit	2.00%	06/27/05	1,400,000
Certificate of Deposit	2.10%	06/28/05	1,660,000
Total enterprise fund investments			<u>\$ 62,067,012</u>

CITY OF CHATTANOOGA, TENNESSEE  
 COMBINED SCHEDULE OF CHANGES IN TAXES RECEIVABLE  
 Year Ended June 30, 2004

Tax Year (1)	Property Taxes Receivable Balance June 30, 2003	Property Taxes Levied	Anticipated Current Year Levy (2)	Net Pick-Ups and Charge-Offs	Collections	Property Taxes Receivable Balance June 30, 2004	Allowance for Uncollectibles	Net Receivable Balance June 30, 2004
2004	\$ -	\$ 81,447,573	\$ 80,834,472	\$ -	\$ -	\$ 80,834,472	\$ -	\$ 80,834,472
2003	-	-	-	105,392	77,544,326	4,008,639	344,810	3,663,829
2002	4,120,489	-	-	164,125	2,695,114	1,589,500	349,491	1,240,009
2001	1,915,557	-	-	(43,237)	850,221	1,022,099	397,869	624,230
2000	727,357	-	-	(52,792)	355,974	318,591	260,901	57,690
1999	349,856	-	-	(47,214)	61,084	241,558	232,236	9,322
1998	245,061	-	-	(2,744)	12,936	229,381	229,381	-
1997	272,529	-	-	(4,227)	6,807	261,495	261,495	-
1996	150,179	-	-	(1,037)	2,194	146,948	146,948	-
1995	115,380	-	-	(1,772)	982	112,626	112,626	-
1994	122,479	-	-	(1,744)	649	120,086	120,086	-
Totals	\$ 8,018,887	\$ 81,447,573	\$ 80,834,472	\$ 114,750	\$ 81,530,287	\$ 88,885,395	\$ 2,455,843	\$ 86,429,552

Note:  
 (1) All years prior to 2003 have been turned over to the Clerk and Master for collection.  
 (2) Accrual of the anticipated current year levy is required by GASB Statement No. 33.

CITY OF CHATTANOOGA, TENNESSEE

SUMMARY SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
June 30, 2004

	Principal	Interest	Total
<b>GOVERNMENTAL ACTIVITIES</b>			
2005	\$ 5,777,360	\$ 13,382,605	\$ 19,159,965
2006	5,923,136	13,181,502	19,104,638
2007	9,027,812	13,250,335	22,278,147
2008	8,092,242	12,873,613	20,965,855
2009	9,525,953	12,483,997	22,009,950
2010	9,658,577	12,038,258	21,696,835
2011	9,331,805	11,574,379	20,906,184
2012	8,457,076	11,130,734	19,587,810
2013	8,450,564	10,686,710	19,137,274
2014	8,366,475	10,247,088	18,613,563
2015	8,782,414	9,806,279	18,588,693
2016	9,105,317	9,342,490	18,447,807
2017	8,745,030	8,875,970	17,621,000
2018	9,352,666	8,400,226	17,752,892
2019	8,397,804	7,892,027	16,289,831
2020	8,960,544	7,400,480	16,361,024
2021	9,543,294	6,876,147	16,419,441
2022	10,162,207	6,317,752	16,479,959
2023	10,818,323	5,723,607	16,541,930
2024	11,505,442	5,098,496	16,603,938
2025	12,231,683	4,441,219	16,672,902
2026	13,005,386	3,742,506	16,747,892
2027	10,907,627	2,999,804	13,907,431
2028	11,606,391	2,356,134	13,962,525
2029	12,360,579	1,661,389	14,021,968
2030	13,171,492	911,572	14,083,064
2031	4,515,000	112,875	4,627,875
Total governmental activities	<u>255,782,199</u>	<u>212,808,194</u>	<u>468,590,393</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
2005	13,915,564	9,157,774	23,073,338
2006	13,988,009	8,587,949	22,575,958
2007	14,443,305	7,961,572	22,404,877
2008	12,785,591	7,384,023	20,169,614
2009	14,748,420	6,833,007	21,581,427
2010	12,841,683	6,196,191	19,037,874
2011	12,100,275	5,603,543	17,703,818
2012	10,191,316	5,056,873	15,248,189
2013	10,365,894	4,548,632	14,914,526
2014	10,202,740	4,071,718	14,274,458
2015	9,710,188	3,610,315	13,320,503
2016	8,017,824	3,174,562	11,192,386
2017	8,350,123	2,764,574	11,114,697
2018	8,695,934	2,338,794	11,034,728
2019	6,395,248	1,936,432	8,331,680
2020	2,291,292	1,689,974	3,981,266
2021	2,064,600	1,580,160	3,644,760
2022	2,090,800	1,472,929	3,563,729
2023	2,117,100	1,363,389	3,480,489
2024	34,024,960	1,251,534	35,276,494
2025	2,176,800	188,260	2,365,060
2026	2,208,400	73,420	2,281,820
Total business-type activities	<u>213,726,066</u>	<u>86,845,625</u>	<u>300,571,691</u>
Total primary government indebtedness	<u>\$ 469,508,265</u>	<u>\$ 299,653,819</u>	<u>\$ 769,162,084</u>



CITY OF CHATTANOOGA, TENNESSEE  
SUMMARY SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
June 30, 2004

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>COMPONENT UNITS</b>			
2005	\$ 545,000	\$ 7,415,667	\$ 7,960,667
2006	585,000	7,408,028	7,993,028
2007	3,200,000	7,335,577	10,535,577
2008	3,490,000	7,194,997	10,684,997
2009	4,295,000	7,045,575	11,340,575
2010	3,800,000	6,880,060	10,680,060
2011	3,990,000	6,708,377	10,698,377
2012	4,220,000	6,527,767	10,747,767
2013	4,425,000	6,343,683	10,768,683
2014	4,650,000	6,146,111	10,796,111
2015	4,890,000	5,935,146	10,825,146
2016	5,150,000	5,710,096	10,860,096
2017	5,430,000	5,470,898	10,900,898
2018	5,720,000	5,210,873	10,930,873
2019	7,245,000	4,928,632	12,173,632
2020	5,015,000	4,619,919	9,634,919
2021	5,290,000	4,336,531	9,626,531
2022	5,580,000	4,027,144	9,607,144
2023	5,910,000	3,689,625	9,599,625
2024	6,255,000	3,332,278	9,587,278
2025	6,620,000	2,954,075	9,574,075
2026	7,010,000	2,558,075	9,568,075
2027	7,415,000	2,143,356	9,558,356
2028	7,840,000	1,704,775	9,544,775
2029	8,290,000	1,246,219	9,536,219
2030	8,760,000	766,688	9,526,688
2031	9,250,000	260,156	9,510,156
	<u>9,250,000</u>	<u>260,156</u>	<u>9,510,156</u>
<b>Total component units indebtedness</b>	<u>\$ 144,870,000</u>	<u>\$ 127,900,328</u>	<u>\$ 272,770,328</u>

CITY OF CHATTANOOGA, TENNESSEE  
ANALYSIS OF GENERAL OBLIGATION DEBT  
June 30, 2004

	Outstanding July 1, 2003	Interest Paid FY 2003-2004	Issued FY 2003-2004	Retired FY 2003-2004	Outstanding June 30, 2004	Maturing FY 2004-2005	Interest Payable FY 2004-2005
<b>GOVERNMENTAL ACTIVITIES</b>							
Serial bonds:							
1998 Public Improvement Refunding	\$ 7,247,800	\$ 390,063	\$ -	\$ 12,200	\$ 7,235,600	\$ 13,200	\$ 389,531
2001 Municipal Public Improvement	37,916,800	1,881,402	-	921,600	36,995,200	962,600	1,839,930
2002 Municipal Improvement Refunding	14,377,900	631,270	-	1,789,800	12,588,100	1,876,100	549,069
2002 Series A Refunding	6,037,950	220,275	-	734,047	5,303,903	713,547	198,561
2002 Hotel-Motel Tax Pledge	54,990,000	2,477,538	-	-	54,990,000	-	2,477,538
2003 Series A General Obligation	12,190,000	465,049	-	405,000	11,785,000	425,000	417,126
Total serial bonds	132,760,450	6,065,597	-	3,862,647	128,897,803	3,990,447	5,871,755
Notes payable:							
Hamilton County Parking Garage	243,124	13,676	-	60,781	182,343	60,781	9,816
1997 Tennessee Municipal Bond Fund	5,339,098	66,987	137,925	487,000	4,990,023	513,000	199,601
1999 Fire Hall Land Note	38,062	3,525	-	2,113	35,949	2,323	3,316
2003 Tennessee Municipal Bond Fund	-	18,111	1,942,320	313,000	1,629,320	328,000	49,857
2003 Fannie Mae American Communities Fund	-	1,821	321,289	-	321,289	-	8,406
Total notes payable	5,620,284	104,120	2,401,534	862,894	7,158,924	904,104	270,996
Capital leases payable:							
CDRC Capital Lease	115,925,472	7,198,975	-	-	115,925,472	-	7,198,975
800 MHz Equipment Capital Lease	-	-	3,800,000	-	3,800,000	882,809	40,879
Total capital leases payable	115,925,472	7,198,975	3,800,000	-	119,725,472	882,809	7,239,854
Total governmental activities	254,306,206	13,368,692	6,201,534	4,725,541	255,782,199	5,777,360	13,382,605

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
ANALYSIS OF GENERAL OBLIGATION DEBT  
June 30, 2004

(continued from previous page)

	Outstanding July 1, 2003	Interest Paid FY 2003-2004	Issued FY 2003-2004	Retired FY 2003-2004	Outstanding June 30, 2004	Maturing FY 2004-2005	Interest Payable FY 2004-2005
<b>BUSINESS-TYPE ACTIVITIES</b>							
Interceptor Sewer System:							
Serial bonds -							
1998 Municipal Public Improvement	\$ 17,974,467	\$ 870,360	\$ -	\$ 1,187,258	\$ 16,787,209	\$ 1,248,404	\$ 806,424
1998 Municipal Public Improvement - Refunding	13,437,500	705,574	-	47,800	13,389,700	51,800	703,487
2002 Municipal Public Improvement - Refunding	23,839,629	1,011,117	-	1,457,643	22,381,986	1,502,643	966,598
2002 Series A Refunding	32,252,050	1,176,612	-	3,920,953	28,331,097	3,811,453	1,060,626
2003 Series B Sewer and Sewage Refunding	13,175,000	434,065	-	2,035,000	11,140,000	2,090,000	339,625
Total serial bonds	100,678,646	4,197,728	-	8,648,654	92,029,992	8,704,300	3,876,760
Notes payable -							
State Revolving Loan	1,576,339	60,264	-	136,446	1,439,893	141,978	54,738
Northwest Georgia Sewer Expansion Project	5,943,761	218,431	145,679	243,522	5,845,918	278,205	229,698
2003 State Revolving Loan	15,021,698	622,352	16,858,162	-	31,879,860	-	950,020
Total notes payable	22,541,798	901,047	17,003,841	379,968	39,165,671	420,183	1,234,456
Capital leases payable -							
2001 Capital Lease City of Collegedale	271,196	15,761	-	17,892	253,304	18,850	14,802
Total capital leases payable	271,196	15,761	-	17,892	253,304	18,850	14,802
Total Interceptor Sewer System	123,491,640	5,114,536	17,003,841	9,046,514	131,448,967	9,143,333	5,126,018

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CITY OF CHATTANOOGA, TENNESSEE  
ANALYSIS OF GENERAL OBLIGATION DEBT  
June 30, 2004

(continued from previous page)

