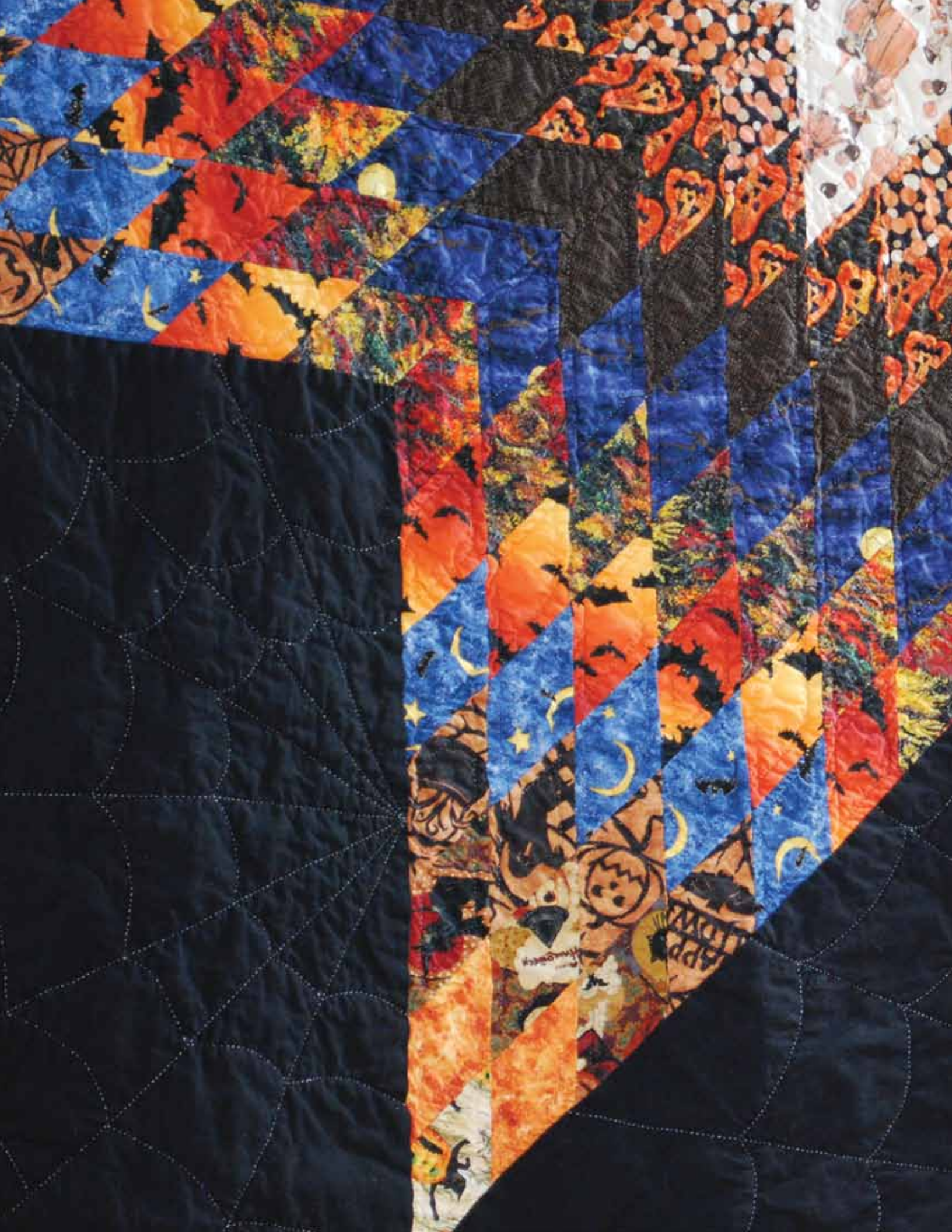




**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**Hamilton County
Tennessee**

for year ended June 30, 2012





Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee

for the year ended June 30, 2012

prepared by the Finance Division

Louis S. Wright, Administrator • Albert C. Kiser, Assistant Administrator



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HAMILTON COUNTY
OFFICE OF THE COUNTY MAYOR
208 Courthouse
Chattanooga, Tennessee 37402

**TO THE COUNTY BOARD OF COMMISSIONERS
AND CITIZENS OF HAMILTON COUNTY**

December 20, 2012

As Hamilton County's Mayor, I have continued my personal commitment of being fiscally conservative. As a result, we have produced additional money for schools, an economic direction that brings in tens of millions of dollars in economic development and continued services that make Hamilton County one of the best places in the nation to live, work and play.

