Hazlett, Lewis & Bieter, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, which represent 48 percent and 65 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages iii through xvii of the Financial Section and the required supplementary information on pages 58 and 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Hazlett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
December 6, 2010

Management's Discussion and Analysis

In this section of the City of Chattanooga's annual financial report we offer readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2010. Please consider the information presented here in conjunction with the transmittal letter found at the front of this report and with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by $1.88 billion (net assets), a decrease of $11.8 million. Of this amount, $47.9 million may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets), a $26.9 million increase over last year.
- While the net assets of our business-type activities increased $4.0 million, or 0.7 percent, the net assets of our governmental activities decreased $15.8 million, or 1.2 percent. During the year, the City generated $242.4 million in taxes and other revenues for governmental programs, an increase of $7.1 million or 3.0 percent. This compares with $262.2 million of expenses for these programs, a $2.0 million or 0.8 percent decrease.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year governmental activities recognized depreciation expense of $43.1 million including $26.0 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $95.5 million, a decrease of $1.8 million from last year. This decrease is the result of several factors.
    - Fund balance in the General Fund decreased $2.1 million. $5.2 million was appropriated to the Industrial Development Board (IDB) to fund a portion of the City's capital commitment to the Volkswagen facility in addition to $4.7 million of other one time capital appropriations.
    - Capital projects fund balance increased $3.9 million due to issuance of new debt and capital budget appropriations.
    - Fund balance in the other governmental funds decreased $3.5 million entirely due to increased debt service costs.
    - Property tax revenues were $2.9 million or 3.1 percent higher than prior year reflecting stable real estate values in the area. State shared income tax decreased $1.1 million or 28.9 percent and state shared sales tax decreased $350,000 or 3.4 percent reflecting the economic challenges continuing to face the nation. County-wide sales tax decreased $594,000 which was only a 2.3 percent decrease highlighting the relative economic stability of the Chattanooga area.
    - Revenues in the General Fund decreased by $4.6 million primarily as a result of a change in the method of accounting for Regional Planning Agency, Air Pollution Control Bureau and Scenic Cities Beautiful Commission to special revenue funds. Expenditures decreased $11.9 million; three items comprise the bulk of this decrease. $4.9 million of the decrease is attributable to the completion of a multi-year construction project of a regional communications system; an additional $3.2 million decrease due to the change in method of accounting for water quality related costs from General Fund to an enterprise fund to better address water quality issues; and a $1.5 million decrease in the fleet leasing program due a one-year suspension of the capital recovery component of the lease rate.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $28.4 million, down $2.8 million or 8.8 percent from prior year. This represents 14.4 percent of total General Fund expenditures and transfers out. The City's Debt Management Policy recommends this to remain at or above 15 percent.
- Long-term liabilities for the City's Primary Government decreased $13.6 million, 1.8 percent, during the current fiscal year. This is net of $6.8 million of general obligation and $6.8 million of economic development recovery zone facilities bonds issued within governmental activities.

Overview of the Financial Statements

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

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

The government-wide financial statements are:

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

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

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

Complete financial statements of the component units may be obtained from: (1) Chattanooga Metropolitan Airport Authority, 1001 Airport Road, Suite 14, Chattanooga, TN 37421; (2) CARTA, 1617 Wilcox Boulevard, Chattanooga, TN 37406 and (3) The Chattanooga Downtown Redevelopment Corporation, 101 East 11th Street, Suite 101, Chattanooga, Tennessee 37402.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Both the required and other supplementary information may be found following the notes to the financial statements beginning on page 58.

Financial Analysis of the City as a Whole

Net Assets: Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $1.9 billion at the close of the most recent fiscal year, a decrease of $11.8 million, or 0.6 percent, from last year.

By far the largest portion of the City's net assets, 95.5 percent, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

A portion of the City's net assets, $35.8 million or 1.9 percent, represents resources that are restricted in how they may be used. The remaining balance of $47.9 million may be used to meet the City's ongoing obligations, a $26.9 million increase from last year.

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

City of Chattanooga's Net Assets

(in thousands)

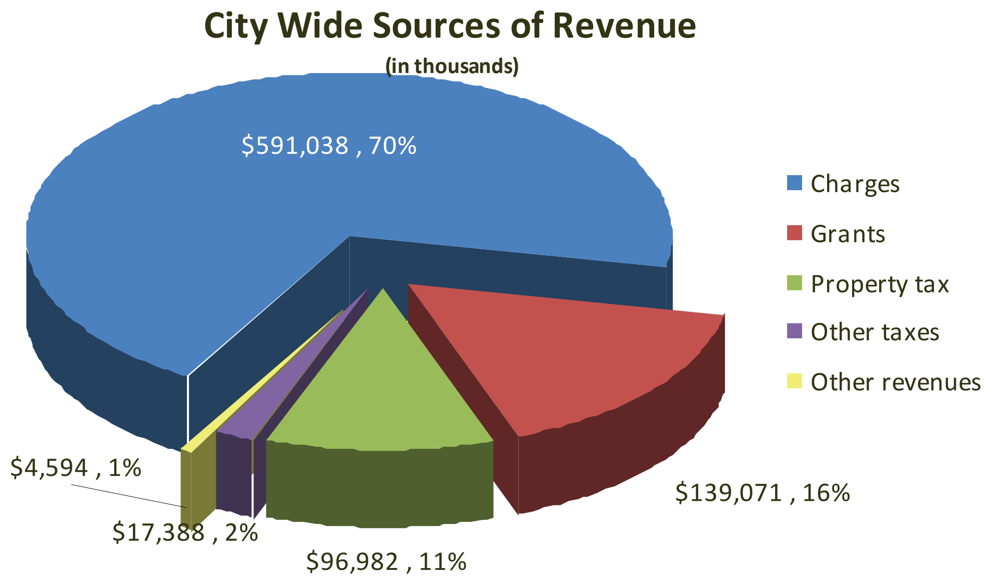
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 270,428	$ 263,143	$ 340,216	$ 376,655	$ 610,644	$ 639,798
Capital assets	1,547,186	1,550,391	813,158	762,783	2,360,344	2,313,174
Total assets	1,817,614	1,813,534	1,153,374	1,139,438	2,970,988	2,952,972
Long-term debt outstanding	331,335	328,777	421,393	437,509	752,728	766,286
Other liabilities	160,812	143,521	180,257	154,217	341,069	297,738
Total liabilities	492,147	472,298	601,650	591,726	1,093,797	1,064,024
Net assets:						
Invested in capital assets, net of debt	1,259,985	1,259,406	533,434	559,872	1,793,419	1,819,278
Restricted	13,120	24,162	22,729	24,501	35,849	48,663
Unrestricted	52,362	57,668	(4,439)	(36,661)	47,923	21,007
Total net assets	$ 1,325,467	$ 1,341,236	$ 551,724	$ 547,712	$ 1,877,191	$ 1,888,948

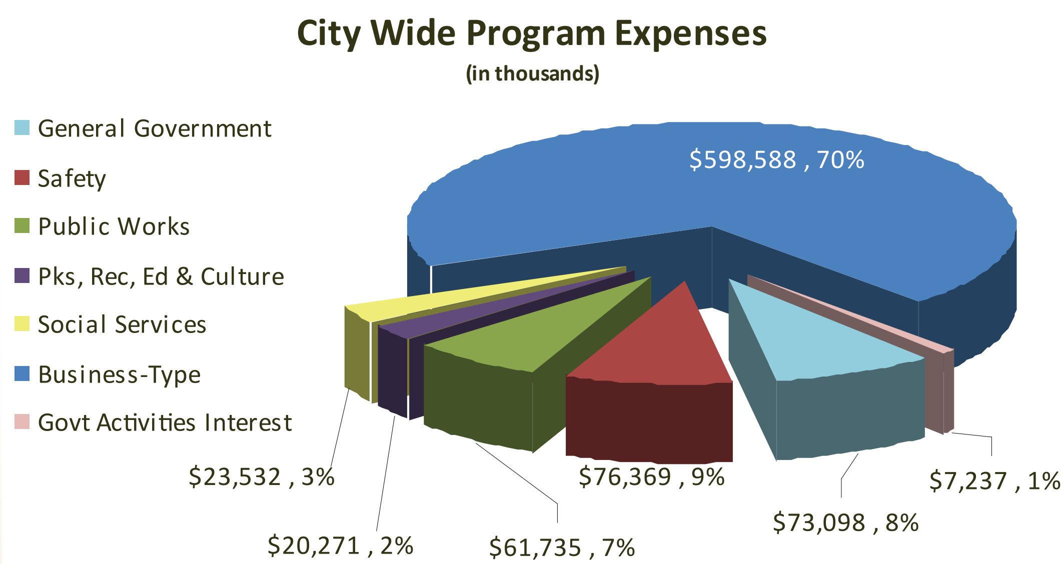
Changes in Net Assets: Assets of the City's governmental activities were $1.3 billion, a $15.8 million decrease

from the prior year. Of that balance $1.27 billion are either restricted as to how they may be used or invested in capital assets (buildings, roads, bridges, etc.). Therefore $52.4 million remains to meet the City's ongoing obligations to citizens and to creditors, a $5.3 million decrease.

During the current year net assets of the business-type activities increased $4.0 million or 0.7 percent to $551.7 million. These net assets are dedicated solely to finance the continuing operations of the electric, sewer, and water quality systems, solid waste disposal and housing management operations.

The following graphs summarize the sources of the City's total revenues of $849.1 million and total program expenses of $860.8 million. These graphs combine governmental and business-type information.





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

City of Chattanooga's Changes in Net Assets

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	$ 19,991	$ 19,532	$ 571,047	$ 601,859	$ 591,038	$ 621,391
Operating grants	43,695	39,565	2,399	192	46,094	39,757
Capital grants	10,605	11,012	29,595	2,462	40,200	13,474
General revenues:						
Property taxes	96,982	94,275	-	-	96,982	94,275
Other taxes	17,388	19,984	-	-	17,388	19,984
Investment income	1,118	1,420	3,632	8,992	4,750	10,412
Miscellaneous	(173)	(458)	17	808	(156)	350
Unrestricted grants	52,777	49,989	-	-	52,777	49,989
Total revenues	242,383	235,319	606,690	614,313	849,073	849,632
Expenses						
Governmental activities:						
General government	73,098	88,029	-	-	73,098	88,029
Public safety	76,369	70,745	-	-	76,369	70,745
Public works	61,735	61,148	-	-	61,735	61,148
Parks, rec, ed & culture	20,271	17,223	-	-	20,271	17,223
Social services	23,532	20,440	-	-	23,532	20,440
Interest on long-term debt	7,237	6,694	-	-	7,237	6,694
Business-type activities:						
Electric utility	-	-	539,720	542,811	539,720	542,811
Sewer	-	-	44,687	40,311	44,687	40,311
Solid waste	-	-	4,753	4,373	4,753	4,373
Water quality	-	-	8,385	5,639	8,385	5,639
Housing management	-	-	1,043	942	1,043	942
Total expenses	262,242	264,279	598,588	594,076	860,830	858,355
Excess (deficiency) before special item and transfers	(19,859)	(28,960)	8,102	20,237	(11,757)	(8,723)
Special item	-	(8,916)	-	-	-	(8,916)
Transfers	4,090	3,062	(4,090)	(3,062)	-	-
Increase (decrease) in net assets	(15,769)	(34,814)	4,012	17,175	(11,757)	(17,639)
Net assets, beginning	1,341,236	1,376,050	547,712	530,537	1,888,948	1,906,587
Net assets, ending	$ 1,325,467	$ 1,341,236	$ 551,724	$ 547,712	$ 1,877,191	$ 1,888,948

Governmental Activities: Current fiscal year revenues for the City's governmental activities were $242.4 million compared to $235.3 million last year, up 3.0 percent. Expenses for the same period were $262.2 million compared to $264.3 million last year, a 0.8 percent decrease.

General revenue experienced a mixture of increases and decreases for the year; each is discussed below.

- The single largest source of governmental activity revenue, property taxes, increased by $2.7 million, or 2.9 percent, resulting from higher property tax assessments reflecting relatively strong property values throughout the City.

- Liquor and beer taxes were down $332,000 or 4.5 percent while other taxes increased $372,000 or 3.0 percent primarily from hotel-motel tax, mixed drink tax and gross receipts tax. Hotel-Motel tax increased $165,000 or 4.2 percent with a modest recovery in tourism and business travel while mixed drink taxes were up $125,000 or 7.1 percent. Effective half way into this fiscal year, the state began collecting business taxes on behalf of the local governments and remits a fee back to them. Combined state and local gross receipts were up $109,000 or 2.8 percent.

- The City's portion of state income taxes decreased $1.0 million or 28.9 percent resulting from weak dividend and money market returns.

- State allocated sales tax decreased $350,000 or 3.4 percent while local sales tax decreased $807,000 or 2.2 percent.

- The City receives incremental increases of sales tax within the Tourist Development Zone (TDZ) as compared to collections outside the TDZ. There was no rebate for fiscal year 2009 due to the closing of a car dealership in the TDZ. The rate of increase in the zone exceeded other collections during fiscal year 2010 resulting in $2.4 million of TDZ incremental tax.

- Investment income decreased $302,000 or 21.3 percent reflecting historically low interest rates and fewer dollars available to invest.

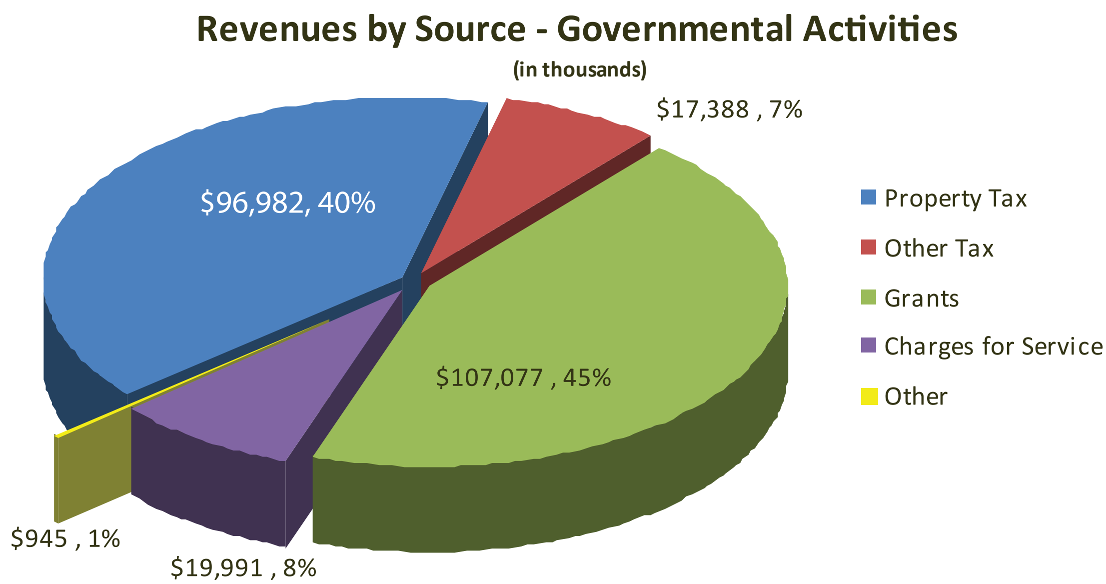
Each area of program revenues is discussed below.