	Outstanding July 1, 2003	Interest Paid FY 2003-2004	Issued FY 2003-2004	Retired FY 2003-2004	Outstanding June 30, 2004	Maturing FY 2004-2005	Interest Payable FY 2004-2005
<b>BUSINESS-TYPE ACTIVITIES (continued)</b>							
Solid Waste/Sanitation Fund:							
Serial bonds -							
1998 Municipal Public Improvement	\$ 9,901,415	\$ 479,447	\$ -	\$ 654,013	\$ 9,247,402	\$ 687,696	\$ 444,227
1998 Municipal Public Improvement - Refunding	3,686,100	202,735	-	-	3,686,100	-	202,735
2001 Municipal Public Bond	6,451,900	320,138	-	156,800	6,295,100	163,800	313,082
2002 Municipal Public Improvement - Refunding	9,657,762	453,958	-	908,998	8,748,764	958,651	411,936
Total Solid Waste/Sanitation Fund	29,697,177	1,456,278	-	1,719,811	27,977,366	1,810,147	1,371,980
Storm Water Fund:							
Serial bonds -							
1998 Municipal Public Improvement	7,399,119	358,280	-	488,730	6,910,389	513,901	331,961
1998 Municipal Public Improvement - Refunding	2,528,600	139,073	-	-	2,528,600	-	139,073
2001 Municipal Public Improvement	1,916,300	95,085	-	46,600	1,869,700	48,600	92,988
2002 Municipal Public Improvement - Refunding	6,974,710	329,042	-	623,559	6,351,151	657,605	300,216
Total serial bonds	18,818,729	921,480	-	1,158,889	17,659,840	1,220,106	864,238
Notes payable -							
State Revolving Loan	1,576,339	60,264	-	136,446	1,439,893	141,978	54,738
Total notes payable	1,576,339	60,264	-	136,446	1,439,893	141,978	54,738
Total Storm Water Fund	20,395,068	981,744	-	1,295,335	19,099,733	1,362,084	918,976
Total general obligation debt	\$427,890,091	\$20,921,250	\$ 23,205,375	\$16,787,201	\$434,308,265	\$18,092,924	\$20,799,579

Note: General Obligation Serial Bonds reported as self-supporting indebtedness have the pledge of unlimited ad valorem on all taxable property in the City for their repayment. Such bonds are recorded as liabilities of the respective funds and are repaid by the City from the revenues generated from the individual funds activities.

CITY OF CHATTANOOGA, TENNESSEE

ANALYSIS OF REVENUE BONDS  
June 30, 2004

	Outstanding July 1, 2003	Interest Paid FY 2003-2004	Issued FY 2003-2004	Retired FY 2003-2004	Outstanding June 30, 2004	Maturing FY 2004-2005	Interest Payable FY 2004-2005
<b>PRIMARY GOVERNMENT</b>							
EPB:							
2000 Electric System Revenue Bonds	\$ 36,800,000	\$ 1,812,800	-	\$ 1,600,000	\$ 35,200,000	\$ 1,600,000	\$ 1,740,800
Total primary government	36,800,000	1,812,800	-	1,600,000	35,200,000	1,600,000	1,740,800
<b>COMPONENT UNITS</b>							
Metropolitan Airport Authority:							
2002 Airport Revenue Series A Refunding	12,625,000	148,876	-	-	12,625,000	-	174,010
2002 Airport Revenue Series B	3,550,000	44,577	-	505,000	3,045,000	545,000	42,682
Southside Redevelopment Corporation:							
2000 Chattanooga Lease Rental Revenue Bonds	129,200,000	7,198,975	-	-	129,200,000	-	7,198,975
Total component units	145,375,000	7,392,428	-	505,000	144,870,000	545,000	7,415,667
Total revenue bonds	\$ 182,175,000	\$ 9,205,228	\$ -	\$ 2,105,000	\$ 180,070,000	\$ 2,145,000	\$ 9,156,467

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

**DIRECT INDEBTEDNESS**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	1998 Public Improvement Refunding	4.250	\$ 13,200	\$ 389,531	\$ 402,731	
2006		4.300	13,200	388,967	402,167	
2007		5.000	208,800	383,463	592,263	
2008		5.000	220,000	372,743	592,743	
2009		5.500	1,413,900	328,360	1,742,260	
2010		5.500	1,501,000	248,201	1,749,201	
2011		5.500	1,593,800	163,094	1,756,894	
2012		5.250	272,000	112,124	384,124	
2013		5.250	288,300	97,416	385,716	
2014		5.250	304,600	81,853	386,453	
2015		5.250	321,900	65,407	387,307	
2016		5.250	341,300	47,998	389,298	
2017		5.250	361,600	29,547	391,147	
2018		5.250	382,000	10,027	392,027	
				<u>7,235,600</u>	<u>2,718,731</u>	<u>9,954,331</u>
2005		Hamilton County - City Portion of Series 1991 General Obligation Bonds	6.400	60,781	9,816	70,597
2006			6.450	60,781	5,911	66,692
2007			6.500	60,781	1,975	62,756
			<u>182,343</u>	<u>17,702</u>	<u>200,045</u>	
2005	Note Payable - Tennessee Municipal Bond Fund 1997	4.000	513,000	199,601	712,601	
2006		4.000	542,000	179,159	721,159	
2007		4.000	571,000	157,440	728,440	
2008		4.000	603,000	134,600	737,600	
2009		4.000	636,000	110,480	746,480	
2010		4.000	671,000	85,040	756,040	
2011		4.000	708,000	58,200	766,200	
2012		4.000	746,023	29,880	775,903	
				<u>4,990,023</u>	<u>954,400</u>	<u>5,944,423</u>
2005	1999 Fire Hall Land Note	9.500	2,323	3,316	5,639	
2006		9.500	2,553	3,085	5,638	
2007		9.500	2,807	2,832	5,639	
2008		9.500	3,086	2,553	5,639	
2009		9.500	3,392	2,247	5,639	
2010		9.500	3,729	1,910	5,639	
2011		9.500	4,099	1,540	5,639	
2012		9.500	4,506	1,133	5,639	
2013		9.500	4,953	686	5,639	
2014		9.500	4,501	198	4,699	
			<u>35,949</u>	<u>19,500</u>	<u>55,449</u>	

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**DIRECT INDEBTEDNESS**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2005	2001 Municipal Public Improvement Bonds	4.500	\$ 962,600	\$ 1,839,930	\$ 2,802,530
2006		4.500	1,003,500	1,796,612	2,800,112
2007		5.000	1,052,700	1,751,455	2,804,155
2008		5.000	1,097,700	1,698,820	2,796,520
2009		5.000	1,155,100	1,643,935	2,799,035
2010		5.000	1,204,200	1,586,180	2,790,380
2011		5.000	1,265,600	1,525,970	2,791,570
2012		5.000	1,331,200	1,462,690	2,793,890
2013		5.000	1,392,600	1,396,130	2,788,730
2014		5.000	1,462,300	1,326,500	2,788,800
2015		5.000	1,540,100	1,253,385	2,793,485
2016		5.000	1,622,000	1,176,380	2,798,380
2017		5.000	1,704,000	1,095,280	2,799,280
2018		5.000	1,798,100	1,010,080	2,808,180
2019		5.000	1,892,400	920,175	2,812,575
2020		5.000	1,998,900	825,555	2,824,455
2021		5.000	2,105,400	725,610	2,831,010
2022		5.000	2,224,200	620,340	2,844,540
2023		5.000	2,342,900	509,130	2,852,030
2024		5.000	2,469,900	391,985	2,861,885
2025	5.000	2,613,200	268,490	2,881,690	
2026	5.000	2,756,600	137,830	2,894,430	
			<u>36,995,200</u>	<u>24,962,462</u>	<u>61,957,662</u>
2005	2002 Public Improvement Refunding	4.500	1,876,100	549,069	2,425,169
2006		5.000	1,953,100	465,291	2,418,391
2007		5.000	1,868,900	377,004	2,245,904
2008		4.000	640,000	317,481	957,481
2009		4.000	665,000	291,381	956,381
2010		5.000	695,000	260,706	955,706
2011		5.375	725,000	223,847	948,847
2012		5.375	770,000	183,669	953,669
2013		5.375	805,000	141,341	946,341
2014		5.000	845,000	98,581	943,581
2015		4.375	855,000	58,753	913,753
2016		4.500	890,000	20,025	910,025
				<u>12,588,100</u>	<u>2,987,148</u>
2005	2002A Public Improvement Refunding	3.000	713,547	198,561	912,108
2006		5.000	652,048	171,557	823,605
2007		5.000	641,010	139,230	780,240
2008		3.000	632,337	113,720	746,057
2009		3.250	625,241	94,075	719,316
2010		4.000	603,953	71,836	675,789
2011		3.600	385,552	52,817	438,369
2012		5.000	371,360	36,593	407,953
2013		4.000	364,264	20,023	384,287
2014		4.000	160,055	9,537	169,592
2015		4.100	154,536	3,168	157,704
			<u>5,303,903</u>	<u>911,117</u>	<u>6,215,020</u>

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CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**DIRECT INDEBTEDNESS**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	2002 Hotel Motel Tax Pledge	-	\$ -	\$ 2,477,538	\$ 2,477,538	
2006		-	-	2,477,538	2,477,538	
2007		3.000	720,000	2,466,737	3,186,737	
2008		3.000	795,000	2,444,012	3,239,012	
2009		3.000	870,000	2,419,038	3,289,038	
2010		3.000	950,000	2,391,738	3,341,738	
2011		3.130	1,030,000	2,361,394	3,391,394	
2012		3.250	1,120,000	2,327,100	3,447,100	
2013		5.000	1,225,000	2,278,275	3,503,275	
2014		3.500	1,330,000	2,224,375	3,554,375	
2015		4.000	1,440,000	2,172,300	3,612,300	
2016		4.000	1,555,000	2,112,400	3,667,400	
2017		4.000	1,680,000	2,047,700	3,727,700	
2018		4.000	1,805,000	1,978,000	3,783,000	
2019		5.000	1,950,000	1,893,150	3,843,150	
2020		5.000	2,110,000	1,791,650	3,901,650	
2021		5.000	2,280,000	1,681,900	3,961,900	
2022		5.000	2,465,000	1,563,275	4,028,275	
2023		5.000	2,655,000	1,435,275	4,090,275	
2024		4.500	2,850,000	1,304,775	4,154,775	
2025		4.500	3,045,000	1,172,137	4,217,137	
2026		4.500	3,255,000	1,030,387	4,285,387	
2027		4.500	3,470,000	879,075	4,349,075	
2028		4.500	3,700,000	717,750	4,417,750	
2029		5.000	3,950,000	535,750	4,485,750	
2030		5.000	4,225,000	331,375	4,556,375	
2031		5.000	4,515,000	112,875	4,627,875	
				<u>54,990,000</u>	<u>46,627,519</u>	<u>101,617,519</u>
2005		2003 Series A General Obligation	3.000	425,000	417,126	842,126
2006			3.000	790,000	404,376	1,194,376
2007			2.500	790,000	380,676	1,170,676
2008	3.000		830,000	360,926	1,190,926	
2009	3.000		840,000	336,026	1,176,026	
2010	3.250		800,000	310,826	1,110,826	
2011	3.500		830,000	284,827	1,114,827	
2012	3.625		855,000	255,777	1,110,777	
2013	3.750		885,000	224,783	1,109,783	
2014	3.875		900,000	191,595	1,091,595	
2015	4.000		900,000	156,720	1,056,720	
2016	4.000		900,000	120,720	1,020,720	
2017	4.100		960,000	84,720	1,044,720	
2018	4.200		1,080,000	45,360	1,125,360	
			<u>11,785,000</u>	<u>3,574,458</u>	<u>15,359,458</u>	