Our economic development efforts continue to bring prosperity to Hamilton County. Our job numbers continue to grow. During the first eleven months of 2012 we added 1,929 jobs to our workforce. This produced an economic development investment of \$136.15 million as businesses continue to look at Hamilton County as a place to make investments in new businesses or expand existing ones.

We can point with pride to the successes of Volkswagen, Alstom and Amazon. Volkswagen's amazing success with the new Passat has not only garnered national acclaim and awards but has also generated many more jobs than the 2,000 initially promised. Volkswagen now employs approximately 3,300 people and has added a third shift. Furthermore, we are proud of our legacy companies such as McKee Foods, Chattem, Chattanooga Bakery, Hamilton Plastics, Komatsu, Miller Industries, US Xpress and Covenant Transport, just to name a few. These businesses and many others like them have provided good family-wage jobs for decades. These companies along with our small business owners provide the spine of our economic success, creating opportunities for job creators and employees alike.

Hamilton County government continues to partner with the Chattanooga Area Chamber of Commerce in our Business Development Center creating the nation's top start up incubator. There are more than 60 businesses currently located at our site, which allows small entrepreneurs the opportunity to cultivate their business and prepare for future success. We have maintained our AAA bond rating from Standard and Poor's, Moody's and Fitch's rating services. Hamilton County is the only county in the State of Tennessee with a AAA bond rating from three rating agencies. The importance of these ratings cannot be underestimated. Our rating affords the county the opportunity to borrow money at lower interest rates, which has resulted in our ability to build new schools in a timely manner.

I remain committed to better education for all Hamilton County students. Better education for our students means better jobs for them in the future. We must work diligently to continue to create a workforce for the jobs we have created and the jobs of the future. This is why we must renew our efforts to educate our students in science, technology, engineering and math. Our new STEM (Southeast Tennessee Science, Technology, Engineering and Math) school opened in August of this year and is doing exceptionally well. Also, we have committed \$50 million to new school construction and land acquisitions. Red Bank Middle School is under construction and is scheduled to open next year. Ooltewah Elementary is under construction and scheduled to open in 2014. East Brainerd Elementary is currently undergoing the architectural design process and property has been purchased for a replacement school at Ganns Middle Valley Elementary.



Jim Coppinger
County Mayor

**TO THE COUNTY BOARD OF COMMISSIONERS
AND CITIZENS OF HAMILTON COUNTY**

- continued from page one

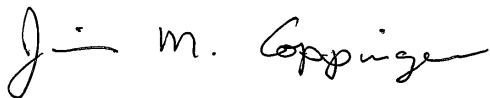
In March of this year, tornadoes caused severe damage to our county for a second consecutive year. Fortunately, no one was killed by the devastating storm but we did sustain approximately \$20 million in damages. The tornadoes impacted almost 1,000 people either by totally displacing them or by damage to their belongings and/or personal injury.

This year, we took the information we gathered from the County Conversations of 2011 and applied some of it to our day to day operations. I appreciate the input from the people who came to one of our 13 gatherings and compliment them for getting involved.

Our initiatives continue to make a difference in people's lives. Our Read 20 program has given away more than a quarter of a million books since its inception in 2006. Our Hamilton County Prescription Discount Card program has saved our residents without insurance \$10 million in just over five years.