- Charges for services increased 2.3 percent or $458,000 primarily due to mobile communication charges and civic facility events. The mobile communications office, which is overseeing the development of a regional system that will be operational in 2011, began collecting user fees in fiscal year 2010. This resulted in a $205,000 or 274.9 percent increase in revenue for the system. Another area where charges for services increased are the City's performance venues, the Memorial Auditorium and the Tivoli Theatre. In 2010 revenue from events increased $189,000 or 57.9 percent.

- Operating grants and contributions increased $4.1 million or 10.4 percent. There was a $4.9 million decrease as the grant for the Public Safety Interoperable Communications (PSIC) grant began to close out. During the same period grants available for Human Services increased $3.3 million, appropriations from Hamilton County for jointly funded operations increased $2.2 million, law enforcement grants increased $923,000 and contributions (both federal and private) for the South Chickamauga greenway increased $900,000.

- Capital grants and contributions decreased $407,000 or 3.7 percent based on changes in grants and a decrease in interest on bond proceeds.

The graph below shows the source of governmental activities revenue.



While revenues increased in fiscal year 2010, expenses for governmental activities decreased slightly. Each area of expense is addressed below.

- General Government expenses decreased $14.9 million or 17.0 percent. The largest changes were better allocation of depreciation expense resulting in a $9.2 million decrease and a change in method of accounting for OPEB by allocating cost to all areas, a $8.3 million decrease. Other changes include a $4.9 million decrease in expenditures for the mobile communications system as it nears completion. Decreases were offset by $2.4 million increase in appropriations for the TDZ incremental tax received and an additional $1.8 million in liability insurance premium.

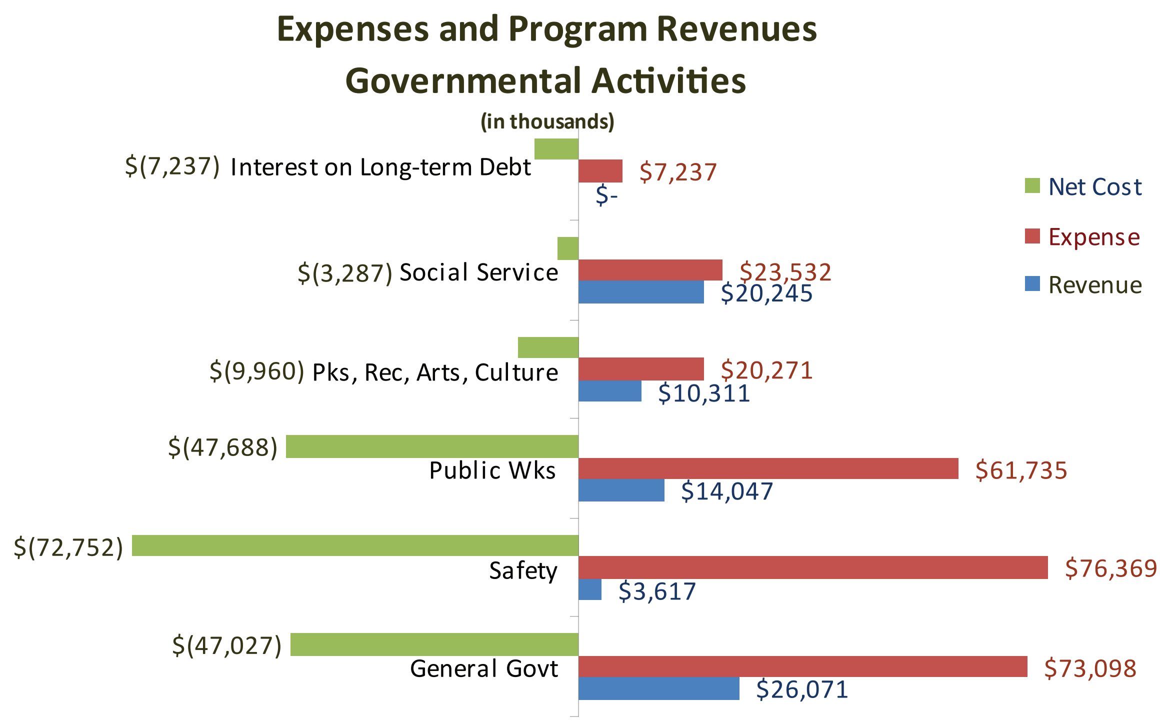
- Public Safety experienced a $5.6 million or 7.9 percent increase in expense. Depreciation expense increased $2.2 million and OPEB expense increased $3.3 million as discussed above.

- Public Works expenses increased 1.0 percent or $0.6 million. Depreciation expense increased $6.5 million and OPEB increased $1.7 million. Beginning in fiscal year 2010 a portion of public works activity was moved to Water Quality, a business-type activity, which reduced expenses by $3.2 million. This was the first year to record pollution remediation liability in accordance with governmental accounting standards statement 49; $1.4 million was recorded as a public works expense as this liability was initially recorded.

- Parks, Recreation, Education, Arts & Culture had a $3.0 million increase or 17.7 percent. The major increases were depreciation expense and OPEB, $2.3 million and $0.6 million respectively.

- Social Services expenses increased $3.1 million or 15.1 percent with the increase driven by increased grant funding. OPEB of $0.6 million was charged for fiscal year 2010.

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



Business-type Activities: Revenues for the City's business-type activities were $606.7 million for the year just completed; this is a $7.6 million or 1.2 percent decrease. The decrease in revenue was partially offset by a $4.2 million, 0.7 percent, increase in expenses, to $598.6 million.

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

Expenses and Revenues - Business-type Activities

(in thousands)

	Electric	Sewer	Solid Waste	Water Quality	Housing	Total
Expenses	$ 539,720	$ 44,687	$ 4,753	$ 8,385	$ 1,043	$ 598,588
Revenues	537,172	48,552	6,601	13,548	817	606,690
Transfers	(4,367)	-	-	277	-	(4,090)
Change in net assets	$ (6,915)	$ 3,865	$ 1,848	$ 5,440	$ (226)	$ 4,012

Electric Power Board

- The largest source of business-type activity revenue is generated from EPB, the City's electric utility, which in addition to electric power has a fiber optic division. Operating revenue from customers decreased by $40.0 million, 7.4 percent, due mainly to the impact of TVA's fuel cost adjustments. This decrease in revenue was partially offset by a $30.6 million, 5.8 percent, decrease in operating costs including a $74.0 million decrease in purchased power costs.

- Total net assets of EPB decreased $6.9 million to $264.1 million for fiscal year 2010, a decrease of 2.6 percent.

- Net assets invested in capital and restricted for use total $288.8 million leaving a deficit of $24.7 million available to finance day-to-day operations (unrestricted net assets) because of heavy investment in infrastructure. Unrestricted net assets increased $22.9 million in fiscal year 2010 as the fiber options division became operational.

Interceptor Sewer System

- Net assets of the Interceptor Sewer System increased $3.9 million, 1.5 percent, to $254.3 million.

- Operating revenues rose $4.3 million or 9.8 percent as a result of new customers and a rate increase, while operating expenses rose $4.8 million or 13.2 percent. Rates were adjusted from 5.12 to 5.28 during the year. The primary change in expenses was a $3.2 million increase in depreciation expense as construction in progress was completed.

- Unrestricted net assets, those that can be used to finance on-going operations, increased $2.9 million or 9.9 percent to $32.1 million. An additional $11.9 million is restricted for future capital spending.

Solid Waste

- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and post-closure care requirements for such landfills. As a result of an aggressive program to meet these requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2010 net assets increased $2.1 million following a continual improvement trend.

- To date the City has accrued liabilities of $4.0 million for a closed landfill and $5.9 million for a landfill currently in operation, virtually unchanged from last year.

- The major customer of the landfill is the City itself. During the current fiscal year tipping fees from the City of Chattanooga were $5.7 million, 93.8 percent of total tipping fees.

Water Quality Management

- The Water Quality Fund, established to comply with EPA guidelines, now has $37.7 million in net assets, an increase of $5.4 million, 16.9 percent, from last year.

- During fiscal year 2010 the water quality fee structure was revised for the first time since the program began. Fees collected increased from $5.9 million in fiscal year 2009 to $13.5 million for fiscal year 2010. Additional revenues will be used to fund system capital needs.

- $29.2 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City. This is a $1.3 million, 4.7 percent increase.

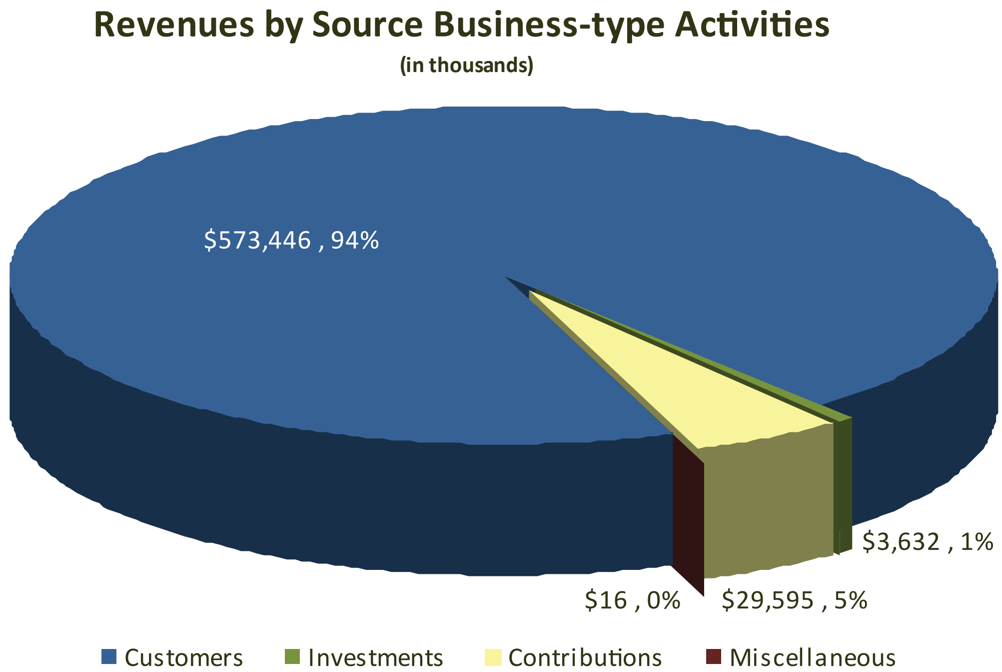
- Net assets available to fund day-to-day operations increased from $3.9 million to $8.2 million.

Housing Management

- The Housing Management Fund reported $816,000 in rental income, an increase of 1.2 percent from last year. During the same period operating expenses increased slightly to $911,000, a 0.6 percent increase.

- The fund ended the year with net assets of $2.4 million, a decrease of $226,000, or 8.5 percent primarily as a result of building depreciation. Almost all of the net assets are invested in capital leaving $122,000 in net assets available to meet on-going operations.

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



Financial Analysis of the City's Funds

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

Governmental Funds: Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of $95.5 million at the end of the fiscal year. 28.9 percent, of this amount, or $27.6 million, is available for day-to-day operations (unassigned fund balance). All of the governmental funds reported a positive ending fund balance. Information about each major governmental fund is presented below.

General Fund: This is the chief operating fund of the City of Chattanooga. Total fund balance of the City's General Fund decreased by 5.1 percent or $2.1 million to $39.8 million during the fiscal year. Unassigned fund balance was $28.4 million, a decrease of $3.1 million. Key factors are as follows:

- $9.5 million of fund balance was appropriated for capital projects, $5.2 million of which was appropriated to IDB to partially fund the City's commitment under a Memorandum of Understanding between the State, City of Chattanooga, Hamilton County and Volkswagen of America.

- Total revenues decreased $4.6 million, 2.3 percent, from the prior year with a mix of increases and decreases as discussed below.

    - The net decrease is comprised of $4.9 million decrease in Public Safety Interoperable Communications (PSIC) grant revenue, $3.3 million decrease from change in accounting for three agencies, $2.9 million increase in property tax, $2.4 million increase in TDZ incremental sales tax and $1.1 million decrease in allocation of state income tax. Each of these will be covered individually in the revenue classification discussion which follows.

- The method of accounting for three agencies changed from General Fund to special revenue funds beginning fiscal year 2010. Regional Planning Agency, Air Pollution Control Bureau and Scenic Cities Beautiful Commission are jointly funded agencies with Hamilton County and as such have restricted use. In fiscal year 2009 these agencies had $3.3 million in revenues.

- During the current fiscal year property tax increased $2.9 million, 3.1 percent over last year. This was during a reappraisal year with the tax rate adjusted to be revenue neutral highlighting stable property values.

- Licenses and permits were $393,000 higher, 8.9 percent. The largest variances are $876,000 reclassified from charges for services and miscellaneous revenue and $536,000 now in special revenue. Building related permits increased approximately $76,000, 4.0 percent, from the prior year.

- Intergovernmental revenues decreased $6.1 million or 8.8 percent over the prior year. The driving force behind this was a $4.9 million decrease of revenue received from a PSIC grant which is almost complete and $2.7 million of prior year agency revenue now accounted for as special revenue. State shared revenues, including income and sales tax, were down $1.1 million, or 28.9 percent, and $350,000, or 3.4 percent, respectively. County-wide sales taxes were down but not as drastically at $594,000 or 2.3 percent; additional .25 cent county-wide sales taxes were down $212,000 or 2.0 percent. The City received $2.4 million in TDZ incremental sales tax, up from $0 in the prior year to partially offset these decreases. This included $1.8 million in state and $0.6 million in local.

- Charges for services increased 10.8 percent or $542,000. This increase is primarily a net reclassification of $437,000 between charges for service, licenses and miscellaneous revenue to better reflect government-wide reporting as well as $60,000 now reported in special revenue. Attendance at Soldiers and Sailors Memorial Auditorium and the Tivoli Theatre was up $189,000 or 57.9 percent and regional communications revenue was up $205,000 or 274.9 percent as customers were added to the new system. The Tennessee Valley Regional Communications System will be accounted for as a special revenue fund in fiscal year 2011 when it is fully operational. The largest area of decrease was court costs, down $168,000 or 9.9 percent with more emphasis placed on automated safety.

- Fines, Forfeitures and Penalties were up $422,000 or 14.9 percent. Increased emphasis on safety through automated enforcement efforts increased $488,000 or 36.3 percent while actual court fines decreased $155,000 or 11.6 percent.

- Interest income decreased $1.0 million, 60.5 percent, due to the stressed interest rate environment.

- Miscellaneous revenue decreased $1.4 million or 30.3 percent. This is primarily due to $1.3 million of revenues such as recreation and park rentals, concessions and outside sales moving from miscellaneous revenue to charges for services and permits. This also includes $53,000 of revenue now reported in special revenue funds. During fiscal year 2010 there is a $204,000, or 7.9 percent, increase for indirect cost revenue predominately from Water Quality Management as a result of reorganization.

- Total expenditures decreased $11.9 million, 6.4 percent, from the previous year.

  - The largest change was in General Government as expenditures for the inter-operative communications system decreased $4.9 million as construction neared completion.

  - Expenditures in General Government decreased an additional $4.6 million as three agencies are now reported as special revenue funds instead of in General Fund due to a change in method of accounting.

- $3.2 million of expenditures were moved from General Fund to the Water Quality fund in a reorganization decreasing Public Works expenditures.