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2005	2003 Note Payable - Tennessee Municipal Bond Fund	3.060	\$ 328,000	\$ 49,857	\$ 377,857
2006		3.060	339,000	39,820	378,820
2007		3.060	350,000	29,447	379,447
2008		3.060	361,000	18,737	379,737
2009		3.060	251,320	7,690	259,010
			<u>1,629,320</u>	<u>145,551</u>	<u>1,774,871</u>
2005	CDRC Capital Lease	6.380	-	7,198,975	7,198,975
2006		6.380	-	7,198,975	7,198,975
2007		6.380	2,186,735	7,517,990	9,704,725
2008		6.380	2,326,799	7,376,176	9,702,975
2009		6.380	2,474,321	7,225,279	9,699,600
2010		6.380	2,629,536	7,064,814	9,694,350
2011		6.380	2,789,754	6,894,284	9,684,038
2012		6.380	2,986,987	6,713,363	9,700,350
2013		6.380	3,164,158	6,519,651	9,683,809
2014		6.380	3,360,019	6,314,449	9,674,468
2015		6.380	3,570,878	6,096,546	9,667,424
2016		6.380	3,797,017	5,864,967	9,661,984
2017		6.380	4,039,430	5,618,723	9,658,153
2018		6.380	4,287,566	5,356,759	9,644,325
2019		6.380	4,555,404	5,078,702	9,634,106
2020		6.380	4,851,644	4,783,275	9,634,919
2021		6.380	5,157,894	4,468,637	9,626,531
2022		6.380	5,473,007	4,134,137	9,607,144
2023		6.380	5,820,423	3,779,202	9,599,625
2024		6.380	6,185,542	3,401,736	9,587,278
2025	6.380	6,573,483	3,000,592	9,574,075	
2026	6.380	6,993,786	2,574,289	9,568,075	
2027	6.380	7,437,627	2,120,729	9,558,356	
2028	6.380	7,906,391	1,638,384	9,544,775	
2029	6.380	8,410,579	1,125,639	9,536,218	
2030	6.380	8,946,492	580,197	9,526,689	
			<u>115,925,472</u>	<u>129,646,470</u>	<u>245,571,942</u>
2005	2003 Fannie Mae American Communities Fund	2.620	-	8,406	8,406
2006		2.620	-	8,406	8,406
2007		2.620	-	8,406	8,406
2008		2.620	-	8,406	8,406
2009		2.620	-	8,406	8,406
2010		2.620	-	8,406	8,406
2011		2.620	-	8,406	8,406
2012		2.620	-	8,405	8,405
2013		2.620	321,289	8,405	329,694
				<u>321,289</u>	<u>75,652</u>
2005	800 MHZ Equipment Capital Lease	1.433	882,809	40,879	923,688
2006		1.433	566,954	41,805	608,759
2007		1.433	575,079	33,680	608,759
2008		1.433	583,320	25,439	608,759
2009		1.433	591,679	17,080	608,759
2010		1.433	600,159	8,601	608,760
			<u>3,800,000</u>	<u>167,484</u>	<u>3,967,484</u>
	Total direct indebtedness		<u>255,782,199</u>	<u>212,808,194</u>	<u>468,590,393</u>

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**INTERCEPTOR SEWER SYSTEM**

<u>Fiscal Year Ended June 30</u>	<u>Issue</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Due</u>	<u>Total Interest and Principal</u>	
2005	1998 General Obligation Bonds	5.250	\$ 1,248,404	\$ 806,424	\$ 2,054,828	
2006		4.750	1,314,646	742,431	2,057,077	
2007		5.000	1,375,792	676,813	2,052,605	
2008		5.000	1,444,581	606,304	2,050,885	
2009		5.000	-	570,189	570,189	
2010		5.375	-	570,189	570,189	
2011		5.375	-	570,189	570,189	
2012		5.375	-	570,189	570,189	
2013		5.375	-	570,189	570,189	
2014		5.000	-	570,189	570,189	
2015		5.000	2,063,688	518,597	2,582,285	
2016		5.000	2,165,598	412,865	2,578,463	
2017		5.000	2,275,152	301,847	2,576,999	
2018		5.000	2,389,802	185,223	2,575,025	
2019		5.000	2,509,546	62,739	2,572,285	
				<u>16,787,209</u>	<u>7,734,377</u>	<u>24,521,586</u>
2005		1998 Public Improvement Refunding	4.250	51,800	703,487	755,287
2006			4.300	51,800	701,272	753,072
2007			5.000	816,200	679,754	1,495,954
2008	5.000		860,000	637,849	1,497,849	
2009	5.500		857,800	592,759	1,450,559	
2010	5.500		910,500	544,131	1,454,631	
2011	5.500		963,300	492,602	1,455,902	
2012	5.250		1,063,000	438,207	1,501,207	
2013	5.250		1,126,700	380,727	1,507,427	
2014	5.250		1,190,400	319,904	1,510,304	
2015	5.250		1,258,100	255,630	1,513,730	
2016	5.250		1,333,700	187,596	1,521,296	
2017	5.250		1,413,400	115,484	1,528,884	
2018	5.250	1,493,000	39,191	1,532,191		
			<u>13,389,700</u>	<u>6,088,593</u>	<u>19,478,293</u>	
2005	Georgia Environmental Facilities Authority	4.000	278,205	229,698	507,903	
2006		4.000	289,501	218,402	507,903	
2007		4.000	301,256	206,647	507,903	
2008		4.000	313,488	194,415	507,903	
2009		4.000	326,217	181,686	507,903	
2010		4.000	339,463	168,440	507,903	
2011		4.000	353,246	154,657	507,903	
2012		4.000	367,589	140,314	507,903	
2013		4.000	382,515	125,388	507,903	
2014		4.000	398,047	109,856	507,903	
2015		4.000	414,209	93,694	507,903	
2016		4.000	431,027	76,876	507,903	
2017		4.000	448,529	59,374	507,903	
2018	4.000	466,741	41,162	507,903		
2019	4.000	485,693	22,211	507,904		
2020	4.000	250,192	3,759	253,951		
			<u>5,845,918</u>	<u>2,026,579</u>	<u>7,872,497</u>	

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**INTERCEPTOR SEWER SYSTEM**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal
2005	General Obligation Sewer Refunding Bonds, Series 2002 Serial Bonds	3.000	\$ 1,502,643	\$ 966,598	\$ 2,469,241
2006		3.250	1,550,191	918,721	2,468,912
2007		3.500	855,191	878,399	1,733,590
2008		4.000	885,191	845,653	1,730,844
2009		4.000	2,431,007	779,329	3,210,336
2010		4.000	2,532,248	672,128	3,204,376
2011		4.250	2,653,776	547,767	3,201,543
2012		4.250	2,787,948	412,855	3,200,803
2013		4.250	2,932,214	270,995	3,203,209
2014		4.250	3,076,577	125,571	3,202,148
2015		4.500	1,175,000	26,438	1,201,438
			<u>22,381,986</u>	<u>6,444,454</u>	<u>28,826,440</u>
2005	Municipal Public Improvement Refunding, Series 2002A Serial Bonds	3.000	3,811,453	1,060,626	4,872,079
2006		5.000	3,482,952	916,381	4,399,333
2007		5.000	3,423,990	743,707	4,167,697
2008		3.000	3,377,663	607,443	3,985,106
2009		3.250	3,339,759	502,506	3,842,265
2010		4.000	3,226,047	383,714	3,609,761
2011		3.600	2,059,448	282,123	2,341,571
2012		5.000	1,983,640	195,462	2,179,102
2013		4.000	1,945,736	106,957	2,052,693
2014		4.000	854,945	50,943	905,888
2015		4.100	825,464	16,922	842,386
			<u>28,331,097</u>	<u>4,866,784</u>	<u>33,197,881</u>
2005	2003 Series B Sewer Refunding	3.000	2,090,000	339,625	2,429,625
2006		3.000	2,185,000	276,925	2,461,925
2007		3.000	2,375,000	211,375	2,586,375
2008		3.000	2,320,000	140,125	2,460,125
2009		3.250	2,170,000	70,525	2,240,525
			<u>11,140,000</u>	<u>1,038,575</u>	<u>12,178,575</u>
2005	2001 Capital Lease City of Collegedale	6.020	18,850	14,802	33,652
2006		6.080	19,891	13,762	33,653
2007		6.130	21,019	12,633	33,652
2008		6.190	22,245	11,408	33,653
2009		6.240	23,575	10,078	33,653
2010		6.300	25,018	8,635	33,653
2011		6.360	26,585	7,068	33,653
2012		6.410	28,286	5,366	33,652
2013		6.470	30,133	3,520	33,653
2014		6.520	32,138	1,515	33,653
2015		6.680	5,564	46	5,610
			<u>253,304</u>	<u>88,833</u>	<u>342,137</u>

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**INTERCEPTOR SEWER SYSTEM**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	State Revolving Sewer Loan	3.980	\$ 141,978	\$ 54,738	\$ 196,716	
2006		3.980	147,732	48,984	196,716	
2007		3.980	153,720	42,996	196,716	
2008		3.980	159,948	36,762	196,710	
2009		3.980	166,434	30,282	196,716	
2010		3.980	173,178	23,532	196,710	
2011		3.980	180,198	16,512	196,710	
2012		3.980	187,500	9,210	196,710	
2013		3.980	129,205	1,936	131,141	
				<u>1,439,893</u>	<u>264,952</u>	<u>1,704,845</u>
2005		2003 State Revolving Loan	2.980	-	950,020	950,020
2006			2.980	-	950,020	950,020
2007			2.980	-	950,020	950,020
2008	2.980		-	950,020	950,020	
2009	2.980		-	950,020	950,020	
2010	2.980		-	950,020	950,020	
2011	2.980		-	950,020	950,020	
2012	2.980		-	950,020	950,020	
2013	2.980		-	950,020	950,020	
2014	2.980		-	950,020	950,020	
2015	2.980		-	950,020	950,020	
2016	2.980		-	950,020	950,020	
2017	2.980		-	950,020	950,020	
2018	2.980		-	950,020	950,020	
2019	2.980		-	950,020	950,020	
2020	2.980		-	950,020	950,020	
2021	2.980		-	950,020	950,020	
2022	2.980		-	950,019	950,019	
2023	2.980		-	950,019	950,019	
2034	2.980		31,879,860	950,019	32,829,879	
			<u>31,879,860</u>	<u>19,000,397</u>	<u>50,880,257</u>	
	Total Interceptor Sewer System indebtedness		<u>131,448,967</u>	<u>47,553,544</u>	<u>179,002,511</u>	

**SOLID WASTE/SANITATION FUND**

2005	1998 Public Improvement Refunding	4.250	-	202,735	202,735
2006		4.300	-	202,736	202,736
2007		5.000	-	202,736	202,736
2008		5.000	-	202,736	202,736
2009		5.500	1,155,600	170,956	1,326,556
2010		5.500	1,226,900	105,437	1,332,337
2011		5.500	1,303,600	35,849	1,339,449
			<u>3,686,100</u>	<u>1,123,185</u>	<u>4,809,285</u>

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**SOLID WASTE/SANITATION FUND**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	1998 General Obligation Bonds	5.250	\$ 687,696	\$ 444,227	\$ 1,131,923	
2006		4.750	724,186	408,976	1,133,162	
2007		5.000	757,869	372,829	1,130,698	
2008		5.000	795,762	333,989	1,129,751	
2009		5.375	-	314,094	314,094	
2010		5.375	-	314,094	314,094	
2011		5.375	-	314,094	314,094	
2012		5.375	-	314,094	314,094	
2013		5.000	-	314,094	314,094	
2014		5.000	-	314,094	314,094	
2015		5.000	1,136,803	285,674	1,422,477	
2016		5.000	1,192,941	227,431	1,420,372	
2017		5.000	1,253,290	166,275	1,419,565	
2018		5.000	1,316,446	102,032	1,418,478	
2019		5.000	1,382,409	34,561	1,416,970	
				<u>9,247,402</u>	<u>4,260,558</u>	<u>13,507,960</u>
2005		2001 General Obligation Bonds	4.500	163,800	313,082	476,882
2006			4.500	170,800	305,711	476,511
2007			5.000	179,100	298,025	477,125
2008	5.000		186,800	289,070	475,870	
2009	5.000		196,500	279,730	476,230	
2010	5.000		204,900	269,905	474,805	
2011	5.000		215,400	259,660	475,060	
2012	5.000		226,500	248,890	475,390	
2013	5.000		237,000	237,565	474,565	
2014	5.000		248,800	225,715	474,515	
2015	5.000		262,100	213,275	475,375	
2016	5.000		276,000	200,170	476,170	
2017	5.000		289,900	186,370	476,270	
2018	5.000		306,000	171,875	477,875	
2019	5.000		322,000	156,575	478,575	
2020	5.000		340,100	140,475	480,575	
2021	5.000		358,200	123,470	481,670	
2022	5.000		378,400	105,560	483,960	
2023	5.000		398,700	86,640	485,340	
2024	5.000	420,300	66,705	487,005		
2025	5.000	444,700	45,690	490,390		
2026	5.000	469,100	23,455	492,555		
			<u>6,295,100</u>	<u>4,247,613</u>	<u>10,542,713</u>	
2005	2002 Municipal Public Improvement Refunding	5.000	958,651	411,936	1,370,587	
2006		5.000	1,015,225	365,791	1,381,016	
2007		4.000	1,074,073	314,363	1,388,436	
2008		4.000	5,614	287,398	293,012	
2009		5.000	837,860	270,529	1,108,389	
2010		5.375	874,349	231,913	1,106,262	
2011		5.375	919,260	185,349	1,104,609	
2012		5.375	968,381	134,619	1,103,000	
2013		5.000	1,020,308	81,173	1,101,481	
2014		4.375	1,075,043	26,876	1,101,919	
			<u>8,748,764</u>	<u>2,309,947</u>	<u>11,058,711</u>	
	Total Solid Waste/Sanitation Fund indebtedness		<u>27,977,366</u>	<u>11,941,303</u>	<u>39,918,669</u>	