I pledged to you last year that, by the end of 2012, I would work harder to make Hamilton County a better community. I believe I have met that commitment and I repeat the promise to you again for 2013. We will continue our efforts to make Hamilton County a community for greater success for all residents. I thank you for the privilege of being your mayor and will continue to work hard for you every single day.

Sincerely,

A handwritten signature in black ink that reads "Jim M. Coppinger". The signature is written in a cursive style with a large initial "J" and "C".

Jim M. Coppinger
County Mayor

Visit our website at www.hamiltontn.gov



BOARD OF COMMISSIONERS *for fiscal year ending June 30, 2012*



Fred Skillern
District 1
Chairman, Pro Tempore



James A. Fields
District 2
Commissioner



Mitch McClure
District 3
Commissioner



Warren Mackey
District 4
Commissioner



Gregory Beck
District 5
Commissioner



Joe Graham
District 6
Commissioner



Larry Henry
District 7
Chairman



Tim Boyd
District 8
Commissioner



Chester Bankston
District 9
Commissioner







HAMILTON COUNTY, TENNESSEE

LOUIS S. WRIGHT

Administrator of Finance

December 20, 2012

TO THE CITIZENS, COUNTY MAYOR AND COUNTY BOARD OF COMMISSIONERS

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of Hamilton County, Tennessee for the fiscal year ended June 30, 2012. This report was prepared in accordance with generally accepted accounting principles (GAAP) by the Finance Division of Hamilton County. Responsibility for both the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects. It is presented in a manner designed to fairly set forth the financial activity of the various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This report is prepared under the accounting model for governments as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Using this approach, the reader can view program costs compared to program revenues for the government as a whole.

The State of Tennessee requires an annual audit of the County's financial records. An independent firm of certified public accountants, Joseph Decosimo and Company, PLLC, has audited the County's financial statements in

accordance with this requirement. The independent firm is responsible to the County Board of Commissioners and is under contract to the State Comptroller of the Treasury. The independent auditor concluded, based upon the audit, that the County's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP and thus rendered an unqualified opinion. The report of independent accountants is presented in the financial section of this report.

This report contains the traditional County funds, the Constitutional Officers of the County and the County's discretely presented component units: the Hamilton County Department of Education, the Hamilton County "911" Emergency Communication District, the Water & Wastewater Treatment Authority, and the Hamilton County Railroad Authority. These agencies are included based on criteria established by GASB.

GAAP requires that management provide a narrative introduction, overview and analysis in the form of Management's Discussion and Analysis (MD&A) to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found beginning on page iii of the Financial Section.

PROFILE OF HAMILTON COUNTY, TENNESSEE

Hamilton County is located in the southeast region of the State of Tennessee with the City of Chattanooga as its largest city. It is approximately 120 miles southwest of Knoxville, Tennessee, 360 miles east of Memphis, Tennessee, and 120 miles southeast of Nashville, Tennessee, which is the State capital.

The County was incorporated on October 25, 1819, by the Tennessee State Legislature. It operates under a County Commission/County Mayor form of government. The County Mayor, the chief fiscal officer of the County, is elected at large to a four-year term as are the Sheriff, Criminal Court Clerk, Juvenile Court Clerk, Register of Deeds, Clerk of Circuit Court, County Clerk, Juvenile Court Judge, Assessor of Property and Trustee. The District Attorney General, District Public Defender and all Hamilton County judges are elected at large for eight-year terms. The County's nine-member Board of Commissioners is elected by districts to four-year terms. The Department of Education, a component unit, is comprised of a nine-member board that is elected by districts to four-year terms that are staggered so no more than five are elected in an election year.

The County provides its citizens a range of services that includes, but is not limited to, police, ambulance, sanitation and solid waste, health and social services, culture and recreation, highways and streets, planning, courts, jails and general administrative services. Other services are provided by organizations which have their own board of directors and include Water & Wastewater Treatment Authority, Hamilton County "911" Emergency Communication District, Hamilton County Department of Education, and Hamilton County Railroad Authority.