- The City received $2.4 million in TDZ incremental sales tax revenue during fiscal year 2010. The entire amount was appropriated for payment of the lease-rental revenue bonds of the CDRC. Since no TDZ funds were available to appropriate in fiscal year 2009 this is an increase in General Government.

- Fleet lease expenditures were down $1.5 million or 48.3 percent as a result of a one year suspension of the capital recovery component of the lease rate. The decrease is shared among all areas based on use.

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 $36.8 million in fund balance; of that amount $2.5 million is nonspendable for long-term note receivables (shown both as notes and due from component units on the face of the statement) leaving $34.3 restricted for completion of capital projects. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; new debt increases fund balance while construction decreases it. For fiscal year 2010 there was a $3.9 million increase in fund balance. Analysis of project income and expenditures follows.

- Project inflows for the year of $62.5 million includes $13.8 million in general obligation debt proceeds and premiums, $34.8 million in refunding bonds and premiums, and $6.2 million in intergovernmental revenue, contributions, interest, note proceeds and sale of property. Transfers include $7.3 million of General Fund appropriation (including $2.6 million of economic development money) and $452,000 transferred from special revenue funds.

- Current year expenditures and transfers of $58.7 million include $9.8 million for street and sidewalk improvements, $2.0 million for fire station construction, $1.4 million for bridge improvements, $0.8 million for improvements at Warner Park and $0.8 million for improvements at The Passage. Additional expenditures include $2.0 million for technology including software, homeland security equipment, police laptops and a new data center building; $1.0 million for equipment including fire and city-wide services; $0.6 million to complete the Summit of Softball complex and $0.5 million for South Chickamauga Greenway improvements.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, had combined net assets of $569.0 million.

- $541.5 million is invested in capital assets with an additional $22.7 million restricted for future use, leaving $4.8 million available to meet on-going obligations.

- Total net assets of the enterprise funds rose $4.0 million, 0.7 percent. As previously stated, EPB is heavily investing in infrastructure resulting in a reallocation of net assets from unrestricted to invested in capital leaving the combined enterprise funds with a $4.4 million deficit in unrestricted net assets. This is a $32.2 million improvement over last year. Factors concerning the finances of the enterprise funds have already been addressed in the discussion of the City's business-type activities.

- The internal service fund serves City government by providing fuel, vehicle maintenance, fleet leasing and by accounting for the City's self-insurance program. Fund balance for this fund increased $173,000, 1.0 percent, primarily because medical insurance premiums paid to the fund were in excess of claims paid during the year by $1.1 million. Because the internal service fund primarily serves the governmental funds, its information is included in governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights: The City's budget ordinance provides for the basic functions of City government, encompassing all major departments and appropriations to agencies of the City. It authorizes the City Finance Officer to make reallocations within General Fund between original and final budgets. During 2010 the budget was amended to increase capital funding by $4.5 million in additional to the reallocation.

- When comparing final budgeted revenues to actual, there was a $6.8 million surplus for the year.

    - Total tax collections for fiscal year 2010 exceeded budget expectations by $1.0 million or 0.9 percent. Property tax was $1.6 million, 1.7 percent, above budget while beer taxes were $0.4 million or 7.6 percent below budget.
    - Licenses and permits were $0.2 or 5.3 percent over budget primarily due to conservative estimates regarding building permits.
    - The largest variance is in intergovernmental revenue which was $4.6 million or 7.9 percent more than budget. The city allocation of state sales tax was under budget $0.4 million, 3.8 percent, while the city allocation of the county-wide sales tax was under budget $0.5 million, 1.9 percent. The TDZ incremental sales tax is not budgeted while we received $2.4 million. Another area where we received more than budgeted was in federal grants where the full project-to-date budget was reported in the prior fiscal year.
    - Charges for services were $0.2 million over budget, 2.8 percent. Civic facility events produced $0.2 million or 87.0 percent more revenue than estimated. Mobile communications revenue was $0.2 million or 460.2 percent more than budget due to customers becoming partners in the new inter-operable system. These were partially offset by other charges being under budget such as City Court Clerk fees and ball field income $0.2 million each and 13.8 percent and 88.9 percent respectively.
    - Fines and forfeitures were $0.4 million or 14.2 percent above estimates. This primarily as a result of automated safety enforcement.
    - Investment income was slightly over expectations. Miscellaneous revenue, which fluctuates from year to year, was $0.2 million above budget due to increased indirect costs from the reorganization of some functions into Water Quality.

- Expenditures were less than budgetary estimates by $0.4 million with the savings primarily in personnel costs as many vacancies were not filled. All functions were under budget except of safety which is a factor of system changes. Both the police and fire department spent money on grants where the budget was fully reported in the prior fiscal year. The City's new software does not separate expenditures against prior year encumbrances as was the case in fiscal year 2009.

- The General Fund budget anticipated use of $9.3 million of fund balance during the year for capital. For 2010 the actual use of fund balance was only $2.1 million even after a $2.1 million additional contribution to the OPEB trust.

Capital Asset and Debt Administration

Capital Assets: At the end of this year, the City had $2.4 billion invested in capital assets (net of accumulated depreciation), an increase of $47.2 million or 2.0 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The following table shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Non-depreciable:						
Land & Easements	$ 1,034,885	$ 1,027,519	$ 17,055	$ 16,842	$ 1,051,940	$ 1,044,361
Work in progress	14,237	25,332	64,428	56,960	78,665	82,292
Depreciable:						
Buildings & Improvements	130,923	126,658	81,769	89,298	212,692	215,956
Vehicles & Machinery	37,207	27,299	94,962	46,179	132,169	73,478
Infrastructure	329,934	343,155	554,944	553,932	884,878	897,087
Total	$ 1,547,186	$ 1,549,963	$ 813,158	$ 763,211	$ 2,360,344	$ 2,313,174

Highlights for this year's major capital asset changes are as follows.

- Land includes the addition of $4.6 million in donated roadbeds and $2.7 million for an additional 1,024 acres at Enterprise South Industrial Park (ESIP) for continued economic expansion.
- The major change to work-in-progress was $10.5 million for PSIC communication system associated with the PSIC grant being transferred to buildings and equipment, $2.2 million and $8.3 million respectively, as the system became operational.
- In addition to the $2.2 million transferred from work-in-progress, the City acquired an old middle school for $3.5 million to convert to a recreation center.
- The increase in equipment includes $3.7 million of new vehicles as part of the fleet leasing program in addition to the equipment transferred from work-in-progress.
- Infrastructure decreased as there was more depreciation expense than capitalized infrastructure. Major additions include $5.9 million in roads at ESIP, $3.7 million in streets and sidewalk improvements city-wide and $2.2 million in improvements for the Zoo at Warner Park.
- The Electric Power Board investment in plant assets increased $58.1 million for the year. This includes $48.7 million in the electric system and $9.4 million for fiber optics.
- $5.8 million was capitalized as new infrastructure for the Interceptor Sewer System.

The capital budget for fiscal year 2011 recommends spending $54.8 million for various capital projects including: $6.8 million for various public works projects such as paving, street improvements and sidewalks; $6.0 million toward the fleet leasing program; $3.5 million for railway lines at ESIP; $2.5 million for a regional traffic system; $2.0 million for expansion and upgrade of the City's parks and park facilities; $1.7 million for safety technology; $1.3 million to replace a fire station; and $15.1 million and $11.5 million for various interceptor sewer and water quality system upgrades, respectively. $16.2 million in bonds are anticipated to finance a portion of these projects.

More detailed information about the City's capital assets is presented in the Note 9 to the financial statements.

Debt Administration: At year-end the City had $724.5 million in long-term debt outstanding. This is a $12.2 million decrease, 1.7 percent, from last year. Detail is shown in the table and narrative that follow.

City of Chattanooga's Long-term Debt

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds (backed by the City)	$ 176,064	$ 169,653	$ 72,481	$ 83,302	$ 248,545	$ 252,955
Revenue bonds (backed by specific revenues)	-	-	285,390	288,060	285,390	288,060
Notes payable and other	31,266	30,655	52,675	55,106	83,941	85,761
Capital leases	106,532	109,822	123	148	106,655	109,970
Total	$ 313,862	$ 310,130	$ 410,669	$ 426,616	$ 724,531	$ 736,746

- The City of Chattanooga maintains an "AA+" rating from Standard & Poor's which and a "AA" rating from Fitch Investor's Service for general obligation debt.

- City Charter limits the amount of net general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is $484.6 million. The City's general obligation debt, net of self-supporting debt of $144.7 million is well within that limit.

During the year the City issued the following new debt:

- $13.6 million in general obligation bonds were issued to fund capital projects including matching funds for CARTA, mesh network, fire apparatus, fire service expansion and hydrants, road improvements, railway lines and improvements relating to the IDB Volkswagen project. An additional $34.3 million in refunding bonds were issued to achieve savings in future debt service.

- Other governmental activity includes a $0.7 million draw on a state revolving loan and $2.7 million recorded for a deferred payment on additional acreage at Enterprise South Industrial Park.

- The Interceptor Sewer System drew down $1.7 million on a state revolving loan for sewer system improvements. This is a business-type activity.

More detailed information about the City's long-term liabilities is presented in the Note 10 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 2011:

- The City uses conservative forecasts for budgeting purposes. The primary source of funds remains property taxes which are budgeted at 95 percent of the tax levy.

- Sales tax revenue is budgeted lower than 2010 actual amounts reflecting concerns about the continued weak economy in the near future. The lower estimates apply to both the City allocation of the state sales tax and the county-wide sales tax.

- Interest revenues are expected to decline.

- The challenge is to continue to focus on providing police officers, firefighters, and support staff to keep our city safe; to focus on youth by restoring hours at recreation centers and restoring needed staffing; to increase funding for maintenance of streets; to staff an in-house legal department; to fully fund the vehicle lease program; to protect the environment; to continue to attract and maintain a competent, professional staff in the face of another year without increases in pay; to maintain a high quality medical benefits program for employees and retirees; and to fully fund pension and OPEB benefits. These challenges and the continued focus on providing quality services to the citizens of our community come during a period of rising costs and reduced revenues. The 2011 budget is a testament to the strength and courage of the Mayor and Council to take the steps necessary to insure the continued sustainability of the City. For the first time in nine years, the city's budget includes a property tax increases necessitated by these challenges.

Anticipated revenues in the General Fund budget are $202.7 million, up 4.48 percent from the 2010 budget. The property tax increase of $0.37 or 19 percent is projected to increase property tax revenue by 21.4 percent or $20.5 million. The City allocation of state sales tax and county-wide sales tax collections are projected to decline by 2.1 percent and 1.8 percent, respectively. Interest earnings are estimated to decrease slightly due to historically low interest rates.

Budgeted expenditures are expected to increase by 4.48 percent from $194.0 million to $202.7 million. Salaries and fringe benefits are expected to increase by 18.0 percent. Fifty-nine of ninety-one positions that were frozen over the past several years have been restored and an additional twenty-nine new positions, primarily in public safety, have been added to continue to provide the quality services that our citizens have come to expect.

A modest increase in net assets for the City's business-type activities is expected during FY 2011.

Contacting the City's Financial Management

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

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

CITY OF CHATTANOOGA, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

DEPARTMENT OF FINANCE AND ADMINISTRATION
DAISY W. MADISON, ADMINISTRATOR

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STATISTICAL SECTION

SINGLE AUDIT SECTION

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 47,324,238	$ 165,834,694	$ 213,158,932	$ 14,108,988
Investments	30,973,950	71,453,861	102,427,811	756,075
Receivables, net of allowance for uncollectibles	136,264,188	72,870,233	209,134,421	4,106,109
Net investment in capital lease	-	-	-	106,308,082
Internal balances	4,365,255	(4,365,255)	-	-
Due from component units	746,847	-	746,847	-
Deferred charges	2,146,614	6,963,287	9,109,901	1,838,253
Inventories	2,001,326	11,158,166	13,159,492	269,846
Prepaid items	57,270	2,296,000	2,353,270	693,266
Other assets	-	2,449,000	2,449,000	-
Restricted assets:				
Cash and cash equivalents	16,332,364	4,597,863	20,930,227	1,310,032
Investments	10,616,951	6,948,414	17,565,365	9,807,958
Endowment investments	3,118,689	-	3,118,689	-
Receivables	-	9,590	9,590	177,782
Net pension assets	8,777,670	-	8,777,670	-
Equity interest in joint venture	7,702,877	-	7,702,877	-
Land and other nondepreciable assets	1,049,121,680	81,482,748	1,130,604,428	24,587,977
Other capital assets, net of accumulated depreciation	498,064,360	731,674,881	1,229,739,241	77,978,068
Total assets	1,817,614,279	1,153,373,482	2,970,987,761	241,942,436
LIABILITIES				
Accounts payable and accrued liabilities	32,942,766	125,661,783	158,604,549	6,136,715
Customer deposits	-	20,202,173	20,202,173	-
Due to primary government	-	-	-	746,847
Contracts payable	308,905	108,035	416,940	1,006,329
Unearned revenue	98,929,310	-	98,929,310	19,767
Accrued landfill and pollution remediation costs	1,430,000	9,903,161	11,333,161	-
Net pension obligations	-	-	-	133,085
Accrued postemployment benefits	27,201,450	9,272,000	36,473,450	-
Other liabilities	-	15,109,492	15,109,492	-
Long-term liabilities:				
Due within one year	21,622,430	16,603,140	38,225,570	3,513,912
Due in more than one year	309,712,806	404,790,030	714,502,836	121,025,305
Total liabilities	492,147,667	601,649,814	1,093,797,481	132,581,960
NET ASSETS				
Invested in capital assets, net of related debt	1,259,985,302	533,433,835	1,793,419,137	95,554,297
Restricted for:				
Capital projects	9,902,468	-	9,902,468	-
Debt service	-	-	-	10,581,432
Renewal and replacement	-	22,728,886	22,728,886	535,375
Permanent endowments:				
Expendable	81,459	-	81,459	-
Nonexpendable	3,134,995	-	3,134,995	-
Unrestricted	52,362,388	(4,439,053)	47,923,335	2,689,372
Total net assets	$ 1,325,466,612	$ 551,723,668	$ 1,877,190,280	$ 109,360,476

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

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 73,098,750	$ 11,523,433	$ 12,214,270	$ 2,333,279
Public safety	76,368,786	977,577	2,278,872	360,751
Public works	61,734,669	2,443,705	7,899,723	3,703,931
Parks, recreation, education, arts & culture	20,271,088	4,212,077	1,899,279	4,199,420
Social services	23,531,828	834,020	19,403,013	7,834
Interest on long-term debt	7,237,128	-	-	-
Total governmental activities	262,242,249	19,990,812	43,695,157	10,605,215
Business-type activities:				
Electric utility, including communications	539,720,000	504,599,000	-	29,575,000
Sewer	44,686,829	45,761,756	2,281,942	20,440
Solid waste/sanitation	4,753,430	6,389,727	48,771	-
Water quality management	8,385,351	13,480,137	67,723	-
Housing management	1,042,569	816,476	-	-
Total business-type activities	598,588,179	571,047,096	2,398,436	29,595,440
TOTAL PRIMARY GOVERNMENT	$ 860,830,428	$ 591,037,908	$ 46,093,593	$ 40,200,655
Component units:				
Airport authority	$ 9,643,565	$ 7,247,464	$ -	$ 7,504,082
Transportation authority	21,519,666	6,363,088	6,346,453	6,371,120
Downtown redevelopment	17,016,296	17,924,607	-	-
TOTAL COMPONENT UNITS	$ 48,179,527	$ 31,535,159	$ 6,346,453	$ 13,875,202