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**STORM WATER FUND**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	State Revolving Sewer Loan	3.980	\$ 141,978	\$ 54,738	\$ 196,716	
2006		3.980	147,732	48,984	196,716	
2007		3.980	153,720	42,996	196,716	
2008		3.980	159,948	36,762	196,710	
2009		3.980	166,434	30,282	196,716	
2010		3.980	173,178	23,532	196,710	
2011		3.980	180,198	16,512	196,710	
2012		3.980	187,500	9,210	196,710	
2013		3.980	129,205	1,936	131,141	
				<u>1,439,893</u>	<u>264,952</u>	<u>1,704,845</u>
2005	1998 Municipal Public Improvement	5.250	513,901	331,961	845,862	
2006		4.750	541,169	305,619	846,788	
2007		5.000	566,339	278,608	844,947	
2008		5.000	594,656	249,583	844,239	
2009		5.000	-	234,716	234,716	
2010		5.375	-	234,716	234,716	
2011		5.375	-	234,716	234,716	
2012		5.375	-	234,716	234,716	
2013		5.375	-	234,716	234,716	
2014		5.000	849,509	234,716	1,084,225	
2015		5.000	891,460	213,479	1,104,939	
2016		5.000	936,558	169,954	1,106,512	
2017		5.000	983,752	124,254	1,108,006	
2018		5.000	1,033,045	76,246	1,109,291	
2019		5.000	-	-	25,826	25,826
				<u>6,910,389</u>	<u>3,183,826</u>	<u>10,094,215</u>
2005	2001 General Obligation Bonds	4.500	48,600	92,988	141,588	
2006		4.500	50,700	90,802	141,502	
2007		5.000	53,200	88,520	141,720	
2008		5.000	55,500	85,860	141,360	
2009		5.000	58,400	83,085	141,485	
2010		5.000	60,900	80,165	141,065	
2011		5.000	64,000	77,120	141,120	
2012		5.000	67,300	73,920	141,220	
2013		5.000	70,400	70,555	140,955	
2014		5.000	73,900	67,035	140,935	
2015		5.000	77,800	63,340	141,140	
2016		5.000	82,000	59,450	141,450	
2017		5.000	86,100	55,350	141,450	
2018		5.000	90,900	51,045	141,945	
2019		5.000	95,600	46,500	142,100	
2020		5.000	101,000	41,720	142,720	
2021		5.000	106,400	36,670	143,070	
2022		5.000	112,400	31,350	143,750	
2023	5.000	118,400	25,730	144,130		
2024	5.000	124,800	19,810	144,610		
2025	5.000	132,100	13,570	145,670		
2026	5.000	139,300	6,965	146,265		
			<u>1,869,700</u>	<u>1,261,550</u>	<u>3,131,250</u>	

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**STORM WATER FUND**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	1998 Public Improvement Refunding	4.250	\$ -	\$ 139,073	\$ 139,073	
2006		4.300	-	139,073	139,073	
2007		5.000	-	139,073	139,073	
2008		5.000	-	139,073	139,073	
2009		5.500	792,700	117,274	909,974	
2010		5.500	841,600	72,331	913,931	
2011		5.500	894,300	24,593	918,893	
			<u>2,528,600</u>	<u>770,490</u>	<u>3,299,090</u>	
2005	2002 Public Improvement Refinancing	5.000	657,605	300,216	957,821	
2006		5.000	696,484	268,559	965,043	
2007		4.000	736,836	233,278	970,114	
2008		4.000	4,195	214,773	218,968	
2009		5.000	626,134	202,167	828,301	
2010		5.375	653,402	173,309	826,711	
2011		5.375	686,964	138,512	825,476	
2012		5.375	723,672	100,601	824,273	
2013		5.000	762,478	60,661	823,139	
2014		4.375	803,381	20,084	823,465	
				<u>6,351,151</u>	<u>1,712,160</u>	<u>8,063,311</u>
		Total Storm Water Fund indebtedness		<u>19,099,733</u>	<u>7,192,978</u>	<u>26,292,711</u>
			<b><u>EPB</u></b>			
2005	2000 Electric System Revenue Bonds	4.750	1,600,000	1,740,800	3,340,800	
2006		4.750	1,600,000	1,664,800	3,264,800	
2007		4.750	1,600,000	1,588,800	3,188,800	
2008		4.500	1,600,000	1,514,800	3,114,800	
2009		4.500	1,600,000	1,442,800	3,042,800	
2010		4.600	1,600,000	1,370,000	2,970,000	
2011		4.630	1,600,000	1,296,200	2,896,200	
2012		5.000	1,600,000	1,219,200	2,819,200	
2013		5.130	1,600,000	1,138,200	2,738,200	
2014		5.250	1,600,000	1,055,200	2,655,200	
2015		5.000	1,600,000	973,200	2,573,200	
2016		5.380	1,600,000	890,200	2,490,200	
2017		5.200	1,600,000	805,600	2,405,600	
2018		5.250	1,600,000	722,000	2,322,000	
2019		5.250	1,600,000	638,000	2,238,000	
2020		5.250	1,600,000	554,000	2,154,000	
2021		5.250	1,600,000	470,000	2,070,000	
2022		5.250	1,600,000	386,000	1,986,000	
2023	5.380	1,600,000	301,000	1,901,000		
2024	5.380	1,600,000	215,000	1,815,000		
2025	5.380	1,600,000	129,000	1,729,000		
2026	5.380	1,600,000	43,000	1,643,000		
	Total EPB indebtedness		<u>35,200,000</u>	<u>20,157,800</u>	<u>55,357,800</u>	
	Total Primary Government Indebtedness		<u>\$ 469,508,265</u>	<u>\$ 299,653,819</u>	<u>\$ 769,162,084</u>	

(continued on following page)

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF BONDS, NOTES, AND CAPITAL LEASES PAYABLE - BY FISCAL YEAR  
June 30, 2004

(continued from previous page)

**METROPOLITAN AIRPORT AUTHORITY**

Fiscal Year Ended June 30	Issue	Interest Rate	Principal	Interest Due	Total Interest and Principal	
2005	2002 Series A Refunding Revenue Bonds	1.380	\$ -	\$ 174,010	\$ 174,010	
2006		1.380	-	174,010	174,010	
2007		1.380	-	174,010	174,010	
2008		1.380	115,000	174,010	289,010	
2009		1.380	850,000	172,425	1,022,425	
2010		1.380	825,000	160,710	985,710	
2011		1.380	865,000	149,339	1,014,339	
2012		1.380	910,000	137,417	1,047,417	
2013		1.380	960,000	124,874	1,084,874	
2014		1.380	1,010,000	111,642	1,121,642	
2015		1.380	1,060,000	97,722	1,157,722	
2016		1.380	1,115,000	83,112	1,198,112	
2017		1.380	1,175,000	67,744	1,242,744	
2018		1.380	1,235,000	51,548	1,286,548	
2019		1.380	2,505,000	34,526	2,539,526	
				<u>12,625,000</u>	<u>1,887,099</u>	<u>14,512,099</u>
2005		2002 Series B Refunding Revenue Bonds	1.400	545,000	42,682	587,682
2006			1.400	585,000	35,043	620,043
2007			1.400	630,000	26,842	656,842
2008	1.400		675,000	18,012	693,012	
2009	1.400		610,000	8,550	618,550	
			<u>3,045,000</u>	<u>131,129</u>	<u>3,176,129</u>	
<b><u>CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION</u></b>						
2005	2000 Lease Revenue Bonds	-	-	7,198,975	7,198,975	
2006		-	-	7,198,975	7,198,975	
2007		5.000	2,570,000	7,134,725	9,704,725	
2008		5.000	2,700,000	7,002,975	9,702,975	
2009		5.000	2,835,000	6,864,600	9,699,600	
2010		5.000	2,975,000	6,719,350	9,694,350	
2011		5.500	3,125,000	6,559,038	9,684,038	
2012		5.000	3,310,000	6,390,350	9,700,350	
2013		5.130	3,465,000	6,218,809	9,683,809	
2014		5.250	3,640,000	6,034,469	9,674,469	
2015		5.300	3,830,000	5,837,424	9,667,424	
2016		5.400	4,035,000	5,626,984	9,661,984	
2017		5.400	4,255,000	5,403,154	9,658,154	
2018		5.800	4,485,000	5,159,325	9,644,325	
2019		5.800	4,740,000	4,894,106	9,634,106	
2020		5.500	5,015,000	4,619,919	9,634,919	
2021		5.500	5,290,000	4,336,531	9,626,531	
2022		5.900	5,580,000	4,027,144	9,607,144	
2023		5.900	5,910,000	3,689,625	9,599,625	
2024		5.900	6,255,000	3,332,278	9,587,278	
2025		5.900	6,620,000	2,954,075	9,574,075	
2026		5.750	7,010,000	2,558,075	9,568,075	
2027		5.750	7,415,000	2,143,356	9,558,356	
2028	5.750	7,840,000	1,704,775	9,544,775		
2029	5.630	8,290,000	1,246,219	9,536,219		
2030	5.630	8,760,000	766,688	9,526,688		
2031	5.630	9,250,000	260,156	9,510,156		
			<u>129,200,000</u>	<u>125,882,100</u>	<u>255,082,100</u>	
	Total component unit indebtedness		<u>\$ 144,870,000</u>	<u>\$ 127,900,328</u>	<u>\$ 272,770,328</u>	



CITY OF CHATTANOOGA, TENNESSEE  
 GOVERNMENT-WIDE EXPENSES BY FUNCTION  
 LAST THREE FISCAL YEARS

Function/Program	2004	2003	2002
General government	\$ 59,111,511	\$ 58,698,292	\$ 50,548,430
Public Safety	62,984,029	60,193,174	56,975,310
Public Works	50,609,639 (2)	42,983,849 (1)	59,848,473
Parks and Recreation	12,981,174	14,193,439	13,765,543
Social Services	26,058,655	20,758,129	19,178,170
Interest on long-term debt	6,097,267	4,417,740	3,667,564
Sewer	32,725,763	31,851,449	31,565,003
Solid Waste/Sanitation	4,718,858	5,385,859	6,428,615
Storm Water	4,312,010	4,523,419	4,774,295
Housing Management	1,718,091	1,496,241	930,550
Electric Utility	<u>374,823,000</u>	<u>365,187,000</u>	<u>346,821,000</u>
Total government-wide expenses	<u>\$ 636,139,997</u>	<u>\$ 609,688,591</u>	<u>\$ 594,502,953</u>

(1) The reduction in FY 2003 is primarily due to a change in the method of accounting for depreciation related to the City's infrastructure.

(2) During FY 2004, over \$4.8 million in tipping fees were recorded as an expense whereas they were previously recorded as a transfer.