Even though the Hamilton County Department of Education is a separate entity from Hamilton County, it constitutes a major portion of the funding requirement for the County. With a school system of 6,224 employees and a student population of 42,236, the Department of Education operating budget for fiscal year 2012 was \$391,923,807. Hamilton County financed 46.89%, or \$183,792,580 of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$191,451,884, charges

for services provided \$10,716,278, investments provided \$257,376 and miscellaneous items provided \$5,705,689.

The Board of Commissioners adopted the 2012 annual budget for the County in July 2011. A formal budget is employed as a management control device. The budgets are prepared on a basis consistent with GAAP except that encumbrances are treated as budgeted expenditures when the commitment to purchase has occurred. All unencumbered and unexpended appropriations lapse at year-end. The level at which expenditures may not legally exceed appropriations is the division level.

Constitutional officers, departments and agencies requesting funding by the Board of Commissioners must submit their budget requests during May of each year at public hearings. The County Mayor submits a proposed budget to the Board of Commissioners for their approval prior to June 30. After the budget is formally adopted, any changes within a division that do not require additional resources must be approved by the County Mayor; the Commission must approve all other changes. Budget to actual comparisons are presented in this CAFR for each individual fund for which an annual budget has been adopted. For the General Fund and the major governmental funds, these comparisons are included in the basic financial statement section. The nonmajor special revenue and debt service funds budget to actual comparisons are included in the combining and individual statements and schedules section of this report. Hamilton County follows the laws of Tennessee regarding the control, adoption and amendment of the budget during each fiscal year. Hamilton County's budget practices not only comply with all state statutes but are more stringent due to our formal budget policy.



BATTLE ACADEMY



LOCAL ECONOMIC OUTLOOK

In a period of economic uncertainty, Hamilton County remains strong and healthy. Unemployment is slightly below the national average, and continues to remain below the state average with more new jobs on the horizon. Continued development of the riverfront and downtown is a positive mark for the local economy, as well as the aggressive development and promotion of the Enterprise South Industrial Park.

ENTERPRISE SOUTH INDUSTRIAL PARK

Enterprise South Industrial Park is currently comprised of two major employers: Volkswagen Group of America and Amazon.com, Inc. Volkswagen recently revealed plans to add 800 additional jobs as part of “ramping up” Passat production due to brisk sales. Volkswagen came to Enterprise South with the commitment to hire 2,000 people and is proud to grow their team to approximately 3,300. Amazon.com currently employs 2,000 people.

American Tire Distributors, Inc. announced they are building a 125,000 square foot distribution warehouse on 8.9 acres in Enterprise South. They have committed to a \$10 million investment and anticipate creating 40 new jobs within three years of completing the project at an annual average wage of \$50,000.

THE RIVERWALK

The Riverwalk includes Ross’s Landing Park, Coolidge Park and Renaissance Park, which are visited by more than 3 million people annually. More than \$150 million in public and private funds have been used for design and construction. The new three-mile segment from the Riverwalk’s current boundary at Ross’s Landing to South Broad Street’s connection with St. Elmo will be one of the most intriguing and useful sections of the Riverwalk in terms of the city’s history, both cultural and industrial. Planners revealed that they would like to see an exhibit about a black community called Blue Goose Hollow, where Bessie Smith was born, at the M.L.King Boulevard crossing. They also hope the National Park Service can use the view of Lookout Mountain facing Moccasin Bend as a backdrop for the Civil War activity for visitors at the U.S. Pipe crossings next to Interstate 24.

Chattanooga City Council and Hamilton County Commission approved a \$2.8 million grant agreement with the Tennessee Department of Transportation to help the Riverwalk extension project reach its funding goal of about \$13.1 million. The Chattanooga branch of the Trust for Public Land has been helping acquire the property and easements needed to extend the Riverwalk. Alstom has paved the way for the Riverwalk to cross its property, even offering to cut off part of an existing building to make room for the 12-foot-wide path. Perimeter Properties, which owns the old U.S. Pipe and Wheland Foundry sites, has offered “whatever is necessary to make the project successful.” Vulcan Lands have also granted rights to construct the extended walkway across its property along the Tennessee River. Once all easements and property crossings have been acquired, planners estimate that it will take about two years to complete.