General revenues:
- Property taxes
- Other taxes
  - Liquor and beer taxes
  - Hotel-Motel tax
  - Local gross receipts tax
  - Franchise taxes
  - Other taxes
- Grants and contributions not allocated to specific programs:
  - County-wide sales taxes
  - City allocation of state sales taxes
  - City allocation of state income taxes
  - City allocation of TDZ tax
  - City allocation of other shared taxes
- Unrestricted investment earnings
- Miscellaneous
- Loss on equity interest in joint venture

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (47,027,768)	$ -	$ (47,027,768)	$ -
(72,751,586)	-	(72,751,586)	-
(47,687,310)	-	(47,687,310)	-
(9,960,312)	-	(9,960,312)	-
(3,286,961)	-	(3,286,961)	-
(7,237,128)	-	(7,237,128)	-
(187,951,065)	-	(187,951,065)	-
-	(5,546,000)	(5,546,000)	-
-	3,377,309	3,377,309	-
-	1,685,068	1,685,068	-
-	5,162,509	5,162,509	-
-	(226,093)	(226,093)	-
-	4,452,793	4,452,793	-
(187,951,065)	4,452,793	(183,498,272)	-
-	-	-	5,107,981
-	-	-	(2,439,005)
-	-	-	908,311
-	-	-	3,577,287
96,982,279	-	96,982,279	-
7,062,700	-	7,062,700	-
4,058,621	-	4,058,621	-
3,790,913	-	3,790,913	-
2,248,279	-	2,248,279	-
227,546	-	227,546	-
35,298,268	-	35,298,268	-
9,904,220	-	9,904,220	-
2,578,926	-	2,578,926	-
2,359,549	-	2,359,549	-
2,636,069	-	2,636,069	-
1,118,163	3,632,413	4,750,576	843,655
22,679	16,427	39,106	1,373,693
(196,534)	-	(196,534)	-
4,089,754	(4,089,754)	-	-
172,181,432	(440,914)	171,740,518	2,217,348
(15,769,633)	4,011,879	(11,757,754)	5,794,635
1,341,236,245	547,711,789	1,888,948,034	103,565,841
$ 1,325,466,612	$ 551,723,668	$ 1,877,190,280	$ 109,360,476

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 7,965,443	$ 23,843,405	$ 13,453,870	$ 45,262,718
Investments	30,547,723	10,616,952	3,544,915	44,709,590
Receivables, net of allowance for uncollectibles:				
Property taxes	97,176,182	-	-	97,176,182
Accounts	-	46,230	876,543	922,773
Notes	1,093,651	2,093,088	-	3,186,739
Other	7,652,707	150	-	7,652,857
Due from other funds	-	482,713	453,499	936,212
Due from component units	327,726	419,121	-	746,847
Due from other governments	18,325,543	3,055,835	5,434,709	26,816,087
Inventories	630,210	-	-	630,210
Prepaid items	56,800	-	470	57,270
Total assets	$ 163,775,985	$ 40,557,494	$ 23,764,006	$ 228,097,485
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 13,087,004	$ 3,007,440	$ 2,777,853	$ 18,872,297
Due to other funds	-	453,499	484,458	937,957
Due to other governments	1,345,427	-	-	1,345,427
Deferred revenue	109,514,061	-	1,623,855	111,137,916
Contracts payable	-	308,905	-	308,905
Total liabilities	123,946,492	3,769,844	4,886,166	132,602,502
Fund balances:				
Nonspendable	1,780,661	2,512,209	3,135,465	7,428,335
Restricted	7,455,576	34,275,441	9,756,014	51,487,031
Committed	1,184,148	-	6,559,175	7,743,323
Assigned	993,642	-	205,049	1,198,691
Unassigned	28,415,466	-	(777,863)	27,637,603
Total fund balances	39,829,493	36,787,650	18,877,840	95,494,983
Total liabilities and fund balances	$ 163,775,985	$ 40,557,494	$ 23,764,006	$ 228,097,485

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, 2010

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

Fund balances - total governmental funds		$ 95,494,983
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.		1,539,158,361
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		12,208,606
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		4,367,000
The City's Pension Plans have been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.		8,777,670
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial asset and, therefore, is not reported in the funds.		7,702,877
Internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		17,272,623
The Other Postemployment Benefits Plan has not been funded to meet annual requirement contributions, creating an accrued postemployment benefits liability. This liability and the Pollution Remediation Obligations are not due and payable in the current period and, therefore, are not reported in the funds.		(28,631,450)
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	$(176,064,209)	
Add net deferred refunding and original premiums and discounts	(275,646)	
Less deferred charges	2,146,614	
Notes payable	(31,266,117)	
Capital leases	(106,531,819)	
Compensated absences	(16,837,037)	
Accrued interest payable	(2,055,844)	
		(330,884,058)
Net assets of governmental activities		$ 1,325,466,612

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, 2010

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 110,526,290	$ -	$ 4,058,621	$ 114,584,911
Licenses and permits	4,827,976	-	540,256	5,368,232
Intergovernmental	63,418,868	3,802,069	30,096,555	97,317,492
Charges for services	5,558,025	-	624,954	6,182,979
Fines, forfeitures, and penalties	3,256,983	-	-	3,256,983
Investment income	659,658	208,397	482,051	1,350,106
Contributions and donations	181,798	458,324	114,104	754,226
Miscellaneous	3,192,712	1,036,053	1,724,596	5,953,361
Total revenues	191,622,310	5,504,843	37,641,137	234,768,290
EXPENDITURES				
Current:				
General government	58,517,422	-	10,400,252	68,917,674
Public safety	70,925,786	-	384,640	71,310,426
Public works	27,660,933	-	3,940,663	31,601,596
Parks, recreation, education, arts & culture	16,979,064	-	-	16,979,064
Social services	-	-	22,890,301	22,890,301
Capital outlay/capital assets	-	23,446,614	-	23,446,614
Debt service:				
Principal retirement	-	-	12,532,082	12,532,082
Interest and fiscal charges	-	831,218	7,147,952	7,979,170
Total expenditures	174,083,205	24,277,832	57,295,890	255,656,927
Excess (deficiency) of revenues over (under) expenditures	17,539,105	(18,772,989)	(19,654,753)	(20,888,637)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,020,000	7,797,653	19,770,198	31,587,851
Transfers out	(23,681,689)	(251,910)	(3,634,252)	(27,567,851)
Issuance of bonds and notes	-	14,219,203	-	14,219,203
Issuance of refunding bonds	-	34,265,000	-	34,265,000
Premium on bonds issued	-	730,719	-	730,719
Payment to refunded bonds escrow agent	-	(34,123,256)	-	(34,123,256)
Total other financing sources (uses)	(19,661,689)	22,637,409	16,135,946	19,111,666
Net change in fund balance	(2,122,584)	3,864,420	(3,518,807)	(1,776,971)
FUND BALANCE, beginning	41,952,077	32,923,230	22,396,647	97,271,954
FUND BALANCE, ending	$ 39,829,493	$ 36,787,650	$ 18,877,840	$ 95,494,983

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, 2010

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	$ (1,776,971)
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.	27,630,371
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(41,224,694)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of streets contributed by developers and other contributed assets.	9,064,620
The net effect of various transactions involving capital assets is to decrease net assets.	(1,588,864)
The loss on equity interest in joint venture is reported in the statement of activities. This loss does not provide current financial resources and is not reflected in the governmental funds.	(196,534)
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.	811,992
The net revenues of internal service funds are reported with governmental activities.	172,601
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.	(8,944,584)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources.	282,430
Change in net assets of governmental activities	$(15,769,633)

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, 2010

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Over (Under)
REVENUES				
Taxes	$ 109,542,826	$ 109,542,826	$ 110,526,290	$ 983,464
Licenses and permits	4,586,207	4,586,207	4,827,976	241,769
Intergovernmental	58,779,954	58,779,954	63,418,868	4,638,914
Charges for services	5,404,831	5,404,831	5,558,025	153,194
Fines, forfeitures, and penalties	2,851,100	2,851,100	3,256,983	405,883
Investment income	503,053	503,053	659,658	156,605
Contributions and donations	188,956	188,956	181,798	(7,158)
Miscellaneous	2,877,511	2,951,581	3,192,712	241,131
Total revenues	184,734,438	184,808,508	191,622,310	6,813,802
EXPENDITURES				
General government	30,642,105	35,390,073	35,685,638	295,565
Executive	1,472,610	1,472,610	1,460,926	(11,684)
Finance and administration	3,761,650	3,761,650	3,669,862	(91,788)
General services	9,535,744	9,535,744	8,887,134	(648,610)
Personnel	7,001,824	7,001,824	6,896,205	(105,619)
Neighborhood services	1,883,386	1,883,386	1,917,657	34,271
Police	42,604,688	42,604,688	42,654,034	49,346
Fire	28,035,690	28,035,690	28,271,752	236,062
Public works	27,674,640	27,748,710	27,660,933	(87,777)
Parks, recreation, education, arts & culture	17,052,490	17,052,490	16,979,064	(73,426)
Total expenditures	169,664,827	174,486,865	174,083,205	(403,660)
Excess of revenues over expenditures	15,069,611	10,321,643	17,539,105	7,217,462
OTHER FINANCING SOURCES (USES)				
Transfers in	3,909,893	3,909,893	4,020,000	110,107
Transfers out	(22,479,187)	(23,554,536)	(23,681,689)	(127,153)
Total other financing sources (uses)	(18,569,294)	(19,644,643)	(19,661,689)	(17,046)
Net change in fund balance	(3,499,683)	(9,323,000)	(2,122,584)	7,200,416
FUND BALANCE at beginning of year	41,952,077	41,952,077	41,952,077	-
FUND BALANCE at end of year	$ 38,452,394	$ 32,629,077	$ 39,829,493	$ 7,200,416

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS
June 30, 2010

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 142,939,000	$ 7,932,757	$ 2,869,711	$ 11,955,543	$ 137,683	$ 165,834,694	$ 18,393,884
Investments	37,042,000	34,411,861	-	-	-	71,453,861	-
Receivables:							
Customer service	58,720,000	4,662,061	73,031	1,510,120	-	64,965,212	446,298
Other	41,000	25,634	27,621	5,200	6,894	106,349	-
Less allowance for doubtful accounts	(1,046,000)	(500)	(8,075)	(769,725)	-	(1,824,300)	-
Inventories	10,727,000	431,166	-	-	-	11,158,166	1,371,116
Prepaid items	2,296,000	-	-	-	-	2,296,000	-
Due from other funds	-	-	1,745	-	-	1,745	-
Due from other governments	7,877,000	1,697,201	48,771	-	-	9,622,972	63,252
Other current assets	1,074,000	-	-	-	-	1,074,000	-
Total current assets	259,670,000	49,160,180	3,012,804	12,701,138	144,577	324,688,699	20,274,550
NONCURRENT ASSETS							
Restricted assets:							
Cash and cash equivalents	-	-	4,564,081	-	33,782	4,597,863	-
Investments	-	-	6,948,414	-	-	6,948,414	-
Accounts receivable	-	-	9,590	-	-	9,590	-
Total restricted assets	-	-	11,522,085	-	33,782	11,555,867	-
Capital assets:							
Land	5,634,000	8,010,708	1,517,514	1,865,986	27,000	17,055,208	-
Buildings and improvements	53,641,000	53,423,514	1,850,258	10,601,459	6,804,461	126,320,692	627,799
Vehicles and machinery	91,156,000	32,963,283	5,537,124	3,053,947	9,420	132,719,774	13,557,968
Construction in progress	54,776,000	9,548,143	-	103,397	-	64,427,540	-
Electric system	404,513,000	-	-	-	-	404,513,000	-
Solid waste system	-	-	9,520,509	-	-	9,520,509	-
Sewer system	-	405,814,448	-	-	-	405,814,448	-
Water quality system	-	-	-	36,565,502	-	36,565,502	-
Fiber optics system	65,991,000	-	-	-	-	65,991,000	-
	675,711,000	509,760,096	18,425,405	52,190,291	6,840,881	1,262,927,673	14,185,767
Less accumulated depreciation	(218,097,000)	(209,989,076)	(7,100,698)	(12,523,255)	(2,060,015)	(449,770,044)	(6,158,088)
Net capital assets	457,614,000	299,771,020	11,324,707	39,667,036	4,780,866	813,157,629	8,027,679
Other assets:							
Deferred charges	5,891,000	697,167	263,268	111,852	-	6,963,287	-
TVA discounted energy units	1,375,000	-	-	-	-	1,375,000	-
Total other assets	7,266,000	697,167	263,268	111,852	-	8,338,287	-
Total noncurrent assets	464,880,000	300,468,187	23,110,060	39,778,888	4,814,648	833,051,783	8,027,679
Total assets	$ 724,550,000	$ 349,628,367	$ 26,122,864	$ 52,480,026	$ 4,959,225	$ 1,157,740,482	$ 28,302,229

(continued on next page)

(continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	$ 2,710,000	$ 8,999,549	$ 2,812,424	$ 2,060,767	$ 20,400	$ 16,603,140	$ 141,386
Accounts payable and accrued liabilities	122,670,000	3,165,355	459,674	3,711,376	22,378	130,028,783	1,211,874
Accrued claims	-	-	-	-	-	-	9,457,322
Customer deposits	2,132,000	-	-	-	34,173	2,166,173	-
Contracts payable	-	108,035	-	-	-	108,035	-
Conservation advances	43,000	-	-	-	-	43,000	-
Due to other governments	-	1,055,492	-	-	-	1,055,492	-
Other current liabilities	11,540,000	-	-	-	-	11,540,000	-
Total current liabilities	139,095,000	13,328,431	3,272,098	5,772,143	76,951	161,544,623	10,810,582
LONG-TERM LIABILITIES							
Notes, capital leases and other obligations	-	46,055,341	724,282	316,707	2,457,308	49,553,638	-
Compensated absences	690,000	454,384	35,805	251,201	-	1,431,390	219,024
Customer deposits	18,036,000	-	-	-	-	18,036,000	-
Accrued closure and post closure care	-	-	9,903,161	-	-	9,903,161	-
Revenue bonds payable	282,680,000	-	-	-	-	282,680,000	-
Original issue premium	8,282,000	-	-	-	-	8,282,000	-
Deferred refunding	(45,000)	-	-	-	-	(45,000)	-
General obligation bonds payable	-	35,469,891	18,653,205	8,318,194	-	62,441,290	-
Deferred refunding	-	(1,629,564)	(587,289)	(360,078)	-	(2,576,931)	-
Original issue premium	-	1,628,457	893,640	501,546	-	3,023,643	-
Other noncurrent liabilities	2,471,000	-	-	-	-	2,471,000	-
Accrued postemployment benefits	9,272,000	-	-	-	-	9,272,000	-
Total long-term liabilities	321,386,000	81,978,509	29,622,804	9,027,570	2,457,308	444,472,191	219,024
Total liabilities	460,481,000	95,306,940	32,894,902	14,799,713	2,534,259	606,016,814	11,029,606
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	288,783,000	210,287,717	2,881,942	29,178,019	2,303,157	533,433,835	8,027,679
Restricted for renewal and replacement	-	11,894,185	10,498,104	336,597	-	22,728,886	-
Unrestricted	(24,714,000)	32,139,525	(20,152,084)	8,165,697	121,809	(4,439,053)	9,244,944
Total net assets (deficit)	$ 264,069,000	$ 254,321,427	$ (6,772,038)	$ 37,680,313	$ 2,424,966	$ 551,723,668	$ 17,272,623