CITY OF CHATTANOOGA, TENNESSEE

GOVERNMENT-WIDE REVENUES  
LAST THREE FISCAL YEARS

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
Program Revenues:			
Charges for services	\$ 443,760,680	\$ 421,140,594	\$ 402,663,146
Operating grants and contributions	28,930,990	27,322,758	27,934,574
Capital grants and contributions	18,713,606	8,002,849	9,355,637
General Revenues:			
Taxes:			
Property taxes	87,092,991	87,063,509	83,178,993
Sales taxes	19,643,028	17,940,768	17,589,729
Other taxes	9,886,402	8,577,827	7,542,589
Grants and contributions not restricted specific programs	34,896,500	35,089,989	34,821,809
Unrestricted investment earnings	1,760,922	3,525,811	5,095,019
Miscellaneous	11,435	137,987	-
Gain on sale of capital assets	249,007	-	-
Special items	<u>17,096,131</u>	<u>-</u>	<u>-</u>
Total government-wide revenues	<u>\$ 662,041,692</u>	<u>\$ 608,802,092</u>	<u>\$ 588,181,496</u>

CITY OF CHATTANOOGA, TENNESSEE

GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Property Taxes	Other Local Taxes	Licenses and Permits	Inter- Governmental	Charges for Services	Fines, Forfeitures and Penalties	Investment Income	Miscellaneous	Total
1995	\$71,061,842	\$ 5,133,580	\$4,159,161	\$ 135,647,682	\$4,402,528	\$ 1,482,496	\$4,112,847	\$ 6,227,331	\$232,227,467
1996	72,147,987	5,322,460	5,059,012	139,128,935	4,460,791	1,645,901	4,022,283	6,083,666	237,871,035
1997	66,725,268	16,505,914	5,315,140	146,431,963	4,686,720	1,760,268	4,178,729	5,828,088	251,432,090
1998	62,837,381	21,956,152	5,482,906	59,384,581	2,364,791	1,805,903	3,086,343	6,416,760	163,334,817
1999	63,927,435	22,938,301	5,593,174	62,245,526	2,640,477	2,143,025	3,258,820	9,660,580	172,407,338
2000	64,262,529	23,912,119	6,102,055	64,081,912	2,700,574	1,895,159	3,533,489	8,038,712	174,526,549
2001	66,868,120	24,131,228	6,133,506	58,682,200	2,744,292	1,825,737	3,217,133	6,326,147	169,928,363
2002	83,310,669	24,456,929	6,276,409	63,597,608	3,174,469	1,733,844	2,378,392	7,469,266	192,397,586
2003	87,247,361	25,658,605	6,649,684	66,535,808	3,250,348	1,427,540	2,289,983	7,579,341	200,638,670
2004	87,196,440	28,227,686	7,168,267	71,604,321	3,289,760	1,112,159	1,523,541	10,479,719	210,601,893

Notes:

(1) Includes general, special revenue, debt service, and capital projects funds.

CITY OF CHATTANOOGA, TENNESSEE

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	General Government	Finance and Administration	Public Safety	Public Works	Parks and Recreation	General Services	Education	Debt Services	Capital Outlay	Social Services	Total
1995	\$ 17,045,619	\$ 4,542,789	\$ 37,067,540	\$ 13,082,451	\$ 8,418,986	\$ 10,428,911	\$ 97,159,632	\$ 5,943,855	\$ 22,460,035	\$ 14,097,296	\$ 230,247,114
1996	17,578,266	4,806,407	38,863,226	13,587,704	8,853,506	10,324,153	98,716,585	6,839,092	23,774,426	14,969,700	238,313,065
1997	19,615,441	5,593,165	41,239,008	13,100,104	9,645,826	11,162,219	108,785,421	7,610,454	25,333,133	14,643,491	256,728,262
1998	26,751,553	5,101,425	43,300,303	12,505,996	9,795,435	11,799,661	-	8,175,752	21,513,790	17,109,854	156,053,769
1999	28,400,715	5,347,504	44,099,492	13,013,318	10,854,732	12,596,657	-	7,477,848	21,799,963	17,405,968	160,996,197
2000	28,793,205	5,420,736	49,282,463	16,340,771	12,071,498	12,366,425	-	7,232,436	22,361,690	19,269,739	173,138,963
2001	30,804,003	5,507,500	51,526,079	17,113,740	12,009,878	12,837,433	-	6,522,170	36,392,794	12,970,057	185,683,654
2002	38,339,495	8,231,570	55,079,995	23,365,928	12,710,408	4,804	-	8,393,234	25,285,966	18,823,259	190,234,659
2003	44,821,104	8,227,036	58,099,709	23,537,088	12,519,226	-	-	9,206,817	38,453,691	20,523,649	215,388,320
2004	43,499,604	8,194,419	61,349,815	29,818,717	12,176,589	-	-	10,893,823	43,377,200	25,735,022	235,045,189

Notes:

(1) Includes general, special revenue, debt service, and capital projects funds.

CITY OF CHATTANOOGA, TENNESSEE

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as Percent of Current Levy
1995	\$65,526,453	\$62,692,608	95.7%	\$3,148,835	\$65,841,443	100.5%	\$5,820,496	8.9%
1996	66,277,436	63,788,287	96.2%	2,273,018	66,061,305	99.7%	5,924,547	8.9%
1997	61,988,345	58,976,664	95.1%	2,498,964	61,475,628	99.2%	5,757,609	9.3%
1998	58,443,299	55,449,615	94.9%	2,930,520	58,380,135	99.9%	5,423,483	9.3%
1999	60,155,010	57,660,552	95.9%	2,574,338	60,234,890	100.1%	5,126,800	8.5%
2000	60,465,150	57,721,509	95.5%	2,139,956	59,852,775	99.0%	5,848,089	9.7%
2001	63,044,578	59,976,260	95.1%	2,495,293	62,471,553	99.1%	6,075,816	9.6%
2002	80,555,898	75,788,898	94.1%	2,764,167	78,553,065	97.5%	7,864,824	9.8%
2003	82,022,214	77,536,040	94.5%	3,611,273	81,147,313	98.9%	8,188,452	10.0%
2004	81,447,573	77,544,326	95.2%	3,986,961	81,531,287	100.1%	8,050,923	9.9%

Note 1: The property taxes levied on taxable assessed valuation in the City are billed by the City on October 1st of each year and are due without penalty by the last day in February of the following year. For failure to pay the tax bill by the due date, a penalty of 1/2 of 1% and interest of 1/2 of 1% is added on the first of March and each month thereafter until the tax bill is paid. If a tax bill continues to be unpaid through February of the following year, it is then transferred to the Clerk and Master's office by the City treasurer on July 1 of such year for collection. Additional penalties and costs of collection will be added thereafter to tax bills when they are filed in the Chancery Court of the county.

CITY OF CHATTANOOGA, TENNESSEE  
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Real Property (1)		Personal Property (2)		Public Utilities (3)		Total		Assessed to Total Estimated Actual Value
	Assessed Value (\$)	Estimated Actual Value (\$)	Assessed Value (\$)	Estimated Actual Value (\$)	Assessed Value (\$)	Estimated Actual Value (\$)	Assessed Value (\$)	Estimated Actual Value (\$)	
1995	\$ 1,733,174,165	\$ 5,324,263,360	\$ 307,830,119	\$ 1,026,100,397	\$ 157,865,664	\$ 287,028,480	\$ 2,198,869,948	\$ 6,637,392,237	33.13%
1996	1,764,147,467	5,421,140,894	308,318,501	1,027,728,337	151,604,715	275,644,936	2,224,070,683	6,724,514,167	33.07%
1997	1,797,441,847	5,523,206,725	344,984,883	1,149,949,610	153,432,945	278,968,991	2,295,859,675	6,952,125,326	33.02%
1998	1,987,416,146	6,147,138,482	381,056,931	1,270,189,770	161,516,615	293,666,573	2,529,989,692	7,710,994,825	32.81%
1999	2,031,602,544	6,284,950,419	407,967,358	1,359,891,193	164,540,123	299,163,860	2,604,110,025	7,944,005,472	32.78%
2000	2,075,650,791	6,420,828,988	382,030,624	1,273,435,413	159,854,460	290,644,473	2,617,535,875	7,984,908,874	32.78%
2001	2,126,364,954	6,569,990,348	406,302,688	1,354,342,293	196,521,415	357,311,664	2,729,189,057	8,281,644,305	32.78%
2002	2,498,277,473	7,779,159,444	482,782,728	1,609,275,760	220,670,376	401,218,865	3,201,730,577	9,789,654,070	32.71%
2003	2,572,574,393	7,998,826,954	459,250,379	1,530,834,597	228,198,584	414,906,516	3,260,023,356	9,944,568,067	32.78%
2004	2,614,130,284	8,166,665,310	421,375,610	1,524,120,058	201,678,042	366,687,349	3,237,183,936	10,057,472,717	32.19%

Notes:

- (1) The real property includes commercial and industrial property assessed at 40% and residential and farms assessed at 25% of the estimated actual value.
- (2) Personal property is assessed at 30% of the estimated actual value.
- (3) The Public Utilities assessments are made by the State of Tennessee for all counties and cities in the state. The Electric Power Board (EPB) and the Tennessee Valley Authority (TVA) are not included in these totals.
- (4) The estimated actual property values have not been adjusted for changes in market value. Amounts shown are calculated based on the known relationship between assessed values and actual values disregarding the fact that market value may have changed.
- (5) All assessments and estimated actual values are based on the initial levy and do not include any adjustments. The reduction in total assessments for FY 2004 is primarily due to a lawsuit by several utilities companies which resulted in a reclassification of underground pipelines from real property to personal property thereby subject to a 15% annual reduction. According to a state official, the impact of cellular phones (assessed at 32%) on the telephone companies (assessed at 55%) has led to zero growth for utilities statewide for the first time in 30 years. The state has recently enacted legislation that will restore the underground pipeline to real property for FY 2005.

CITY OF CHATTANOOGA, TENNESSEE

PROPERTY TAX RATES AND LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Tax Rates Per \$100 Assessed Value			Tax Levies		
	City	County	Total	City	County	Total
1995	\$ 2.98	\$ 2.81	\$ 5.79	\$ 65,526,453	\$ 98,321,810	\$ 163,848,263
1996	2.98	2.81	5.79	66,277,436	100,264,781	166,542,217
1997	2.70	3.22	5.92	61,988,345	118,833,274	180,821,619
1998	2.31	2.93	5.24	58,443,299	121,892,101	180,335,400
1999	2.31	2.93	5.24	60,155,010	126,038,952	186,193,962
2000	2.31	3.52	5.83	60,465,150	127,944,083	188,409,233
2001	2.31	3.52	5.83	63,044,578	155,122,581	218,167,159
2002	2.52	3.06	5.58	80,555,898	160,557,203	241,113,101
2003	2.52	3.06	5.58	82,022,214	163,376,638	245,398,852
2004	2.52	3.06	5.58	81,447,573	165,234,549	246,682,122

Notes: Property taxes levied on taxable assessed valuation in the City and County are billed on October 1 of each year and are due without penalty by the last day in February of the following year. The Assessor of Property performed a general reappraisal of property during 2001 which resulted in an increase in assessed values for fiscal years 2002 and later.