FUND BALANCE

Hamilton County’s year-end fund balances continue to remain healthy. Our strong reserves allow us to manage any unexpected shortfalls in revenues.

The County has consistently maintained a reserve in the General Fund equivalent to at least three months’ expenditures and will continue to do so.

Ten year analysis of the growth in fund balance (expressed in thousands)

	General Fund	Special Revenue Funds	Debt Service Fund
2003	\$ 53,605	\$ 9,251	\$ 832
2004	52,619	8,338	1,277
2005	49,714	6,709	1,343
2006	55,363	8,440	1,421
2007	58,334	8,542	1,653
2008	77,102	8,638	240
2009	84,070	7,626	227
2010	87,920	6,936	298
2011	95,967	6,024	237
2012	104,431	5,363	387



Volkswagen

SOUTHERN
ADVENTIST UNIVERSITY

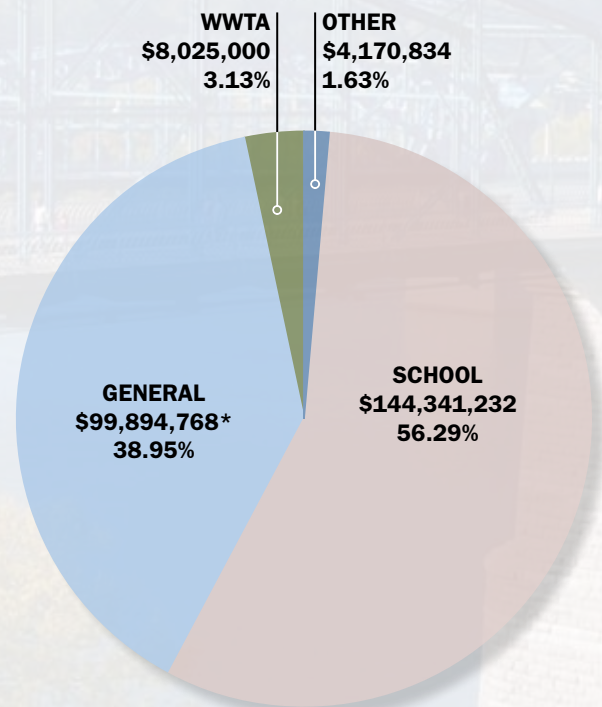
LONG-TERM FINANCIAL PLANNING

As a result of sound financial management practices, Hamilton County has been able to continue providing the same high level of services to its citizens without a tax increase for the fourth consecutive year. Long-term financial planning includes both operations and capital needs. The Administration and Commission work closely together in a timely and thorough budgeting process to map out an operational plan for the upcoming year.

The County's capital needs are addressed annually in its operating budget and long-term through its five-year capital plan. Short-term capital needs such as light duty rolling stock and desk top computers are funded out of the operating budget.

The County's long-term capital needs are financed with a combination of short-term commercial paper coupled with fifteen-year general obligation debt. The commercial paper program enables the County to start its long-term capital projects sooner and its rapid, fifteen-year debt amortization consistently keeps the County's total debt load very low. This rapid amortization results in principal retirement of approximately fifty percent (50%) in five years and eighty-two percent (82%) within ten years.

HAMILTON COUNTY TOTAL DEBT AS OF JUNE 30, 2012 \$256,431,834



*Includes \$28,556,000 for Commercial Paper.