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

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds						Governmental
	Major Funds				Other Fund		Activities -
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	Internal Service Fund
OPERATING REVENUES							
Charges for sales and services:							
Electric sales	$ 473,767,000	$ -	$ -	$ -	$ -	$ 473,767,000	$ -
Fiber optics revenues	20,910,000	-	-	-	-	20,910,000	-
Sewer charges	-	45,761,756	-	-	-	45,761,756	-
Waste charges	-	-	6,389,727	-	-	6,389,727	-
Water quality management fees	-	-	-	13,480,137	-	13,480,137	-
Rent	-	-	-	-	786,990	786,990	-
Other services	9,922,000	-	-	-	29,486	9,951,486	44,600,801
Other	-	2,281,942	48,771	67,723	-	2,398,436	-
Total operating revenues	504,599,000	48,043,698	6,438,498	13,547,860	816,476	573,445,532	44,600,801
OPERATING EXPENSES							
Power purchases	390,597,000	-	-	-	-	390,597,000	-
Other electric operations	37,468,000	-	-	-	-	37,468,000	-
Fiber optics operations	16,094,000	-	-	-	-	16,094,000	-
Sewer plant operations	-	25,597,398	-	-	-	25,597,398	-
Solid waste operations	-	-	2,795,870	-	-	2,795,870	-
Water quality management operations	-	-	-	6,816,033	-	6,816,033	-
Pump station operations	-	2,522,197	-	-	-	2,522,197	-
Housing management operations	-	-	-	-	665,891	665,891	-
Municipal garage operations	-	-	-	-	-	-	4,128,945
Maintenance and repairs	18,025,000	-	-	-	-	18,025,000	6,372,661
Depreciation and amortization	28,488,000	12,984,723	586,337	1,037,455	245,400	43,341,915	1,903,975
Closure/postclosure costs	-	-	327,723	-	-	327,723	-
Liability insurance	-	-	-	-	-	-	3,517,311
On-site medical services	-	-	-	-	-	-	28,417,345
Other	9,096,000	-	-	-	-	9,096,000	-
Total operating expenses	499,768,000	41,104,318	3,709,930	7,853,488	911,291	553,347,027	44,340,237
OPERATING INCOME (LOSS)	4,831,000	6,939,380	2,728,568	5,694,372	(94,815)	20,098,505	260,564
NONOPERATING REVENUES (EXPENSES)							
Investment income	2,998,000	487,758	146,655	-	-	3,632,413	-
Interest expense	(10,927,000)	(3,582,511)	(1,043,500)	(531,863)	(131,278)	(16,216,152)	-
Other income (expense)	(29,522,000)	-	16,427	-	-	(29,505,573)	-
Total nonoperating revenues (expenses)	(37,451,000)	(3,094,753)	(880,418)	(531,863)	(131,278)	(42,089,312)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(32,620,000)	3,844,627	1,848,150	5,162,509	(226,093)	(21,990,807)	260,564
Capital contributions	29,575,000	20,440	-	339,283	-	29,934,723	-
Transfers in	-	-	-	87,963	-	87,963	-
Transfers out	(3,870,000)	-	-	(150,000)	-	(4,020,000)	(87,963)
CHANGE IN NET ASSETS	(6,915,000)	3,865,067	1,848,150	5,439,755	(226,093)	4,011,879	172,601
NET ASSETS (DEFICIT), beginning	270,984,000	250,456,360	(8,620,188)	32,240,558	2,651,059	547,711,789	17,100,022
NET ASSETS (DEFICIT), ending	$ 264,069,000	$ 254,321,427	$ (6,772,038)	$ 37,680,313	$ 2,424,966	$ 551,723,668	$ 17,272,623

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, 2010

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 494,897,000	$ 50,979,781	$ 6,356,362	$ 16,202,690	$ 826,476	$ 569,262,309	$ 6,881,474
Receipts from interfund services provided	-	-	-	-	-	-	37,555,068
Receipts from operating grants	-	-	81,171	-	-	81,171	
Payments to suppliers	(417,917,000)	(23,221,646)	(2,383,418)	(4,323,417)	(696,075)	(448,541,556)	(36,404,231)
Payments to employees	(24,399,000)	(6,970,571)	(704,407)	(1,882,852)	-	(33,956,830)	(2,810,491)
Payments in lieu of taxes	(7,761,000)	-	-	-	-	(7,761,000)	-
Net cash provided by operating activities	44,820,000	20,787,564	3,349,708	9,996,421	130,401	79,084,094	5,221,820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	-	-	-	-	-	-
Transfers out	(3,870,000)	-	-	(150,000)	-	(4,020,000)	-
Net cash used in noncapital financing activities	(3,870,000)	-	-	(150,000)	-	(4,020,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(3,256,000)	(9,984,125)	(2,653,046)	(1,730,510)	(20,400)	(17,644,081)	-
Interest paid on capital debt	(13,629,000)	(3,648,735)	(1,090,780)	(568,952)	(131,278)	(19,068,745)	-
Line of credit	2,433,000	-	-	-	-	2,433,000	-
Proceeds from capital debt	-	1,697,202	-	-	-	1,697,202	-
Capital grants and contributions	29,575,000	20,440	-	-	-	29,595,440	-
Additions to capital assets	(117,065,000)	(6,102,561)	(310,243)	(191,540)	-	(123,669,344)	(2,155,894)
Proceeds from the sale of capital assets	-	-	-	1,225	-	1,225	-
Net cash flows used in capital and related financing activities	(101,942,000)	(18,017,779)	(4,054,069)	(2,489,777)	(151,678)	(126,655,303)	(2,155,894)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	(49,200,000)	(142,455,669)	(8,079,872)	-	-	(199,735,541)	-
Proceeds from sales and maturities of investments	121,533,000	142,469,213	11,767,859	-	-	275,770,072	-
Interest	3,430,000	565,276	154,841	-	-	4,150,117	-
Net cash flows provided by investing activities	75,763,000	578,820	3,842,828	-	-	80,184,648	-
Net increase (decrease) in cash and cash equivalents	14,771,000	3,348,605	3,138,467	7,356,644	(21,277)	28,593,439	3,065,926
Cash and cash equivalents, beginning of year	128,168,000	4,584,152	4,295,325	4,598,899	192,742	141,839,118	15,327,958
Cash and cash equivalents, end of year	$ 142,939,000	$ 7,932,757	$ 7,433,792	$ 11,955,543	$ 171,465	$ 170,432,557	$ 18,393,884
CLASSIFIED AS:							
Current assets	$ 142,939,000	$ 7,932,757	$ 2,869,711	$ 11,955,543	$ 137,683	$ 165,834,694	$ 18,393,884
Restricted assets	-	-	4,564,081	-	33,782	4,597,863	-

(continued on next page)

(continued from previous page)

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	$ 4,831,000	$ 6,939,380	$ 2,728,568	$ 5,694,372	$ (94,815)	$ 20,098,505	$ 260,564
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	28,488,000	12,984,723	586,337	1,037,455	245,400	43,341,915	1,903,975
Miscellaneous nonoperating expenses, net	2,815,000	-	-	-	-	2,815,000	-
Provision for uncollectible accounts	-	94,759	6,445	472,999	-	574,203	-
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(5,085,000)	1,785,832	(39,809)	(806,093)	10,000	(4,135,070)	(150,250)
(Increase) decrease in due from other funds	-	1,055,492	(1,745)	-	-	1,053,747	-
(Increase) decrease in due from other governments	(7,877,000)	-	32,400	-	-	(7,844,600)	(14,009)
(Increase) decrease in inventory	(462,000)	128,983	-	-	-	(333,017)	(53,314)
(Increase) decrease in prepaid items	2,556,000	-	-	-	-	2,556,000	-
(Increase) decrease in deferred charges	(3,308,000)	91,338	25,359	-	-	(3,191,303)	-
Increase (decrease) in accounts payable	17,892,000	(2,109,846)	(129,196)	188,012	(30,184)	15,810,786	250,947
Increase (decrease) in accrued claims	-	-	-	-	-	-	3,078,938
Increase (decrease) in other assets/liabilities	5,041,000	20,150	142,499	3,182,057	-	8,385,706	-
Increase (decrease) in compensated absences	(71,000)	(203,247)	(1,150)	227,619	-	(47,778)	(55,031)
TOTAL ADJUSTMENTS	39,989,000	13,848,184	621,140	4,302,049	225,216	58,985,589	4,961,256
Net cash provided by operating activities	$ 44,820,000	$ 20,787,564	$ 3,349,708	$ 9,996,421	$ 130,401	$ 79,084,094	$ 5,221,820
SIGNIFICANT NONCASH ACTIVITIES							
Transfer of assets (to) from other funds	$ -	$ -	$ -	$ 87,963	$ -	$ 87,963	$ (87,963)
Contribution of capital assets from governmental activities	-	-	-	339,283	-	339,283	-

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

CITY OF CHATTANOOGA, TENNESSEE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2010

	Other Postemployment Benefits Trust Fund	Pension Trust Funds	Agency Fund
ASSETS			
Cash	$ -	$ -	$ 363,422
Investments:			
U.S. Government securities	-	8,940,978	-
Corporate bonds	-	14,230,121	-
Foreign bonds	-	774,098	-
Corporate stocks	932,364	125,673,316	-
Mutual funds - equity	1,512,239	76,711,756	-
Mutual funds - fixed income	1,528,328	90,176,337	-
Mutual funds - international equity	396,733	-	-
Temporary investments	959,719	9,385,021	-
Limited partnerships	-	47,597,247	-
Other investments	-	975,000	-
Receivables:			
Accrued income	667	519,967	-
Due from plan custodian	2,415,241	998,590	-
Total assets	7,745,291	375,982,431	363,422
LIABILITIES			
Due to others	-	-	363,422
Due to plan custodian	-	669,950	-
Accounts payable and accrued expenses	-	493,080	-
Total liabilities	-	1,163,030	363,422
NET ASSETS			
Held in trust for pension and other postemployment benefits	$ 7,745,291	$ 374,819,401	$ -

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, 2010

	Other Postemployment Benefits Trust Fund	Pension Trust Funds
ADDITIONS		
Contributions:		
Employer	$ 2,611,325	$ 11,810,955
Employee	-	4,209,541
Total contributions	2,611,325	16,020,496
Investment income:		
Net appreciation (depreciation) in fair market value of investments	(21,323)	33,576,514
Interest	14,075	3,743,529
Dividends	-	3,090,130
	(7,248)	40,410,173
Less investment expense	(9,273)	(885,329)
Net investment income (loss)	(16,521)	39,524,844
Total additions	2,594,804	55,545,340
DEDUCTIONS		
Benefits paid to participants	-	33,013,568
Administrative expenses	-	757,459
Total deductions	-	33,771,027
CHANGE IN NET ASSETS	2,594,804	21,774,313
Net assets, beginning	5,150,487	353,045,088
Net assets, ending	$ 7,745,291	$ 374,819,401

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, 2010

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	$ 9,083,965	$ 873,979	$ 4,151,044	$ 14,108,988
Investments	-	-	756,075	756,075
Accounts receivable	2,096,142	1,507,042	502,925	4,106,109
Net investment in capital lease	-	-	106,308,082	106,308,082
Deferred charges	26,356	-	1,811,897	1,838,253
Inventories	-	168,575	101,271	269,846
Prepaid items	97,833	497,895	97,538	693,266
Restricted assets:				
Cash and cash equivalents	933,032	377,000	-	1,310,032
Investments	-	-	9,807,958	9,807,958
Receivables	177,782	-	-	177,782
Land and other nondepreciable assets	21,329,930	3,258,047	-	24,587,977
Other capital assets, net of accumulated depreciation	51,320,015	24,452,527	2,205,526	77,978,068
Total assets	85,065,055	31,135,065	125,742,316	241,942,436
LIABILITIES				
Accounts payable and accrued liabilities	920,435	2,109,629	3,106,651	6,136,715
Deferred revenue	19,767	-	-	19,767
Contracts payable	1,006,329	-	-	1,006,329
Due to primary government	-	746,847	-	746,847
Net pension obligations	-	133,085	-	133,085
Revenue bonds payable	6,264,901	-	118,740,000	125,004,901
Swaption derivative	-	-	81,648	81,648
Original issue premium (discount)	-	-	1,777,954	1,777,954
Deferred refunding	-	-	(2,325,286)	(2,325,286)
Total liabilities	8,211,432	2,989,561	121,380,967	132,581,960
NET ASSETS				
Invested in capital assets (net of related debt)	66,385,044	26,963,727	2,205,526	95,554,297
Restricted for:				
Debt service	1,110,814	-	9,470,618	10,581,432
Renewal and replacement	-	-	535,375	535,375
Unrestricted	9,357,765	1,181,777	(7,850,170)	2,689,372
Total net assets	$ 76,853,623	$ 28,145,504	$ 4,361,349	$ 109,360,476

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

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets: Chattanooga Metropolitan Airport Authority	Net Revenue (Expense) and Changes in Net Assets: CARTA	Net Revenue (Expense) and Changes in Net Assets: Chattanooga Downtown Redevelopment Corporation	Net Revenue (Expense) and Changes in Net Assets: Total
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY								
Airport operations	$ 9,643,565	$ 7,247,464	$ -	$ 7,504,082	$ 5,107,981	$ -	$ -	$ 5,107,981
CARTA								
CARTA operations	21,519,666	6,363,088	6,346,453	6,371,120	-	(2,439,005)	-	(2,439,005)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION								
CDRC operations	17,016,296	17,924,607	-	-	-	-	908,311	908,311
Total component units	$ 48,179,527	$ 31,535,159	$ 6,346,453	$ 13,875,202	5,107,981	(2,439,005)	908,311	3,577,287
General revenues:								
Investment income					26,323	357	816,975	843,655
Miscellaneous					1,205,859	167,834	-	1,373,693
Total general revenues					1,232,182	168,191	816,975	2,217,348
CHANGE IN NET ASSETS					6,340,163	(2,270,814)	1,725,286	5,794,635
Net assets, beginning					70,513,460	30,416,318	2,636,063	103,565,841
Net assets, ending					$ 76,853,623	$ 28,145,504	$ 4,361,349	$ 109,360,476

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

Index to Notes

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(A) Reporting Entity

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

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2010. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

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

Discretely Presented Component Units

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

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

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

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

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

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

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

(B) Joint Ventures and Related Organizations

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

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

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

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Interfund services provided and used are not eliminated in the government-wide statement of activities. In addition, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and fiber optics 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.

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

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

Additionally, the City reports the following fund types:

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

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

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

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

Other Postemployment Benefits Trust Fund - The Other Postemployment Benefits Trust Fund accounts for resources held in trust for a defined benefit postemployment health and medical care plan for City retirees and their dependents. This fund is accounted for in the same manner as business enterprises providing similar services.

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.