CITY OF CHATTANOOGA, TENNESSEE

PRINCIPAL TAXPAYERS

June 30, 2004

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Taxpayer	2003 Assessment	Percent of Assessed Valuation	City Tax
Tennessee Valley Authority (Office Leasing/Power)	\$ 80,233,095	2.48%	\$ 948,367
E.I. DuPont de Nemours and Company (Synthetic Yarns)	53,872,130	1.66%	1,102,758
BellSouth (Telecommunications Utility)	50,662,009	1.56%	1,274,656
CBL & Associates (Land Development/Leasing)	48,886,481	1.51%	1,229,984
Unum/Provident (Insurance/Leasing)	41,324,675	1.27%	1,029,480
Tennessee-American Water Company (Water Utility)	35,779,979	1.10%	900,224
Signal Mountain Cement Company (Manufacturing)	27,711,336	0.85%	179,520
Blue Cross Blue Shield (Insurance/Leasing)	25,323,920	0.78%	637,150
Kenco Group, Incorporated (Warehousing/Leasing)	22,234,834	0.69%	483,232
AGL Resources (Natural Gas Utility)	<u>20,972,881</u>	<u>0.65%</u>	<u>527,678</u>
	<u>\$407,001,340</u>	<u>12.55%</u>	<u>\$ 8,313,049</u>

Source: City Treasurer



CITY OF CHATTANOOGA, TENNESSEE

HISTORICAL DEBT RATIOS  
June 30, 2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Estimated population (1)	151,600	150,300	148,800	147,500	145,700	155,554	155,992	155,582	157,532
Appraised property valuation	\$ 6,724,514,167	\$ 6,952,125,326	\$ 7,710,994,825	\$ 7,944,005,472	\$ 7,984,908,874	\$ 8,281,644,305	\$ 9,789,654,070	\$ 9,944,568,067	\$ 10,057,472,717
Assessed property valuation	2,224,070,683	2,295,859,675	2,529,989,692	2,604,110,025	2,617,535,875	2,729,189,057	3,201,730,577	3,260,023,356	3,237,183,936
Gross indebtedness (2)	204,479,351	191,283,521	245,731,165	237,505,962	223,521,569	258,442,849	244,704,834	427,890,091	434,308,264
Less: Self-supporting indebtedness (3)	147,739,894	138,922,708	194,393,764	190,087,672	179,866,956	178,059,226	169,036,886	344,499,352	353,562,826
Debt Service Fund	9,127,569	8,802,830	7,126,274	2,566,687	2,671,606	4,163,307	5,497,083	4,988,142	5,222,704
Net direct indebtedness	47,611,888	43,557,983	44,211,127	44,851,603	40,983,007	76,220,316	70,170,865	78,402,597	75,522,734
Plus: Estimated net overlapping indebtedness	79,884,361	100,669,117	99,208,181	98,505,368	88,150,782	103,117,962	109,591,857	96,147,876	107,821,749
Net direct and overlapping indebtedness	\$ 127,496,249	\$ 144,227,100	\$ 143,419,308	\$ 143,356,971	\$ 129,133,789	\$ 179,338,278	\$ 179,762,722	\$ 174,550,473	\$ 183,344,483
Gross debt per capita	\$ 1,348.81	\$ 1,272.68	\$ 1,651.42	\$ 1,610.21	\$ 1,534.12	\$ 1,661.43	\$ 1,568.70	\$ 2,750.25	\$ 2,756.95
Net direct debt per capita	314.06	289.81	297.12	304.08	281.28	489.99	449.84	503.93	479.41
Net direct and overlapping debt per capita	841.00	959.59	963.84	971.91	886.30	1,152.90	1,152.38	1,121.92	1,163.86
Gross debt to appraised valuation	3.04%	2.75%	3.19%	2.99%	2.80%	3.12%	2.50%	4.30%	4.32%
Net direct debt to appraised valuation	.71%	.63%	.57%	.56%	.51%	.92%	.72%	.79%	.75%
Net direct debt and overlapping debt to appraised valuation	1.90%	2.07%	1.86%	1.80%	1.62%	2.17%	1.84%	1.76%	1.82%
Gross debt to assessed valuation	9.19%	8.33%	9.71%	9.12%	8.54%	9.47%	7.64%	13.13%	13.42%
Net direct debt to assessed valuation	2.14%	1.90%	1.75%	1.72%	1.57%	2.79%	2.19%	2.40%	2.33%
Net direct and overlapping debt to assessed valuation	5.73%	6.28%	5.67%	5.51%	4.93%	6.57%	5.61%	5.35%	5.66%

(1) Population figures for all years are estimates.

(2) Gross indebtedness excludes revenue bonds payable by the Electric Power Board of Chattanooga and the Metropolitan Airport Authority.

(3) The self-supporting debt includes Sewer Bonds and Municipal Public Improvement Bonds supported by Hotel-Motel taxes.

CITY OF CHATTANOOGA, TENNESSEE

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL  
BONDED DEBT (1) TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES  
LAST TEN FISCAL YEARS

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<u>Fiscal Year Ended June 30</u>	<u>Bond Principal</u>	<u>Bond Interest &amp; Fiscal Charges (2)</u>	<u>Total Debt Service Expenditures</u>	<u>Total General Governmental Expenditures</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
1995	\$3,884,314	\$2,059,541	\$5,943,855	\$230,247,114	2.6%
1996	4,295,735	2,543,357	6,839,092	238,313,065	2.9%
1997	4,719,181	2,891,273	7,610,454	256,728,262	3.0%
1998	5,233,898	2,941,854	8,175,752	156,053,769	5.2%
1999	4,852,826	2,625,022	7,477,848	160,996,197	4.6%
2000	4,750,143	2,482,293	7,232,436	173,138,963	4.2%
2001	4,226,180	2,295,990	6,522,170	185,683,654	3.5%
2002	4,658,954	3,734,280	8,393,234	190,234,659	4.4%
2003	4,753,112	4,404,436	9,157,548	215,388,320	4.3%
2004	4,725,541	6,168,282	10,893,823	235,045,189	4.6%

Notes:

- (1) General obligation bonds reported in the Enterprise Funds have been excluded.
- (2) Bond interest includes the interest paid on general obligation bonds and bond anticipation notes.

CITY OF CHATTANOOGA, TENNESSEE

COMPUTATION OF DIRECT AND OVERLAPPING INDEBTEDNESS  
Year Ended June 30, 2004

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<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to Government</u>	<u>Amount Applicable to Government</u>
Direct:			
City of Chattanooga	\$ 75,522,734	100.0000%	\$ 75,522,734
Overlapping:			
Hamilton County	<u>181,839,819</u>	59.2949%	<u>107,821,749</u>
Total	<u>\$257,362,553</u>		<u>\$183,344,483</u>

CITY OF CHATTANOOGA, TENNESSEE  
 COMPUTATION OF DEBT LIMIT AND LEGAL DEBT MARGIN  
 Year Ended June 30, 2004

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Debt limit (10% of assessed valuation)	<u>\$323,718,394</u>
Gross Indebtedness:	
General obligation bonds outstanding	266,565,000
Notes and Capital Leases Payable	<u>167,743,264</u>
Gross indebtedness	<u>434,308,264</u>
Less self-supporting indebtedness for general obligation bonds:	
CDRC Capital Lease	115,925,472
Interceptor Sewer System	131,448,967
Solid Waste/Sanitation Fund	27,977,366
Storm Water Fund	19,099,733
Hotel/Motel Debt	54,990,000
Fannie Mae Loan (CDBG)	321,289
800 MHz Equipment Capital Lease	<u>3,800,000</u>
	<u>353,562,827</u>
Gross direct indebtedness	80,745,437
Less: Debt Service Fund balance	<u>5,222,704</u>
Debt subject to debt limitation	<u>75,522,733</u>
Net legal debt margin	<u>\$248,195,661</u>
Percentage of direct legal debt exhausted	<u>23.33%</u>

CITY OF CHATTANOOGA, TENNESSEE  
PROPERTY VALUE AND CONSTRUCTION  
LAST TEN FISCAL YEARS

Calendar Year (1)	Commercial Construction (2)		Residential Construction (2)		Property Value (3)		
	Number of Permits	Value	Number of Permits	Value	Commercial	Residential	Public Utilities
1994	672	\$ 124,406,215	1,434	\$ 63,825,615	\$ 2,716,252,084	\$ 2,608,011,276	\$ 287,028,480
1995	749	152,369,585	1,360	63,336,445	2,758,077,658	2,663,063,236	275,644,936
1996	789	214,356,906	1,465	75,164,190	2,815,608,289	2,707,598,436	278,968,991
1997	834	151,458,193	1,509	85,398,111	3,041,450,294	3,105,688,188	293,666,573
1998	822	212,851,146	1,516	73,308,479	3,109,414,963	3,175,535,456	299,163,860
1999	762	219,143,098	1,501	84,969,747	3,180,873,852	3,239,955,136	290,644,473
2000	751	180,763,204	1,670	102,825,961	3,268,879,764	3,301,110,584	357,311,664
2001	776	227,505,416	1,667	138,229,339	3,741,924,004	4,037,235,440	401,218,865
2002	699	181,501,415	1,631	106,428,336	3,870,576,614	4,128,250,340	414,906,516
2003	744	178,242,350	1,852	167,286,482	3,924,888,157	4,215,018,920	366,687,349

Notes:

- (1) Latest information available for the calendar year.
- (2) Source: City of Chattanooga Building Inspection Department. The values are based on the current industry averages as published by the Southern Building Code Congress International (SBCCI).
- (3) Estimated actual values from Property Tax Assessor's Office records.

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenue (Note A)	Expenses (Note B)	Net Revenue Available For Debt Service	Debt Service Requirements		Coverage
				Principal	Interest	
Primary Government:						
EPB						
1995	\$ 286,546,000	\$ 272,502,000	\$ 14,044,000	\$ -	\$ -	\$ -
1996	311,940,000	296,020,000	15,920,000	-	-	-
1997	292,026,000	277,576,000	14,450,000	-	-	-
1998	332,613,000	307,581,000	25,032,000	-	-	-
1999	336,984,000	314,757,000	22,227,000	-	-	-
2000	345,998,000	326,700,000	19,298,000	-	-	-
2001	362,105,000	341,852,000	20,253,000	-	1,003,400	20.18
2002	348,852,000	331,164,000	17,688,000	1,600,000	1,966,800	4.96
2003	365,066,000	348,677,000	16,389,000	1,600,000	1,886,800	4.70
2004	378,322,000	358,158,000	20,164,000	1,600,000	1,812,000	5.91
Component Unit:						
METROPOLITAN AIRPORT AUTHORITY						
1995	5,306,842	3,505,242	1,801,600	195,000	989,321	1.52
1996	5,147,790	3,253,459	1,894,331	212,500	976,646	1.59
1997	5,456,099	3,277,908	2,178,191	225,000	985,062	1.80
1998	5,820,799	3,423,511	2,397,288	237,275	947,711	2.02
1999	6,319,120	4,304,545	2,014,575	252,274	931,391	1.70
2000	6,547,743	4,354,853	2,192,890	268,108	914,051	1.85
2001	8,841,283	4,531,107	4,310,176	268,107	892,086	3.72
2002	12,354,844	4,965,332	7,389,512	11,836,149	104,322	0.62
2003	10,246,713	5,053,938	5,192,775	575,000	253,633	6.27
2004	11,250,320	4,992,992	6,257,328	505,000	193,453	8.96
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION						
2001	9,653,532	4,105,053	5,548,479	-	3,599,488	1.54
2002	17,977,555	9,848,050	8,129,505	-	7,198,975	1.13
2003	17,728,790	10,382,510	7,346,280	-	7,198,975	1.02
2004	20,670,173	10,025,003	10,645,170	-	7,198,975	1.48

Note A Includes operating and nonoperating revenue.

Note B Total expenses exclusive of depreciation and bond interest.