Ratio of General Bonded Debt Outstanding

Fiscal Year Ended June 30	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2003	\$ 139,070,000	0.77%	\$ 450
2004	162,040,000	0.88%	524
2005	143,380,000	0.65%	463
2006	125,510,000	0.55%	404
2007	107,730,000	0.46%	344
2008	188,260,000	0.78%	570
2009	200,110,000	0.71%	601
2010	206,960,000	0.73%	614
2011	185,550,000	0.65%	551
2012	223,705,000	0.80%	656

RELEVANT FINANCIAL POLICIES

Hamilton County consistently maintains a low debt burden. This has been accomplished through sound, conservative debt management practices. Earlier in the year, the County revised its debt policy in order to establish and codify its objectives and practices. The policy's goal is to assist all concerned parties in understanding the County's debt management approach and to promote transparency for our citizens, investors and all other interested parties.

The County consistently maintains a strong unassigned reserve in the general fund which exceeds its reserve policy of twenty-five percent (25%) of its operating budget. This minimizes the effect of any unanticipated expenditures and/or loss of any major revenue source.



MAJOR INITIATIVES

Hamilton County's commitment to its mission of meeting the needs of the people where they live, work and play guides our plans for the future and directs us toward delivering quality services to its citizens.

PLANNED GROWTH STRATEGIES

Hamilton County Government has established a team consisting of elected officials, business leaders, organizations and citizens to create and implement a strategic plan to manage the expected rapid population growth of our area due to recent economic developments. This regional plan will ensure balanced growth, promote economic development, and protect and enhance the quality of life for all.

ECONOMIC DEVELOPMENT

Our economic development initiative reflects our goal of a viable and sustainable economic future for our community. We believe this is vital for those who live here and for those who are considering relocating to Hamilton County.

- **Enterprise South Industrial Park** – Volkswagen's amazing success has generated many more jobs than the 2,000 initially promised. In May 2012, Passat number 100,000 rolled off the line at the Hamilton County manufacturing facility. Due to the Passat's success, VW officials are planning to expand production at the Enterprise South facility.
- **Amazon.com, Inc.** – Amazon.com established a fulfillment center at Enterprise South Industrial Park along with an additional facility in neighboring Bradley County. Amazon.com invested a total of \$139 million to construct the two new facilities providing 1,400 jobs to be created in the next two years, plus hundreds of additional jobs during the peak holiday season.
- **Business Development Center** – The Hamilton County Business Development Center (BDC) is a 125,000 square-foot former manufacturing facility that has been renovated into a highly successful business incubator. The BDC offers start-up businesses office or manufacturing space at highly competitive lease rates. It has achieved national recognition for its success and is among the top six percent of the nation's business incubators.

PUBLIC EDUCATION IMPROVEMENT

Hamilton County focuses on education as a responsibility of the entire community. Educational advancement is crucial to the future of our County and the success of our children in life. Our Read 20 initiative, a public/private partnership promoting early childhood literacy skills, is an effort to create a community of readers in support of Hamilton County's community literacy goals. Our new STEM (Southeast Tennessee Science, Technology, Engineering and Math) school is a joint effort among four core stakeholder groups: K-12 systems, businesses, higher education, and community organizations.

QUALITY OF LIFE ISSUES

Hamilton County citizens and visitors are able to enjoy one of the finest naturally beautiful environments in the Southeast. The County's surrounding mountains, state and national forests, as well as its rivers and streams have afforded this area its reputation as a leading destination for outdoor activities.

- **Enterprise South Nature Park** – The park offers miles of walking paths, bicycle paths and off-road biking trails. It is located on 2,800 wooded acres adjacent to the Enterprise South Industrial Park.
- **Step ONE** – This county-wide initiative addresses the problem of obesity in our community by promoting physical fitness, nutrition, and healthy lifestyles. This effort is guided by the County Mayor and the Hamilton County Regional Health Council.
- **IRIS Project** – Increasing the Rate of Infant Survival (IRIS) works to initiate new, creative and innovative programs that have a positive impact on Infant Mortality Rates, which are thought to be one of the best predictors of a community's overall health status.
- **Tennessee Riverpark** – Hamilton County and the City of Chattanooga have cooperated to establish the Tennessee Riverpark as one of the Southeast's foremost recreation facilities. With 10 miles of lighted concrete trails, parks, piers and bridges along its route, the Riverpark is a resource for recreation and alternative transportation. Construction will soon begin on a new segment of the Riverpark that will extend the Riverwalk from Ross's Landing Downtown to the base of Lookout Mountain.