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

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

(E) Budget Policy and Budgetary Data

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

The City Finance Officer annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and 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 Fund, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles. 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. Encumbrances are reported as assignment of fund balances. 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, 2010, several supplemental appropriations were necessary for capital purposes.

(F) Assets, Liabilities and Fund Equity

(1) Cash and Cash Equivalents

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

(2) Investments

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

(3) Inventories and Prepaid Items

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

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

(4) Restricted Assets

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

(5) Capital Assets

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

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

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

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

(6) Bond Discounts and Issuance Costs

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

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

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

(7) Deferred Gain/Loss from Advance Refunding of Debt

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

(8) Fund Balance

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

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

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

Committed Fund Balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

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

Unassigned Fund Balance – represents the residual classification for the general fund or deficit balances in other funds.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Fund balances:				
Nonspendable				
Library endowments	$ -	$ -	$ 3,134,995	$ 3,134,995
Inventory	630,210	-	-	630,210
Long-term notes receivable	1,093,651	2,512,209	-	3,605,860
Prepaids	56,800	-	470	57,270
Restricted				
Law enforcement	82,554	-	1,381,968	1,464,522
Economic development	3,862,236	-	11,780	3,874,016
African-American Museum	28,560	-	-	28,560
Special programs	3,482,226	-	-	3,482,226
Capital projects	-	34,275,441	-	34,275,441
Bicentennial Library	-	-	767,698	767,698
Human services program	-	-	3,165,660	3,165,660
State street aid	-	-	1,226,673	1,226,673
Community development	-	-	1,152,797	1,152,797
Hotel-Motel tax revenue pledge	-	-	925,191	925,191
Regional Planning Agency	-	-	584,647	584,647
Air Pollution Control Bureau	-	-	415,673	415,673
Scenic Cities Beautiful Commission	-	-	123,927	123,927
Committed				
Law enforcement	559,248	-	-	559,248
Economic development	111,692	-	-	111,692
Bicentennial Library	475,436	-	686,239	1,161,675
African-American Museum	28,560	-	-	28,560
Regional Planning Agency	-	-	463,441	463,441
Air Pollution Control Bureau	-	-	415,673	415,673
Scenic Cities Beautiful Commission	-	-	123,927	123,927
Nonprofit requests	9,212	-	-	9,212
Debt service	-	-	4,869,895	4,869,895
Assigned				
Municipal golf courses	30,678	-	-	30,678
Special programs	131,974	-	-	131,974
River Pier garage	-	-	205,049	205,049
Other purposes	830,990	-	-	830,990
Unassigned	28,415,466	-	(777,863)	27,637,603
Total fund balances	$39,829,493	$36,787,650	$18,877,840	$95,494,983

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Summary for Governmental Funds Balance Sheet (page 4):				
Nonspendable	$ 1,780,661	$ 2,512,209	$ 3,135,465	$ 7,428,335
Restricted	7,455,576	34,275,441	9,756,014	51,487,031
Committed	1,184,148	-	6,559,175	7,743,323
Assigned	993,642	-	205,049	1,198,691
Unassigned	28,415,466	-	(777,863)	27,637,603
Total fund balances	$39,829,493	$36,787,650	$18,877,840	$95,494,983

(G) Revenues, Expenditures and Expenses

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

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

(1) Property Taxes

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

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

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2009 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 2009, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2010.

(2) Grant Revenue

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

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

(3) Investment Income

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

(4) Compensated Absences

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

(7) Indirect Costs

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

(8) Estimates

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

(H) Net Assets

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

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

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

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

(I) Library Endowments

The library endowment consists of nine separate endowments established by various individuals and estates. The endowment corpus is nonspendable and the earnings are used to support the Chattanooga-Hamilton County Bicentennial Library. Realized and unrealized gains are added to the corpus, in accordance with state law. The endowments are tracked by benefactor in order to track compliance with restrictions set forth by the benefactor at the time of the gift or settlement of the benefactor's estate.

The Library Endowment Board Investment Committee has established investment objectives as follows:

- To maximize the return on assets while maintaining an appropriate level of risk for each account.
- To provide long term financial support for each account in accordance with its specific purpose.

The investment committee has a fiduciary responsibility to manage the assets with the assistance of an investment consultant. The committee establishes the general investment guidelines to include the types of acceptable and unacceptable investments, diversification, and asset allocation. The committee is also responsible for monitoring the performance of each investment.

(J) Pollution Remediation Obligations

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

(K) Subsequent Events

Management performed an evaluation of subsequent events through December __, 2010, the date these financial statements were issued.

NOTE 2. RESTATEMENTS OF PRIOR YEAR BALANCES

At June 30, 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". As a result of this clarification of governmental fund type definitions, the Regional Planning Agency, Air Pollution Control, and Scenic Cities Beautiful Funds have been reclassified as Special Revenue Funds.

The impact of the reclassifications of fund balances as previously reported is as follows:

	General Fund	Special Revenue Funds
Fund balance at June 30, 2009, as previously reported	$43,746,999	$ 8,762,909
Fund reclassifications	(1,794,922)	1,794,922
Fund balance at June 30, 2009, as restated	$41,952,077	$10,557,831

During fiscal year 2010, the City implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". As a result, an adjustment was recorded to beginning net assets of Chattanooga Downtown Redevelopment Corporation (CDRC), a component unit of the City, to reflect the value of the swaption derivative at June 30, 2009.

The impact of the restatement on net assets as previously reported is as follows:

	CDRC
Net assets at June 30, 2009, as previously reported	$3,071,271
Adjustment to net assets	(435,208)
Net assets at June 30, 2009, as restated	$2,636,063

NOTE 3. VOLKSWAGEN GROUP OF AMERICA, INC.

At June 30, 2010, Volkswagen Group of America, Inc. (VW) is in the process of building a $1 billion automotive production facility in Chattanooga, Tennessee. The VW facility is expected to contribute to the economic expansion of the City and the surrounding region for years to come. The VW facility is under construction at the date these financial statements are issued.

The City and Hamilton County, Tennessee are working jointly to support the development of the VW facility. The Industrial Development Board of the City of Chattanooga (IDB) and The Health, Educational, and Housing Facility Board of the City of Chattanooga (HEB) were awarded grants and appropriations in excess of $200 million by various Tennessee state agencies and departments for the development of the VW facility. The City acts as custodial agent for IDB and HEB grant funds to ensure that proper purchasing policies and procedures are followed. The City's role in the VW facility is reflected in the accompanying financial statements in several areas, the most significant of which are as follows:

- Capital projects expenditures of $1,000,000
- General Fund appropriations to IDB of $5,164,968
- Maintaining an Agency Fund for funds held on behalf of IDB and HEB

NOTE 4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Compliance with Finance Related Legal and Contractual Provisions

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

2) Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2010, 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 $6,722,038 at June 30, 2010. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by $1,898,150 from the prior fiscal year.

NOTE 5. CASH AND INVESTMENTS

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

At June 30, 2010, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	2.00	$25,000,000
Certificates of deposit classified as investments	0.50	16,590,901
Total	1.40	$41,590,901
Primary Government – Business-Type Activities:		
U.S. Government agency securities	2.00	$25,800,000
Certificates of deposit classified as investments	0.36	52,602,275
Total	0.90	$78,402,275
Component Units:		
U.S. Treasury Notes	0.13	$ 6,527,958
U.S. Government agency securities	0.13	3,280,000
Certificates of deposit classified as investments	0.77	756,075
Total	0.18	$10,564,033

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

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

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. The City's investment policy includes specific policies involving credit risk. At June 30, 2010, the primary government's investments in U.S. Government agency securities consisted of Federal Home Loan Bank bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) and Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of $3,280,000 were securities of the Federal National Mortgage Association which was rated AAA by S & P and Moody's.

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

	S & P or Moody's Rating	Fair Value
Permanent Fund		
Mutual funds - equity	Not rated	$ 1,546,038
Mutual funds – fixed income	Not rated	1,284,447
Common equity securities	Not rated	190,825
Temporary investments	Not rated	97,379
		$ 3,118,689
City of Chattanooga General Pension Plan		
Domestic corporate bonds	B	$ 1,669,582
Domestic corporate bonds	BA	358,520
Domestic corporate bonds	C	46,180
Domestic corporate bonds	CAA	1,183,315
Domestic corporate bonds	Withdrawn	14,885
Domestic corporate bonds	Not rated	450,641
Mutual funds - equity	Not rated	33,393,032
Mutual funds – fixed income	Not rated	50,326,020
Domestic equity securities	Not rated	65,104,292
Limited partnerships	Not rated	32,267,627
Temporary investments	Not rated	5,082,071
		$189,896,165
Firemen's and Policemen's Insurance and Pension Fund		
U.S. Government securities	AAA	$ 1,805,974
Domestic corporate bonds	AAA	1,122,843
Domestic corporate bonds	AA	1,862,067
Foreign bonds	AA	156,728
Domestic corporate bonds	A	3,141,103
Foreign bonds	A	108,818
Domestic corporate bonds	BAA	2,735,946
Foreign bonds	BAA	508,552
Domestic corporate bonds	BA	21,658
Domestic corporate bonds	B	135,473
Domestic corporate bonds	CAA	155,110
U.S. Government securities	Not rated	7,135,004
Domestic corporate bonds	Not rated	1,332,798
Mutual funds - fixed income	Not rated	39,850,317
Mutual funds - equity	Not rated	43,318,724
Domestic equity securities	Not rated	60,569,024
Temporary investments	Not rated	4,302,950
Limited partnerships	Not rated	15,329,620
Investment in real estate corporation	Not rated	975,000
		$184,567,709

	S & P or Moody's Rating	Fair Value
Other Postemployment Benefit Trust Fund		
Domestic equity securities	A+	$ 58,835
Domestic equity securities	A	116,739
Domestic equity securities	A-	85,771
Domestic equity securities	B+	211,610
Domestic equity securities	B	287,804
Domestic equity securities	B-	31,545
Domestic equity securities	C	39,350
Domestic equity securities	Not rated	100,710
Mutual funds - equity	Not rated	1,512,239
Mutual funds - fixed income	Not rated	1,528,328
Mutual funds - international equity	Not rated	396,733
Temporary investments	Not rated	959,719
		$ 5,329,383

At June 30, 2010, the fair values of the City's investments in Pension Trust Funds totaling $47,597,247 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

NOTE 6. RECEIVABLES

Receivables at June 30, 2010, consist of the following:

	Governmental Activities Funds				
	General	Capital Projects	Other Governmental	Business-Type Activities	Total
Primary Government					
Receivables:					
Taxes	$101,174,966	$ -	$ -	$ -	$101,174,966
Accounts	-	46,230	876,543	-	922,773
Notes	1,093,651	2,093,088	-	-	3,186,739
Customer service	-	-	-	64,965,212	64,965,212
Other	7,652,707	150	-	115,939	7,768,796
Intergovernmental	18,325,543	3,055,835	5,434,709	9,622,972	36,439,059
Gross receivables	128,246,867	5,195,303	6,311,252	74,704,123	214,457,545
Less:					
Allowance for Uncollectibles	(3,998,784)	-	-	(1,824,300)	(5,823,084)
Net receivables	$124,248,083	$5,195,303	$6,311,252	$72,879,823	$208,634,461

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, 2010.

NOTE 7. INTERFUND BALANCES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2010, as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds (Debt Service)	Capital Projects Fund	$453,499
Capital Projects Fund	Nonmajor Governmental Funds (Hotel/Motel)	482,713
Major Enterprise Fund (Solid Waste)	Nonmajor Governmental Funds (Debt Service)	1,745
		$937,957

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

NOTE 8. INTERFUND TRANSFERS

	Transfers In:				
	General Fund	Capital Projects	Nonmajor Governmental	Water Quality Management	Total
Transfers out:					
General Fund	$ -	$7,345,793	$16,335,896	$ -	$23,681,689
Capital Projects Fund	-	-	251,910	-	251,910
Nonmajor Governmental Funds	-	451,860	3,182,392	-	3,634,252
Water Quality Management	150,000	-	-	-	150,000
Internal Service	-	-	-	87,963	87,963
Electric Power Board	3,870,000	-	-	-	3,870,000
Total	$4,020,000	$7,797,653	$19,770,198	$87,693	$31,675,814

Transfers are used to (1) move revenues from the General Fund, the Capital Projects Fund, the Community Development Fund, and the Hotel/Motel Tax Fund to the Debt Service Fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the Capital Projects Fund and the Debt Service Fund as required, (3) move unrestricted revenues from the General Fund to other funds for various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, (4) record payments in lieu of taxes from the Electric Power Board to the General Fund, and (5) cover costs incurred by the General Fund for water quality initiatives.

NOTE 9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, is as follows:

Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	$1,027,518,541	$ 8,383,452	$ 1,017,183	$1,034,884,810
Construction in Progress	25,331,621	13,958,410	25,053,161	14,236,870
Total non-depreciable assets	1,052,850,162	22,341,862	26,070,344	1,049,121,680

	Beginning Balance	Additions	Deductions	Ending Balance
Depreciable Assets:				
Buildings and improvements	$ 203,219,931	$10,987,390	$ -	$ 214,207,321
Vehicles and machinery	115,249,121	19,181,182	1,169,489	133,260,814
Infrastructure	664,217,593	14,286,103	232,398	678,271,298
Total depreciable assets	982,686,645	44,454,675	1,401,887	1,025,739,433
Less Accumulated Depreciation for:				
Buildings and improvements	76,562,059	6,721,883	-	83,283,942
Vehicles and machinery	87,949,792	9,131,261	1,026,998	96,054,055
Infrastructure	321,061,551	27,275,525	-	348,337,076
Total accumulated depreciation	485,573,402	43,128,669	1,026,998	527,675,073
Depreciable Assets, net	497,113,243	1,326,006	374,889	498,064,360
Governmental activities capital assets, net	$1,549,963,405	$23,667,868	$26,445,233	$1,547,186,040
Business-Type Activities:				
Non-Depreciable Assets:				
Land	$ 16,841,855	$ 213,353	$ -	$ 17,055,208
Construction in Progress	56,960,279	19,363,602	11,896,341	64,427,540
Total non-depreciable assets	73,802,134	19,576,955	11,896,341	81,482,748
Depreciable Assets:				
Buildings and improvements	126,181,330	669,362	530,000	126,320,692
Vehicles and machinery	78,307,373	72,284,850	17,872,449	132,719,774
Sewer system	405,320,271	494,177	-	405,814,448
Solid waste system	9,250,985	269,524	-	9,520,509
Water quality management system	36,486,160	79,342	-	36,565,502
Electric system	413,952,000	14,641,000	24,080,000	404,513,000
Communications system	53,956,000	15,953,000	3,918,000	65,991,000
Total depreciable assets	1,123,454,119	104,391,255	46,400,449	1,181,444,925
Less Accumulated Depreciation for:				
Buildings and improvements	36,882,909	8,198,226	529,000	44,552,135
Vehicles and machinery	32,128,708	7,820,502	2,191,450	37,757,760
Sewer system	163,730,119	5,437,062	-	169,167,181
Solid waste system	462,549	312,858	-	775,407
Water quality management system	6,152,294	751,267	-	6,903,561
Electric system	179,178,000	15,072,000	20,982,000	173,268,000
Communications system	15,511,000	5,750,000	3,915,000	17,346,000
Total accumulated depreciation	434,045,579	43,341,915	27,617,450	449,770,044
Depreciable Assets, net	689,408,540	61,049,340	18,782,999	731,674,881
Business-type activities capital assets, net	$ 763,210,674	$ 80,626,295	$30,679,340	$ 813,157,629

Discretely Presented Component Units	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land	$ 6,066,608	$ -	$ -	$ 6,066,608
Construction in Progress	11,629,579	6,891,790	-	18,521,369
Total non-depreciable assets	17,696,187	6,891,790	-	24,587,977
Depreciable Assets:				
Buildings	111,212,610	2,589,354	2,164,495	111,637,469
Vehicles and machinery	59,683,263	2,775,409	-	62,458,672
Total depreciable assets	170,895,873	5,364,763	2,164,495	174,096,141
Less Accumulated Depreciation for:				
Buildings	45,697,897	3,466,994	928,913	48,235,978
Vehicles and machinery	41,971,539	5,910,556	-	47,882,095
Total accumulated depreciation	87,669,436	9,377,550	928,913	96,118,073
Depreciable Assets, net	83,226,437	(4,012,787)	1,235,582	77,978,068
Component units capital assets, net	$ 100,922,624	$ 2,879,003	$ 1,235,582	$ 102,566,045

The City changed capital assets records systems during the year. As a result, reclassifications have been made to the beginning balances among asset classes.