CITY OF CHATTANOOGA, TENNESSEE  
SALARIES AND FIDELITY BONDS OF PRINCIPAL OFFICIALS  
Year Ended June 30, 2004

<u>Official</u>	<u>Description</u>	<u>Annual Salary</u>	<u>Fidelity Bonds</u>
Robert P. Corker, Jr.	Mayor	\$ 129,950	\$ 10,000
John M. Lively	Councilman, District 1	19,492	10,000
Sally L. Robinson Vice-Chairman	Councilwoman, District 2	21,992	10,000
Dan B. Page	Councilman, District 3	19,492	10,000
W. Jack Benson, Sr., Chairman	Councilman, District 4	24,492	10,000
John P. Franklin, Jr.,	Councilman, District 5	19,492	10,000
Ronald C. Littlefield	Councilman, District 6	19,492	10,000
John R. Taylor, Sr.	Councilman, District 7	19,492	10,000
Leamon Pierce	Councilman, District 8	19,492	10,000
Yusuf A. Hakeem	Councilman, District 9	19,492	10,000
David R. Eichenthal	Administrator and City Finance Officer	112,837	100,000
Daisy W. Madison	Deputy Finance Officer and Treasurer	98,026	550,000
Randall L. Nelson	City Attorney	109,134	10,000

CITY OF CHATTANOOGA, TENNESSEE

INSURANCE COVERAGE  
Year Ended June 30, 2004

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PUBLIC BUILDINGS

Fire, extended coverage, vandalism, and malicious mischief \$ 291,291,675

CHATTANOOGA PUBLIC LIBRARIES

Fire, extended coverage, vandalism, and malicious mischief  
(80% coinsurance) 31,247,258  
Automobile liability 1,000,000  
Boiler 500,000  
Flood 10,535,900  
Earthquake 10,000,000  
General liability 1,000,000  
Employee dishonesty 125,000  
Equipment 494,040  
Director and officer 1,000,000

HUMAN SERVICES

General liability 1,000,000  
Fire, extended coverage, vandalism, and malicious mischief  
(80% coinsurance) 4,120,375  
Employee dishonesty 400,000  
Automobile liability 1,000,000

AIR POLLUTION CONTROL BOARD

General liability 2,000,000  
Property damage (90% coinsurance) 500,000  
Automobile liability 1,000,000  
Public official and employee liability 1,000,000  
Equipment (80% coinsurance) 429,044  
Employee dishonesty 100,000  
Workers compensation 500,000



CITY OF CHATTANOOGA, TENNESSEE

DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS

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<u>Calendar Year</u>	<u>Population (1)</u>	<u>Per Capita Income (1)</u>	<u>Median Age (1)</u>	<u>Unemployment Rate (2)</u>
1994	154,200	\$15,131	36.1	2.8%
1995	151,600	14,613	37.1	4.9%
1996	150,300	15,366	36.6	4.6%
1997	148,800	15,943	36.9	5.0%
1998	147,500	16,381	38.2	4.0%
1999	145,700	24,622	37.5	3.5%
2000	155,554	26,228	37.4	3.0%
2001	155,992	26,781	37.1	3.2%
2002	155,582	27,213	37.2	3.8%
2003	157,532	27,603	37.1	3.5%

(1) Source: U.S. Census Bureau

(2) Source: Tennessee Department of Employment Security

CITY OF CHATTANOOGA, TENNESSEE  
 MISCELLANEOUS STATISTICAL DATA  
 June 30, 2004

Date of Organization: 1839  
 Form of Government: Council - Mayor  
 Fiscal Year Begins: July 1  
 Area: 144 square miles

Miles of Streets:

	<u>City</u>	<u>County</u>
Paved	1,150	2,650
Unpaved	-	180

Building Permits:

<u>Calendar Year</u>	<u>Number Issued</u>	<u>Value of Permits*</u>
1994	2,106	\$188,231,830
1995	2,109	215,706,030
1996	2,254	289,521,096
1997	2,343	236,856,304
1998	2,338	286,159,625
1999	2,263	304,112,845
2000	2,421	283,589,165
2001	2,443	365,734,755
2002	2,330	287,929,751
2003	2,596	345,528,832

\*Values are based on the current industry averages as published by the Southern Building Code Congress International (SBCCI).

Source: City Building Inspection Department

Education\*\*

Public

Elementary	45
Middle	15
Middle thru High	4
Senior High	12
Kindergarten through Twelve	2

Private

Parochial	18
Elementary	6
Preparatory	3

\*\*Source: Hamilton County Department of Education

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

MISCELLANEOUS STATISTICAL DATA

June 30, 2004

(continued from previous page)

Elections (County-Wide):

171,899 registered voters  
 31,373 votes cast in last election  
 18.25% registered voters voting

Population - Official U.S. Census:

	<u>City</u>	<u>County</u>
1940	128,163	180,478
1950	131,041	208,255
1960	130,009	237,905
1970	119,923	255,077
1980	169,514	287,740
1990	152,466	285,536
2000	145,700	295,000
2001 Estimate	155,554	307,896
2002 Estimate	155,992	312,266
2003 Estimate	155,582	311,178
2004 Estimate	157,352	309,956

Recreation:

Number of parks	119
Golf courses	16
Recreation centers	15
Supervised summer playgrounds	38
Ball fields	122
Public and private tennis courts	191
Swimming pools	55
Theaters	17
Bowling alleys	3

Libraries:

Chattanooga-Hamilton County Bicentennial Library  
 The University of Tennessee at Chattanooga  
 Chattanooga State Technical Community College

Public Safety:

	<u>Fire</u>	<u>Police</u>
Sworn officers	385	447
School resource officers		17
Civilians:		
Part-time Park Rangers		2
Full-time Park Rangers		9
Part-time School Patrol		29
Full-time School Patrol		1
All other	<u>18</u>	<u>148</u>
Total Public Safety	<u>403</u>	<u>653</u>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 MISCELLANEOUS STATISTICAL DATA  
 June 30, 2004

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(continued from previous page)

Utilities:

	<u>User Class</u>	<u>Number of Customers</u>	<u>Rate Structure</u>
Electric Power Board*	Residential	139,126	\$0.0667 per kilowatt-hour
	Small Commercial and Power	19,222	0.0745 per kilowatt-hour
	Large Commercial and Power	3,196	0.0546 per kilowatt-hour
	Outdoor Lighting	142	0.0840 per kilowatt-hour
Interceptor Sewer System (based on water used)	First 100,000 gallons		\$3.94 per 1,000 gallons
	Next 650,000 gallons		2.91 per 1,000 gallons
	Next 1,250,000 gallons		2.36 per 1,000 gallons
	Next 30,000,000 gallons		1.74 per 1,000 gallons
	Over 32,000,000 gallons		1.52 per 1,000 gallons
Average Income Level:		<u>City</u>	<u>County</u>
Per capita**		\$27,603	\$30,572
Per family***		42,319	48,915

\*Source: Electric Power Board.

\*\*Source: U.S. Department of Commerce-Bureau of Economic Analysis.

\*\*\*Source: Survey of Buying Power, Sales & Marketing Management Magazine and U.S. Census data.

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
Passed through Tennessee Department of Agriculture:						
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-02-008784	\$ 41,500	-	\$ 41,500	-
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-03-014036	(57,717)	57,717	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-04-109318	-	60,257	60,257	-
Total Emergency Food Assistance Program			(16,217)	117,974	101,757	-
Emergency Food Assistance Program (Food Commodities - Noncash)	10.569	N/A	-	270,437	270,437	-
Passed through Tennessee Department of Human Services:						
Child and Adult Care Food Program	10.558	03-47-55915-00-8	(35,145)	314,781	322,465	(42,829)
Child and Adult Care Food Program	10.558	03-47-56136-00-6	(16,105)	82,410	80,696	(14,391)
Child and Adult Care Food Program	10.558	03-47-60076-00-9	(1,543)	10,160	9,753	(1,136)
Total Child and Adult Care Food Program			(52,793)	407,351	412,914	(58,356)
Summer Food Service Program for Children	10.559	DA-03-00050-00	(404,803)	404,803	-	-
Summer Food Service Program for Children	10.559	DA-04-00069-00	-	318,767	685,316	(366,549)
Total Summer Food Service Program for Children			(404,803)	723,570	685,316	(366,549)
Total U.S. Department of Agriculture			(473,813)	1,519,332	1,470,424	(424,905)
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>						
Lower Income Housing Assistance Program	14.156	UPG01TN01437	(122,742)	-	-	(122,742)
Lower Income Housing Assistance Program	14.156	Project# 01A0450	(20,287)	20,287	-	-
Total Lower Income Housing Assistance Program			(143,029)	20,287	-	(122,742)
Community Development Block Grants/Entitlement Grants	14.218	B01MC47001	(267,784)	813,904	546,120	-
Community Development Block Grants/Entitlement Grants	14.218	B02MC47001	-	2,515,384	2,753,505	(238,121)
Community Development Block Grants/Entitlement Grants	14.218	Program Income	(60,955)	1,044,472	494,594	488,923
Total Community Development Block Grants/Entitlement Grants			(328,739)	4,373,760	3,794,219	250,802

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Emergency Shelter Grants Program (ESG)	14.231	S02MC47003	\$ (4,661)	\$ 46,029	\$ 41,368	\$ -
Emergency Shelter Grants Program (ESG)	14.231	S03MC47003	-	81,242	82,142	(900)
Total Emergency Shelter Grants Program (ESG)			(4,661)	127,271	123,510	(900)
Shelter Plus Care	14.238	TN37C931017	(5,159)	104,076	119,510	(20,593)
Home Investment Partnerships Program	14.239	M02MC470200	(255,783)	1,348,013	1,092,230	-
Home Investment Partnerships Program	14.239	M03MC470200	-	226,513	278,806	(52,293)
Home Investment Partnerships Program	14.239	Program Income	-	527,508	297,483	230,025
Total Home Investment Partnerships Program			(255,783)	2,102,034	1,668,519	177,732
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	B02SPTN0685	-	215,455	270,236	(54,781)
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	B01SPTN0590	-	32,408	32,408	-
Total Community Development Block Grants/Brownfields Economic Development Initiative			-	247,863	302,644	(54,781)
Fair Housing Initiatives Program	14.408	FH400G03042	-	-	23,834	(23,834)
Total U.S. Department of Housing and Urban Development			(737,371)	6,975,291	6,032,236	205,684
U.S. DEPARTMENT OF JUSTICE						
State Domestic Preparedness Equipment Support Program	16.007	2003-TE-CX-0003	281,893	-	112,865	169,028
Passed through Tennessee Department of Finance and Administration:						
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Z-99-088379-00	-	29,851	40,000	(10,149)
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Z-99-088380-00	-	4,548	7,569	(3,021)
Total Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program			-	34,399	47,569	(13,170)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Local Law Enforcement Block Grants Program	16.592	2001-LB-VX-7822	\$ 6,604	\$ -	\$ 6,604	\$ -
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-0905	349,935	-	190,165	159,770
Local Law Enforcement Block Grants Program	16.592	2003-LB-BX-0968	-	380,458	161,941	218,517
Total Local Law Enforcement Block Grants Program			356,539	380,458	358,710	378,287
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2001CKWX0106	-	1,135,179	1,715,408	(580,229)
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2002CKWX0005	(1,684)	110,745	113,710	(4,649)
Total Public Safety Partnership and Community Policing Grants (COPS)			(1,684)	1,245,924	1,829,118	(584,878)
Total U.S. Department of Justice			636,748	1,660,781	2,348,262	(50,733)
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>						
Passed through Tennessee Department of Transportation:						
Highway Planning and Construction	20.205	STP-EN-9202 (85)	-	947,108	1,924,079	(976,971)
Highway Planning and Construction	20.205	STP-M-9202 (86)	-	131,547	133,225	(1,678)
Highway Planning and Construction	20.205	Z-03-014494-01	(45,844)	120,235	74,391	-
Highway Planning and Construction	20.205	Z-04-019870-00	-	124,100	179,981	(55,881)
Total Highway Planning and Construction			(45,844)	376,990	1,311,675	(1,134,530)
Passed through Georgia Department of Transportation:						
Highway Planning and Construction	20.205	PL-0003-00-981	(12,516)	37,060	24,544	-
Highway Planning and Construction	20.205	PL-0005-00-860	-	17,429	64,130	(46,701)
Total Highway Planning and Construction			(12,516)	54,489	88,674	(46,701)
Federal Transit: Metropolitan Planning Grants	20.505	GG-03-09955-00	(6,525)	43,550	37,025	-
Federal Transit: Metropolitan Planning Grants	20.505	GG-04-01692-00	-	-	5,784	(5,784)
Federal Transit: Metropolitan Planning Grants	20.505	GG-04-10626-00	-	15,561	32,291	(16,730)
Total Federal Transit: Metropolitan Planning Grants			(6,525)	59,111	75,100	(22,514)
Total U.S. Department of Transportation			(64,885)	1,436,590	2,475,450	(1,103,745)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>						
Passed through Tennessee Libraries and Archives:						
State Library Program	45.310	GG-01-09207-01	\$ -	\$ 1,363	\$ 1,363	\$ -
State Library Program	45.310	GG-04-10508-00	-	2,500	2,500	-
State Library Program	45.310	Z-04-018499-00	-	2,400	2,400	-
State Library Program	45.310	Z-04-018403-00	-	22,600	22,600	-
Total Institute of Museum and Library Services			-	28,863	28,863	-
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>						
Air Pollution Control Program Support	66.001	A004084-03	-	324,752	324,752	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	PM98437198	-	99,363	99,363	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	PM97475803	-	78,310	78,310	-
Total Surveys, Studies, Investigations and Special Purpose Grants			-	177,673	177,673	-
Total U.S. Environmental Protection Agency			-	502,425	502,425	-
<b>U.S. DEPARTMENT OF ENERGY</b>						
Passed through Tennessee Department of Human Services:						
Weatherization Assistance for Low-Income Persons	81.042	Z-03-013597-00	(132,889)	132,889	-	-
Weatherization Assistance for Low-Income Persons	81.042	Z-04-016057-00	-	268,202	409,330	(141,128)
Total Weatherization Assistance for Low-Income Persons			(132,889)	401,091	409,330	(141,128)
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>						
Emergency Food and Shelter National Board Program	83.523	21-7682-00	1,154	2,915	4,069	-
Emergency Food and Shelter National Board Program	83.523	22-7682-00	-	14,553	28,880	(14,327)
Total Federal Emergency Management Agency			1,154	17,468	32,949	(14,327)