AWARDS AND ACKNOWLEDGEMENTS

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hamilton County, Tennessee for its Comprehensive Annual Financial Report for the year ended June 30, 2011. Hamilton County has received this award for 31 consecutive years.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose

contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are currently submitting it to GFOA to determine its eligibility for another certificate.

GFOA also presented a Distinguished Budget Presentation Award to the County for its Comprehensive Annual Budget Report (CABR) for the fiscal year beginning July 1, 2011. This is the tenth consecutive year Hamilton County received this award for the CABR. In order to be awarded a Distinguished Budget

Presentation Award, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Budget Report, which must conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements. Like the Certificate of Achievement for Financial Reporting, this award is valid for a period of one year only. We believe our CABR for the fiscal year beginning July 1, 2012 continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.



LOUIS S. WRIGHT
Administrator of Finance



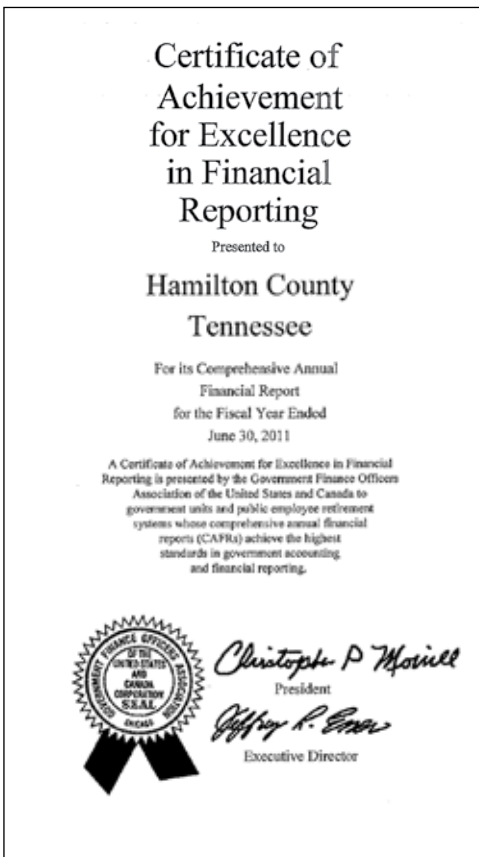
ALBERT C. KISER
Assistant Administrator of Finance

ACKNOWLEDGEMENTS

I would like to thank the entire staff of the Finance Division, the County Auditor's Office and the independent auditors for their cooperation and dedication in the preparation of this report. I would also like to express my gratitude for the support we have received from the County Mayor and the County Board of Commissioners in conducting the financial operations of the County in a sound and progressive manner.

Respectfully submitted,

Louis S. Wright
Administrator of Finance



Distinguished Budget Presentation Award to the County for its Comprehensive Annual Budget Report (CABR) for the fiscal year beginning July 1, 2011. This is the tenth consecutive year Hamilton County received this award for the CABR. In order to be awarded a Distinguished Budget

HAMILTON COUNTY GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2012)

Jim Coppinger, *County Mayor*
Mike Compton, *Chief of Staff*
Leslie Longshore, *Director of Human Resources*
Dan Saieed, *Director of Development*

Board of Commissioners

Chester Bankston
Gregory Beck
Tim Boyd
James A. (Jim) Fields
Joe Graham
Larry L. Henry, *Chairman*
Warren Mackey
Mitch McClure
Fred Skillern, *Chairman, Pro Tempore*