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	$10,589,659
Public safety	2,506,818
Public works	26,996,649
Parks, recreation, education, arts & culture	2,941,882
Social services	93,661
Total	$43,128,669
Primary Government – Business-Type Activities:	
Sewer	$12,984,723
Solid Waste/Sanitation	586,337
Water Quality Management	1,037,455
Housing Management	245,400
Electric Utility	28,488,000
Total	$43,341,915
Discretely Presented Component Units:	
Transportation Authority	$ 5,902,570
Airport Authority	3,063,353
Downtown Redevelopment	411,627
Total	$ 9,377,550

NOTE 10. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2010, were as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	$169,652,698	$47,830,000	$41,418,489	$176,064,209	$10,095,499
Notes payable	30,654,836	3,404,203	2,792,922	31,266,117	2,895,126
Capital leases payable	109,822,026	-	3,290,207	106,531,819	2,853,204
Compensated absences	16,995,352	8,919,301	8,717,212	17,197,441	5,778,601
Total governmental activities	$327,124,912	$60,153,504	$56,218,830	331,059,586	$21,622,430
Net deferred refunding and original issue premiums and discounts				275,650	
				$331,335,236	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	$288,060,000	$ -	$ 2,670,000	$285,390,000	$ 2,710,000
Notes payable	586,000	-	586,000	-	-
Compensated absences	761,000	-	71,000	690,000	-
	289,407,000	-	3,327,000	286,080,000	2,710,000
Interceptor Sewer System:					
General obligation serial bonds	47,820,059	-	6,673,376	41,146,683	5,676,792
Notes payable	50,500,718	1,697,202	3,285,731	48,912,189	2,952,968
Capital leases payable	147,723	-	25,018	122,705	26,585
Compensated absences	1,000,835	399,186	602,433	797,588	343,204
	99,469,335	2,096,388	10,586,558	90,979,165	8,999,549
Solid Waste/Sanitation Fund:					
General obligation serial bonds	23,962,414	-	2,590,802	21,371,612	2,718,407
Notes payable	850,696	-	62,244	788,452	64,170
Compensated absences	66,802	53,578	54,728	65,652	29,847
	24,879,912	53,578	2,707,774	22,225,716	2,812,424
Water Quality Management Fund:					
General obligation serial bonds	11,519,828	-	1,557,332	9,962,496	1,644,302
Notes payable	670,083	-	173,178	496,905	180,198
Compensated absences	259,848	686,110	458,490	487,468	236,267
	12,449,759	686,110	2,189,000	10,946,869	2,060,767
Housing Management Fund:					
Other obligation	2,498,108	-	20,400	2,477,708	20,400
Total business-type activities	$428,704,114	$ 2,836,076	$18,830,732	412,709,458	$16,603,140
Net deferred refunding and original issue premiums and discounts				8,683,712	
				$421,393,170	

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bonds	$ 6,557,169	$ -	$ 292,268	$ 6,264,901	$ 308,912
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	121,790,000	-	3,050,000	118,740,000	3,205,000
Total component units	$128,347,169	$ -	$ 3,342,268	125,004,901	$ 3,513,912
Net deferred refunding, original issue premiums and discounts and swaption derivative				(465,684)	
				$124,539,217	

Total additions to Long-Term Liabilities for Governmental Activities above are different than issuance of debt in Governmental Funds. The difference is due to a $2,750,000 long-term obligation incurred related to acquisition of land that did not provide current financial resources.

Total reductions in Long-Term Liabilities for Governmental Activities above are different than principal retirement expenditures in Governmental Funds. The difference is due to the principal portion of capital lease payments of $2,629,536 to Chattanooga Downtown Redevelopment Corporation (CDRC), which is budgeted in general government expenditures. Also, the payment to refunded bonds escrow agent includes a net deferred refunding debit of $1,783,256.

In prior years, the City refunded certain general obligation, sewage facility and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2010, the remaining liabilities for the bonds refunded were as follows:

Year Refunded	Primary Government	Component Units
1992	$ 9,250,000	$ -
1996	2,000,000	-
1998	12,375,000	-
2002	25,165,000	-
2003	9,745,000	-
2005	47,205,000	-
2007	17,715,000	55,340,000
2010	32,340,000	-

On January 20, 2010, the City issued $34,265,000 in General Obligation Refunding Bonds with interest rates ranging from 2.00% to 4.00% for the purpose of refunding the following:

	Bonds Refunded	Refunding Bonds Issued
Governmental Activities	$32,340,000	$34,265,000

The effect of refunding the general obligation bonds resulted in a net decrease of total debt service payments over the next 21 years of $2,231,450 and an economic gain (the difference between present values of the old and new debt service payments) of $1,886,632. At June 30, 2010, the liability for the 2010 refunded bonds was $32,340,000.

Debt related to governmental activities at June 30, 2010, consisted of the following:

General Obligation Bonds - The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

Issue	Interest Rates	Principal Amount
Municipal Public Improvement Refunding, Series 1998	5.25% - 5.50%	$ 3,865,500
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	4,880,000
Refunding Bonds, 2002 Series A	3.60% - 5.00%	1,435,767
Hotel-Motel Tax Pledge, Series 2002	3.13% - 5.00%	18,470,000
General Obligation, 2003 Series A	3.50% - 4.20%	2,870,000
Refunding Bonds, 2005 Series A	3.50% - 5.00%	16,002,096
Hotel-Motel Tax Refunding, Series 2005A	3.50% - 5.00%	5,427,970
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	17,622,876
Municipal Public Improvement Refunding, Series 2007A	4.30% - 5.00%	14,520,000
General Obligation, 2009 Series A	3.00% - 4.63%	43,140,000
General Obligation, 2010 Series A	2.00% - 4.00%	6,725,000
Hotel-Motel Tax Refunding, Series 2010 B	2.00% - 4.00%	29,557,540
General Obligation Refunding Bonds, 2010 Series B	2.00% - 4.00%	4,707,460
Recovery Zone Bonds, 2010 Series C	2.00% - 4.00%	6,840,000
Total payable from the Debt Service Fund		$176,064,209

Tennessee Municipal Bond Fund Loan (1997) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2010, is $1,454,023.

Tennessee Municipal Bond Fund Loan (2003) – Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2010, is $3,224,944.

Tennessee Municipal Bond Fund Loan (2004) – Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to $25,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2010, is $18,792,722.

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, 2010, is $18,059.

Hennen Land Note – In December 2007, the City purchased the Narrow Bridge Property from Jenkins Road, LLC (Tim Hennen). Hennen will be paid for the land from the parking revenue generated by Hennen's Restaurant employees and customers. The note carries fixed parking prices for five years beginning January 2008. The balance at June 30, 2010, is $453,498.

Petros Note Payable – In 2007, the City purchased property from John and Voula Petros to build a city park on Jenkins Road. The City executed a note payable to the former owners. The City incurred expenses of $4,054 which were paid at closing. The note provides for annual installments over four years which began in March 2008. The balance at June 30, 2010, is $250,000.

HUD Section 108 Loan – On June 12, 2008, the City received a loan from the U.S. Department of Housing and Urban Development. A significant portion of the money was authorized to be used for repayment of the 2003 Fannie Mae Loan, with the remaining balance to be used for the Brownfields/Community Development Loan Fund and public infrastructure projects. The note will be amortized over 15 years, with a variable interest rate. The balance at June 30, 2010, is $4,271,000.

IDB Foreign Trade Zone Note Payable – In July 2008, the City entered into an agreement with Volkswagen Group of America, Inc. to cover the cost, jointly with Hamilton County, of application, activation, and annual fees required for Volkswagen to make use of the existing Foreign-Trade Zone designation. The balance at June 30, 2010, is $51,871.

U.S. General Services Administration Land Note Payable – the City entered into an agreement with the U.S. General Services Administration for the purchase of land from them, jointly with Hamilton County, for economic development. The balance is due in full in 2015. The balance at June 30, 2010, is $2,750,000.

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over $120 million. Facilities include (1) the Chattanoogan-a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semiannual payments in amounts sufficient to meet the annual debt service requirements on $129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by the City's share of the 1/2% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanoogan, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of $9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City's lease payment for the year ended June 30, 2010, was $6,013,691, of which $2,629,536 was a reduction of principal. The recorded liability under this capital lease at June 30, 2010, is $106,308,081.

The debt service reserve fund held by the fiscal agent at June 30, 2010, is $9,807,958. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Golf Course Capital Lease - In December 2008, the City entered into an equipment lease-purchase agreement to finance golf carts at the Brainerd and Brown Acres Golf Courses totaling $323,028. The lease term is five years and provides for monthly payments which began December 1, 2008. The recorded liability under this capital lease at June 30, 2010, is $223,738.

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, 2010, consisted of the following:

Issue	Interest Rates	Principal Amount
EPB:		
Electric System Revenue Bonds, Series 2000	4.63% - 5.00%	$ 3,200,000
Electric System Revenue Bonds, Series 2006A	4.00% - 5.00%	38,930,000
Electric System Refunding Revenue Bonds, Series 2006B	4.00% - 4.25%	23,430,000
Electric System Revenue Bonds, Series 2008A	3.00% - 5.00%	219,830,000
Interceptor Sewer System Fund:		
Municipal Public Improvement Refunding, Series 1998	5.25% - 5.50%	9,841,600
Municipal Public Improvement Refunding, Series 2002	4.25% - 4.50%	12,625,515
Refunding Bonds, 2002 Series A	3.60% - 5.00%	7,669,233
Refunding Bonds, 2005 Series A	3.75% - 5.00%	11,010,335
1992 State Revolving Loan*	3.98%	496,904
Georgia Environmental Facilities Authority	4.00%	4,035,967
State Revolving Loan 2003	2.98%	31,379,318
State Revolving Loan 2007	2.79%	13,000,000
City of Collegedale Capital Lease	6.36% - 6.68%	122,705
Solid Waste/Sanitation Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	1,303,600
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	3,982,992
Refunding Bonds, 2005 Series A	3.50% - 5.00%	8,787,896
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	4,817,124
Municipal Public Improvement Refunding, Series 2007A	4.30% - 5.00%	2,480,000
2003 Tennessee Municipal Bond Fund Loan	0.38%	327,056
2004 Tennessee Municipal Bond Fund Loan	0.38%	461,396
Water Quality Management Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	894,300
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	2,976,493
Refunding Bonds, 2005 Series A	3.50% - 5.00%	5,341,703
Municipal Public Improvement Refunding, Series 2007A	4.30% - 5.00%	750,000
1992 State Revolving Loan*	3.98%	496,905
Housing Management Fund:		
Other obligation	0.31%	2,477,708
Total payable from business-type activities		$410,668,750

*1992 State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 3.98%. The remaining balance at June 30, 2010, is $993,809.

Georgia Environmental Facilities Authority - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to $7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2010, is $4,035,967.

State Revolving Loan 2003 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2010, is $31,379,318.

State Revolving Loan 2007 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2027 at 2.79% interest. The balance at June 30, 2010, is $13,000,000.

Collegedale Capital Lease – The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2010, is $122,705.

Housing Management obligation – The City entered into a management agreement in which it is obligated to the previous owner for certain property acquired by the City. The obligation will be repaid in monthly payments of $1,700 plus interest. The balance at June 30, 2010, is $2,477,708.

Component Units debt at June 30, 2010, consisted of the following:

Issue	Interest Rates	Principal Amount
Metropolitan Airport Authority:		
Taxable Refunding Revenue Bonds, Series 2009	5.41%	$ 6,264,901
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.88%	62,780,000
Chattanooga Lease Rental Refunding Revenue Bonds, Series 2007	4.00% - 5.00%	55,960,000
Total payable from Component Units		$125,004,901

In March 2004, the Chattanooga Downtown Redevelopment Corporation (CDRC) sold a floating-to-fixed interest rate swaption by competitive bid. This swaption was a hybrid instrument consisting of a borrowing for financial reporting purposes and an interest rate swap.

The swaption contract provided the CDRC an up-front payment of $3,088,000 as a synthetic refunding of a portion of its 2000 bonds. The synthetic refunding was based on the notional amount of $59,655,000. Fair value of the embedded derivative instrument increased $353,560 to ($81,648) during fiscal year 2010 and is reported as revenue bonds payable in the Statement of Net Assets with the increase in fair value reported as investment income in the Statement of Activities of CDRC. Fair value was determined using a replacement rate as of the inception date of 4.70554%.

In July 2010 the counterparty notified CDRC of the intent to exercise the option and paid CDRC an additional premium of $357,930. The swap was terminated effective October 1, 2010, with a swap termination payment by CDRC of $15,619,000. The notional amount was refunded with fixed rate bonds.

Principal and interest requirements to maturity for bonds, notes and other obligations payable, excluding amounts for compensated absences, are as follows:

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2011	$ 12,990,625	$ 7,082,356	$ 15,967,237	$ 18,222,682
2012	11,695,624	6,702,897	14,151,120	17,552,601
2013	11,325,496	6,357,954	14,604,908	16,922,681
2014	11,057,024	6,046,615	16,679,852	16,276,762
2015	14,135,178	5,727,848	17,994,865	15,562,454
2016-2020	53,486,402	23,305,581	89,975,774	65,965,567
2021-2025	52,326,697	14,328,352	79,963,860	47,861,015
2026-2030	35,993,280	4,495,144	82,143,721	29,112,822
2031-2035	4,320,000	172,800	77,097,000	7,936,195
2036-2040	-	-	1,967,708	23,242
	$207,330,326	$74,219,547	$410,546,045	$235,436,021

	Component Units	
Year	Principal	Interest
2011	$ 3,513,912	$ 6,485,121
2012	3,721,289	6,295,331
2013	3,899,643	6,103,227
2014	4,094,030	5,897,615
2015	4,304,507	5,676,493
2016-2020	27,581,520	24,085,780
2021-2025	30,280,000	16,056,252
2026-2030	38,615,000	7,158,781
2031-2035	8,995,000	224,875
	$125,004,901	$77,983,475

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

	Primary Government			
	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2011	$ 2,853,204	$ 6,903,542	$ 26,585	$ 7,068
2012	3,053,517	6,719,540	28,286	5,366
2013	3,233,918	6,522,599	30,133	3,520
2014	3,384,017	6,314,687	32,138	1,515
2015	3,570,878	6,096,546	5,563	46
2016-2020	21,531,061	26,702,426	-	-
2021-2025	29,210,349	18,784,304	-	-
2026-2030	39,694,875	8,039,238	-	-
2031-2035	-	-	-	-
	$106,531,819	$86,082,882	$122,705	$17,515

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, 2009	$15,207,769
Deferrals of compensation	1,211,796
Earnings (losses)	1,203,438
Withdrawals	(766,681)
Administrative expenses	(613)
Asset balance at June 30, 2010	$16,855,709

NOTE 12. EMPLOYEE RETIREMENT SYSTEMS

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

City of Chattanooga Administered Pension and Other Postemployment Benefit Plans

Significant Accounting Policies:

Basis of Accounting

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

Cash and Cash Equivalents

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

Method Used to Value Investments

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

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The City is currently contributing 7.57 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report.