(continued on next page)



CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
Head Start	93.600	04CH0047/26	\$ (681,755)	\$ 681,755	-	-
Head Start	93.600	04CH0047/27	-	6,904,978	7,296,389	(391,411)
Total Head Start			(681,755)	7,586,733	7,296,389	(391,411)
Passed Through Tennessee Department of Human Services:						
Low-Income Home Energy Assistance (LIHEAP)	93.568	Z-03-013594-00	(10,797)	10,797	-	-
Low-Income Home Energy Assistance (LIHEAP)	93.568	Z-04-016035-00	-	1,033,748	1,067,421	(33,673)
Total Low-Income Home Energy Assistance (LIHEAP)			(10,797)	1,044,545	1,067,421	(33,673)
Community Services Block Grant (CSBG)	93.569	Z-03-010274-03	(77,802)	77,802	-	-
Community Services Block Grant (CSBG)	93.569	Z-04-015764-01	-	519,179	572,794	(53,615)
Total Community Services Block Grant (CSBG)			(77,802)	596,981	572,794	(53,615)
Total U.S. Department of Health and Human Services			(770,354)	9,228,259	8,936,604	(478,699)
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>						
Foster Grandparent Program	94.011	02-SFSTN022	(9,565)	418,847	422,844	(13,562)
Total Corporation for National and Community Services			(9,565)	418,847	422,844	(13,562)
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>						
Passed Through Tennessee Emergency Management Agency						
Public Assistance Grants	97.036	Z-03-017837-00	(251,606)	524,010	323,485	(51,081)
Total Federal Emergency Management Agency			(251,606)	524,010	323,485	(51,081)
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT</b>			(1,802,581)	22,712,957	22,982,872	(2,072,496)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
<b>Component Units</b>						
<b>Chatanooga Area Regional Transportation Authority (ARTA)</b>						
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>						
Federal Transit - Capital Investment Grants	20.500	TN-03-0042	\$ -	\$ 235,267	\$ 235,267	\$ -
Federal Transit - Capital Investment Grants	20.500	TN-03-0070	-	251,466	251,466	-
Passed through Tennessee Department of Transportation:						
Federal Transit - Capital Investment Grants	20.500	TN-03-0067	-	55,325	55,325	-
Federal Transit - Capital Investment Grants	20.500	TN-03-0051	-	77,282	77,282	-
Total Federal Transit - Capital Investment Grants			-	619,340	619,340	-
Federal Transit - Formula Grants	20.507	TN-90-X180	(4,510)	4,510	-	-
Federal Transit - Formula Grants	20.507	TN-90-X204	-	2,207,174	2,207,174	-
Federal Transit - Formula Grants	20.507	TN-26-0020	-	170,850	170,850	-
Federal Transit - Formula Grants	20.507	TN-90-X190	-	214,658	214,658	-
Total Federal Transit - Formula Grants			(4,510)	2,597,192	2,592,682	-
Passed through The University of Tennessee:						
Slate Planning and Research	20.515	N/A	-	9,913	9,913	-
Job Access - Reverse Commute	20.516	TN-37-X021	-	-	35,817	(35,817)
Job Access - Reverse Commute	20.516	TN-37-X009	(49,509)	318,904	284,980	(15,385)
Total Job Access - Reverse Commute			(49,509)	318,904	320,797	(51,402)
Total Expenditures of Federal Awards - CARTA			(54,019)	3,545,349	3,542,732	(51,402)

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
<u>Awards Audited by Other Auditors</u>						
<b>Chattanooga Metropolitan Airport Authority</b>						
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>						
Airport Improvement Program	20.106	3-47-0009-22	\$ (370,466)	\$ 686,487	\$ 316,021	\$ -
Airport Improvement Program	20.106	3-47-0009-28	(250,562)	2,692,875	2,700,410	(258,097)
Airport Improvement Program	20.106	3-47-0009-29	-	176,962	191,699	(14,737)
Airport Improvement Program	20.106	3-47-0009-30	-	143,234	304,327	(161,093)
Airport Improvement Program	20.106	3-47-0009-33	-	-	119,906	(119,906)
Total Expenditures of Federal Awards - Component Unit Audited by Other Auditors			<u>(621,028)</u>	<u>3,699,558</u>	<u>3,632,363</u>	<u>(553,833)</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS - COMPONENT UNITS</b>			<u>(675,047)</u>	<u>7,244,907</u>	<u>7,175,095</u>	<u>(605,235)</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY</b>			<u>(2,477,628)</u>	<u>29,957,864</u>	<u>30,157,967</u>	<u>(2,677,731)</u>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
<b>STATE AWARDS</b>						
Tennessee Department of Transportation:						
Transportation Enhancement Program		STP-EN-9202(76)	\$ (18,204)	\$ 18,204	\$ -	\$ -
Tennessee Housing Development Agency:						
THDA Entitlement - CNE Project		Program Income	(6,651)	171,547	180,759	(15,863)
Tennessee Libraries and Archives:						
Library Services		GG-04-10508-00	-	91,000	91,000	-
Tennessee Department of Environment and Conservation:						
Household Hazardous Waste		GG-04-10546-00	-	-	85,000	(85,000)
Infrared Thermography Pilot Project		N/A	(6,440)	6,440	-	-
<b>TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT</b>			<u>(31,295)</u>	<u>287,191</u>	<u>356,759</u>	<u>(100,863)</u>
<b>Component Units</b>						
<b>Chattanooga Area Regional Transportation Authority (CARTA)</b>						
Tennessee Department of Transportation:						
State funding for TN-26-0020		GG-0310136	-	16,293	21,356	(5,063)
State funding for TN-03-0051		GG-0108905	-	6,351	9,690	(3,339)
State funding for TN-37-X009		GG-0209299	(76,152)	318,509	312,890	(70,533)
State funding for TN-90-X190		GG-0209488	(124,709)	150,632	25,923	-
State funding for TN-03-0042		GG-0410868	-	29,408	29,408	-
State funding for TN-37-X021		GG-0410492	-	-	1,897	(1,897)
State funding for TN-03-0067		GG-0410420	-	2,623	6,916	(4,293)
State funding for TN-03-0070		GG-0410542	-	14,748	31,434	(16,686)
State funding for TN-90-X204		GG-0410426	-	210,585	275,659	(65,074)
State Signal Priority		TNSPR-RES1208	-	2,478	2,478	-
State Operating		Z-03013821	(321,251)	321,251	-	-
State Operating		GG-0410502	-	1,746,495	1,746,495	-
<b>Total Expenditures of State Awards - CARTA</b>			<u>(522,112)</u>	<u>2,819,373</u>	<u>2,464,146</u>	<u>(166,885)</u>

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 Year Ended June 30, 2004

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
Awards Audited by Other Auditors						
Chattanooga Metropolitan Airport Authority						
Airport Improvement Program		33-555-0275-04	\$ -	\$ 140,782	\$ 140,782	\$ -
Airport Improvement Program		33-555-0777-04	-	5,436	5,436	-
Airport Improvement Program		33-555-0722-04	-	20,804	20,804	-
Airport Improvement Program		33-555-0162-04	(143,537)	-	17,557	(161,094)
Airport Improvement Program		33-555-0165-04	(20,266)	20,266	-	-
Airport Improvement Program		33-555-0173-04	(13,920)	-	167,478	(181,398)
Airport Improvement Program		33-555-0771-04	(11,970)	46,260	34,290	-
Airport Improvement Program		33-555-0767-04	(460)	-	-	(460)
Airport Improvement Program		33-555-0770-04	(44,258)	60,998	16,740	-
Airport Improvement Program		N/A	-	-	10,650	(10,650)
Airport Improvement Program		N/A	-	-	3,155	(3,155)
Total Expenditures of State Awards - Component Unit Audited by Other Auditors			(234,411)	294,546	416,892	(356,757)
TOTAL EXPENDITURES OF STATE AWARDS - COMPONENT UNITS			(756,523)	3,113,919	2,881,038	(523,642)
TOTAL EXPENDITURES OF STATE AWARDS - REPORTING ENTITY			(787,818)	3,401,110	3,237,797	(624,505)
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS - REPORTING ENTITY			\$ (3,265,446)	\$ 33,358,974	\$ 33,395,764	\$ (3,302,236)

(continued from previous page)

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
June 30, 2004

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Program Income

Cash receipts for the Community Development Block Grant (CFDA 14.218) and HOME Investment Partnerships Program (CFDA 14.239) include program income of \$1,044,472 and \$527,508, respectively.

Note 3. Accrual Adjustment

The accompanying schedule of expenditures of federal and state awards includes beginning accrued grant revenue of \$251,606 related to Public Assistance Grants (CFDA 97.036). This amount was not included as ending accrued grant revenue on the prior year schedule because the reimbursable expenditures were not identified until the current year.

Note 4. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipient</u>
Community Development Block Grants/ Entitlement Grants	14.218	\$3,373,814
Emergency Shelter Grants Program	14.231	123,510
Home Investment Partnerships Program	14.239	1,627,464

Report of Independent Certified Public Accountants on Compliance and on  
Internal Control Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited the financial statements of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We did not audit the financial statements of EPB and the Chattanooga Metropolitan Airport Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for EPB and Chattanooga Metropolitan Airport Authority, was based solely on the work of 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.

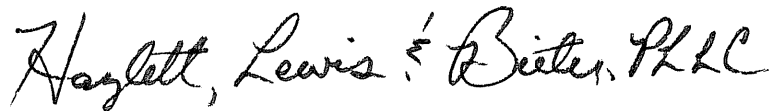
Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management in a separate letter dated October 15, 2004.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 15, 2004.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Haylett, Lewis & Biter, PLLC".

Chattanooga, Tennessee  
October 15, 2004



Report of Independent Certified Public Accountants on Compliance  
With Requirements Applicable to Each Major Federal Program and Internal  
Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Chattanooga, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. We did not audit the compliance of the Chattanooga Metropolitan Airport Authority whose federal and state financial assistance is \$4,049,255. The report of the other auditors on compliance with the requirements applicable to major programs has been furnished to us, and our opinion on compliance with those requirements, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority was based solely on the report of the other auditors. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Chattanooga, Tennessee complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Chattanooga, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters and the report of other auditors did not disclose any matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Haylett, Lewis & Biete, PLLC*

Chattanooga, Tennessee  
October 15, 2004

CITY OF CHATTANOOGA, TENNESSEE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2004

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SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Reportable conditions identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Material weaknesses identified?  yes  no
- Reportable conditions identified that are not considered to be material weaknesses?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development:
14.239	Community Development Block Grants/Entitlement Grants
	Home Investment Partnerships Program
16.710	U.S. Department of Justice:
	Public Safety Partnership and Community Policing Grants (COPS)
20.106	U.S. Department of Transportation:
20.205	Airport Improvement Program
20.507	Highway Planning and Construction
	Federal Transit - Formula Grants
93.568	U.S. Department of Health and Human Services:
93.600	Low-Income Home Energy Assistance (LIHEAP)
	Head Start

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2004

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Dollar threshold used to distinguish between type A  
and type B programs:

\$904,739

Auditee qualified as low-risk auditee?

  X   yes           no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

CITY OF CHATTANOOGA, TENNESSEE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2004

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None