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

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

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

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

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 21.40 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Members of the Plan are not covered under OASDI through their City of Chattanooga employment. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the Plan is borne by the City.

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

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

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

A deferred retirement option plan (DROP) provides alternative benefits for credit service to eligible members who have a minimum of 25 years to a maximum of 30 years of credited service, based on a formula using participant's monthly service retirement benefit from the three-year period of service yielding the highest arithmetic average of the participant's entire salary history, plus the average of the employee's last 36 monthly contributions, with 7 percent interest applied for the DROP period. Effective September 2, 2008, the DROP formula was changed by City ordinance. Participants who were active on this date could elect to contribute an additional 1 percent of base salary to continue eligibility in the original DROP plan. The election period to remain in the original DROP plan was closed as of December 31, 2008, for current plan members and February 27, 2009, for cadets. Active participants who did not elect to contribute the additional 1 percent are eligible for a new DROP plan based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history at the beginning of the DROP period, plus the average of the employee's last 36 monthly contribution, with interest applied at Actuarial Assumed Rate of Return minus 3 percent. Plan participants who did not elect to remain in the original DROP plan by their respective deadline will be eligible for a "cost-neutral" DROP.

(3) Other Postemployment Benefits

The City follows provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)."

The City maintains a single-employer defined benefit postemployment health and medical care plan for retirees and their dependents in accordance with City ordinance. Substantially all of the City's employees may become eligible for benefits if they reach normal retirement age or certain service requirements while working for the City. Retired plan members and beneficiaries are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees who retired prior to 2002 contribute an amount equal to the amount paid by active employees. Employees who retire after 2002 with 25 years of service or a job-related disability contribute an amount equal to 1.5 times that paid by active employees. Employees who retire after 2002 with less than 25 years of service or a non-job-related disability contribute an amount increased on a pro rata year's basis. The City pays the remainder of the costs of medical coverage. The City is currently contributing 12.43 percent of the total covered payroll of the participants.

The City has established an Other Postemployment Benefits Trust (the Trust), which is used to partially pre-fund benefits. For fiscal year 2010, the City contributed $2,611,325 to the Trust to prefund benefits. Only the prefunded portion of the OPEB cost is included in the OPEB trust. The pay-as-you-go component is funded and accounted for in the City's Internal Service Fund.

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

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

Current membership in each of these plans was comprised of the following as of June 30, 2010:

Group	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Retirees and beneficiaries currently receiving benefits	830	687	1,046
Vested terminated employees	92	7	0
Active employees	1,465	793	2,015
Actuarial update	1-1-2010	1-1-2010	7-1-2008

Trend Information:

	Year Ended	Annual Pension/OPEB Cost (APC)	Percentage of APC Contributed	Net Pension/ OPEB Obligation (Asset)
General Pension Plan	12/31/09	$ 3,817,842	99.01%	$(4,100,566)
	12/31/08	3,635,302	92.18%	(4,138,811)
	12/31/07	3,540,962	98.90%	(4,177,414)
Firemen's and Policemen's Fund	12/31/09	7,818,280	107.01%	(4,677,104)
	12/31/08	7,623,063	109.40%	(4,129,090)
	12/31/07	7,437,283	99.88%	(3,412,170)
Other Postemployment Benefits	6/30/10	18,190,921	57.30%	27,201,450
	6/30/09	17,790,129	44.28%	19,434,217
	6/30/08	20,360,866	53.24%	9,521,039

Funding Policy and Other Information:

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

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Contribution rates for employer	7.57%	21.40%	N/A
Contribution rates for plan members	2.00%	8.00%-9.00%	Varies
Annual pension/OPEB cost	$3,817,842	$7,818,280	$18,190,921
Contributions made by employer	4,030,766	7,780,179	9,715,025
Contributions made by plan members	1,211,862	2,997,679	-
Actuarial valuation date for current contributions	January 1, 2010	January 1, 2010	July 1, 2008
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	29 Years Open	30 Years Open
Asset valuation method	Market Value, As Adjusted	Market Value, As Adjusted	Market Value
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	5.50%
Projected salary increases	4.50%-5.50%	3.25%-7.50%	3.00%-8.50%
Inflation rate	3.00%	3.00%	3.00%

In the July 1, 2008, actuarial valuation for the City's OPEB Plan, the investment rate of return above is the assumed rate of return on general assets. The actuarial valuation is also uses an annual healthcare cost trend rate of 8% initially, reducing incrementally to an ultimate rate of 5.0%.

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

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Other Postemployment Benefits
Annual required contribution	$ 3,779,597	$ 7,903,392	$ 18,459,218
Interest on net pension/OPEB obligation (asset)	(320,758)	(330,327)	1,068,882
Adjustment to annual required contribution	359,003	245,215	(1,337,179)
Annual pension/OPEB cost	3,817,842	7,818,280	18,190,921
Contributions made	(3,779,597)	(8,366,294)	(10,423,688)
Increase in net pension/OPEB obligation (asset)	38,245	(548,014)	7,767,233
Net pension/OPEB obligation (asset) at beginning of year	(4,138,811)	(4,129,090)	19,434,217
Net pension/OPEB obligation (asset) at end of year	$(4,100,566)	$(4,677,104)	$ 27,201,450

Financial Reports:

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

Combining Statement of Pension Trust Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ASSETS			
Receivables:			
Due from plan custodian for securities sold	$ -	$ 998,590	$ 998,590
Accrued income	273,440	246,527	519,967
Total receivables	273,440	1,245,117	1,518,557
Investments, at fair value:			
U.S. Government securities	-	8,940,978	8,940,978
Corporate bonds	3,723,123	10,506,998	14,230,121
Foreign bonds	-	774,098	774,098
Corporate stocks	65,104,292	60,569,024	125,673,316
Mutual funds - equity	33,393,032	43,318,724	76,711,756
Mutual funds - fixed income	50,326,020	39,850,317	90,176,337
Temporary investments	5,082,071	4,302,950	9,385,021
Limited partnerships	32,267,627	15,329,620	47,597,247
Other investments	-	975,000	975,000
Total investments	189,896,165	184,567,709	374,463,874
Total assets	190,169,605	185,812,826	375,982,431
LIABILITIES			
Due to plan custodian for securities purchased	-	669,950	669,950
Accrued expenses	115,533	377,547	493,080
Total liabilities	115,533	1,047,497	1,163,030
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$190,054,072	$184,765,329	$374,819,401

Combining Statement of Changes in Plan Net Assets:

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Contributions:			
Employer	$ 4,030,776	$ 7,780,179	$ 11,810,955
Employee	1,211,862	2,997,679	4,209,541
Total contributions	5,242,638	10,777,858	16,020,496

	General Pension Plan	Firemen's and Policemen's Insurance and Pension Fund	Total
ADDITIONS			
Investment income:			
Net appreciation in fair market value of investments	$ 22,244,022	$ 11,332,492	$ 33,576,514
Interest	341,247	3,402,282	3,743,529
Dividends	1,753,676	1,336,454	3,090,130
	24,338,945	16,071,228	40,410,173
Less investment expense	(477,409)	(407,920)	(885,329)
Net investment income (loss)	23,861,536	15,663,308	39,524,844
Total additions	29,104,174	26,441,166	55,545,340
DEDUCTIONS			
Benefits paid to participants	11,619,170	21,394,398	33,013,568
Administrative expenses	122,338	635,121	757,459
Total deductions	11,741,508	22,029,519	33,771,027
NET INCREASE	17,362,666	4,411,647	21,774,313
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	172,691,406	180,353,682	353,045,088
End of year	$190,054,072	$184,765,329	$374,819,401

(4) EPB

EPB Pension Plan

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

Contribution requirements of Plan members and EPB are established and can be amended by EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate; the current rate is 7.99% of annual covered payroll.

EPB's annual pension cost of the Plan for the current year was approximately $2,200,000. EPB has no net pension obligation at June 30, 2010, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2009, 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 7.5% per year compounded annually, (b) projected salary increases of 3.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 7.5% for preretirement and a blend of 7.5% and 4.0% for post-retirement.

Trend Information:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$2,200,000	100%	$ -
6/30/09	2,500,000	100%	-
6/30/08	2,000,000	100%	-

EPB Other Postemployment Benefits

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

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members receiving benefits contribute based on retiree's age, retirement date, and years of service.

The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2010, EPB contributed approximately $1.6 million for current claims.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The EPB's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each evaluation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long term perspective of the calculators.

Trend Information:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	$1,766,000	93%	$9,272,000
6/30/09	1,864,000	99%	9,141,000
6/30/08	1,659,000	121%	9,121,000

In the July 1, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .25% per year to an ultimate rate of

5.5% in 2017. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a three year period. The UAAL is being amortized as a level dollar. The remaining amortization period at July 1, 2009, was twenty years.

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

Annual required contribution	$1,766,000
Interest on net OPEB obligation (asset)	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,766,000
Contributions made	1,635,000
Increase in net OPEB obligation	131,000
Net OPEB obligation at beginning of year	9,141,000
Net OPEB obligation at end of year	$9,272,000

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 15 percent of salary in a tax-deferred savings plan. EPB contributes up to 4.0 percent of an employee's salary after one year of employment. EPB contributions are immediately fully vested and amounted to approximately $899,000 for the year ended June 30, 2010.

(5) Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

Year Ended	Annual Required Contribution(ARC)	Percentage of ARC Contributed	Net Pension Obligation (Asset)
Disability and Retirement Plan:			
6/30/10	$686,159	100.0%	$ -
6/30/09	325,203	100.0%	-
6/30/08	512,089	100.0%	-
Defined Benefit Plan:			
6/30/10	$ 79,922	62.6%	$133,085
6/30/09	112,405	66.7%	103,163
6/30/08	112,405	0.0%	65,758

NOTE 13. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2010, outstanding funds advanced by TVA totaled $43,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2010, the outstanding receivables for loans made from these funds amounted to $41,000. A total of approximately $78,400,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 14. JOINT VENTURE

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

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

Total net assets	$11,554,316
Multiplied by two-thirds	x 2/3
City's equity interest	$ 7,702,877

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, 2010, is as follows:

ASSETS	
Cash	$ 868,653
Accounts receivable, net	176,831
Due from other governments	162,500
Inventories	68,370
Prepaid items	63,701
Capital assets, net	10,632,036
Total assets	$11,972,091
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	$ 292,958
Advance deposits	104,817
Deferred revenue	20,000
Total liabilities	417,775
NET ASSETS	
Invested in capital assets, net of related debt	10,632,036
Restricted	389,590
Unrestricted	532,690
Total net assets	11,554,316
Total liabilities and net assets	$11,972,091

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	$ 5,527,582
Total operating expenses	6,631,812
Loss from operations	(1,104,230)
Nonoperating revenues	290,929
Capital contributions	518,500
Net decrease	(294,801)
Net assets at July 1, 2009	11,849,117
Net assets at June 30, 2010	$11,554,316

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

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

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and water quality systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2010. The total contractual commitments outstanding as of June 30, 2010, aggregated approximately $21,245,389. Also, the City's remaining commitments to the VW facility described in Note 3 are $2,860,559 at June 30, 2010. The City has sufficient funds available to cover these commitments.

NOTE 16. CONDUIT DEBT OBLIGATIONS

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

The Industrial Development Board has issued at least thirty-one (31) bond issues since 1984, the original amounts of which were $559,195,000. The Board has no means of determining the outstanding amount of these bonds.

The Health, Educational and Housing Facility Board has issued at least forty-nine (49) bond issues since 1985, the original amount of which were $1,253,720,000. The Board has no means of determining the outstanding amount of these bonds.

NOTE 17.LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of the City landfill and landfills closed in prior years. 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 $9,903,161 at June 30, 2010, is based on the use of 100 percent of the capacity of the Summitt landfill, and 98 percent of the capacity of the City landfill. The estimated remaining life of the City landfill is 0.42 years. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2010, are as follows:

Estimated liability, June 30, 2009	$9,793,507
Expenses recognized	327,723
Costs incurred	(218,069)
Estimated liability, June 30, 2010	$9,903,161
Due within one year	$ 605,392

The phase of the City landfill currently in use is nearly at capacity. The City plans to begin a new phase of the landfill during the 2011 fiscal year. The City will recognize the remaining estimated costs of closure and postclosure care of $90,454 as the remaining capacity is used. The estimated total current cost of the landfill closure and postclosure care of $9,993,615 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, 2010. 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 18. POLLUTION REMEDIATION

Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," requires financial reporting for certain obligations relating to pollution remediation activities. Currently, three sites have been identified that meet the definitions for reporting, and the City has accrued costs of $1,430,000 for these sites. The recorded obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

Montague Park, which is on the Tennessee Department of Environment and Conservation's (TDEC) remediated site list, is an old construction landfill site. The park was closed in 2003 when methane gas leaks were found. The City is in the process of re-evaluating the cap area for application of an alternative cap in compliance with TDEC. The City has determined the likely outlay for remediation to be $1,350,000. The reasonable range of potential outlays was estimated and multiplied by the probability of occurring. This estimate will be evaluated annually as the specific future use of the property is determined. The site is not included in the landfill post-closure requirement of GASB.

Two brownfield remediation program sites, 45th Street and Ohls Avenue, have been identified for remediation activities to address contamination from hazardous substances. The City has determined the likely outlay for remediation for each to be $240,000. The reasonable range of potential outlays was estimated and multiplied by the probability of occurring. Each site has been awarded a $200,000 grant from the U.S. Environmental Protection Agency to cover the majority of the expected costs of cleanup.

NOTE 19. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. The Internal Service Fund accounts for all exposures, except on-the-job-injury claims. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2010, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

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

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

At June 30, 2010, the Internal Service Fund liability consists of $6,911,000 related to torts and $2,546,322 related to medical benefits.

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

	General Fund	Internal Service Fund
Unpaid claims, June 30, 2008	$ 361,505	$ 5,778,505
Incurred claims, including IBNRs/reduction in estimated liabilities	22,277,336	21,978,476
Claim payments	(22,216,479)	(21,378,597)
Unpaid claims, June 30, 2009	422,362	6,378,384
Incurred claims, including IBNRs/reduction in estimated liabilities	25,886,563	24,085,589
Claim payments	(25,958,172)	(21,006,651)
Unpaid claims, June 30, 2010	$ 350,753	$ 9,457,322
Due within one year	$ 350,753	$ 9,457,322