Legislative

Chris Hixson, *Administrator*

Constitutional Officers

S. Lee Akers, *Clerk & Master*
Suzanne Bailey, *Juvenile Court Judge*
Gary Behler, *Juvenile Court Clerk*
Bill Bennett, *Assessor of Property*
Bill Cox, *District Attorney*
James Hammond, *Sheriff*
Bill Hullander, *Trustee*
Ardena Garth, *District Public Defender*
Pam Hurst, *Register of Deeds*
Dr. James K. Metcalfe, *Medical Examiner*
William F. Knowles, *County Clerk*
Charlotte Mullis-Morgan, *Administrator of Elections*
Paula Thompson, *Circuit Court Clerk*
Gwen Tidwell, *Criminal Court Clerk*

Division & Department Heads

AUDITING

Bill W. McGriff, *County Auditor*
Lee Brouner, *Assistant County Auditor*

FINANCE

Louis S. Wright, *Administrator*
Albert C. Kiser, *Assistant Administrator of Finance*
Gail Roppo, *Director of Purchasing and Contract Management*
Brian D. Turner, *Director of Information Technology Services
and Director of Geographic Information Systems*
Katherine K. Walker, *Director of Accounting*

HEALTH SERVICES

Becky Barnes, *Administrator*
Tammy M. Burke, *Director of Clinical Services*
Tom Rucci, *Director of Case Management Services*
Bonnie Deakins, *Director of Environmental Health*
Marti Smith, *Director of Administrative Services*
Bill Ulmer, *Director of Community Health Services*

HUMAN SERVICES

Don Allen, *Administrator*
Tony Reavley, *Director of Emergency Services*
Worth Lillard, *Director of Maintenance*
Barbara Payne, *Director of Corrections*
Ron Priddy, *Director of Recreation*

LEGAL

Rheubin M. Taylor, *County Attorney*

PUBLIC WORKS

Dan Wade, *Administrator*
Harold Austin, *Director of Highway Department*
Cleveland Grimes, *Executive Director of WWTA*
Todd Leamon, *Chief Engineer, Director of Engineering*
David Thorne, *Director of Building Inspection*





CITIZENS

COUNTY BOARD OF COMMISSIONERS 209-7200

LEGISLATIVE STAFF
209-7200
MEDICAL EXAMINER
493-5175
MAGISTRATES
209-7656

APPOINTED
BOARDS
AUDITING
209-6200
LEGAL
209-6150

COUNTY MAYOR 209-6100

CHIEF OF STAFF 209-6180

MAYORAL STAFF
209-6100

HUMAN RESOURCES
209-6120

EQUAL EMPLOYMENT
OPPORTUNITY
209-6144

DEVELOPMENT
209-6810

HEALTH SERVICES
DIVISION
209-8000
ENVIRONMENTAL
HEALTH
209-8110
CLINICAL SERVICES
209-8218
ADMINISTRATIVE
SERVICES
209-8010
CASE MANAGEMENT
SERVICES
209-8155
COMMUNITY HEALTH
SERVICES
209-8088

HUMAN SERVICES
DIVISION
209-6800
EMERGENCY
SERVICES
209-6900
RECREATION
842-0177
MAINTENANCE
209-7700
CORRECTIONS
843-4780

FINANCE DIVISION
209-6330
ACCOUNTING
209-6330
PURCHASING
209-6350
FINANCIAL
MANAGEMENT
209-6370
INFORMATION
TECHNOLOGY SERVICES
209-6250
GEOGRAPHIC INFO
SYSTEMS
209-7760

PUBLIC WORKS
DIVISION
209-7800
HIGHWAY
855-6100
ENGINEERING
209-7810
BUILDING INSPECTION
209-7860

CONSTITUTIONAL OFFICES

ASSESSOR — 209-7300

CHANCERY COURT CHANCELLORS — 209-7380

CLERK AND MASTER — 209-6600

CIRCUIT COURT JUDGES — 209-6700

CIRCUIT COURT CLERK — 209-6700

COUNTY CLERK — 209-6500

CRIMINAL COURT JUDGES — 209-7500

CRIMINAL COURT CLERK — 209-7500

DISTRICT ATTORNEY — 209-7400

ELECTION COMMISSION — 493-5100

JUVENILE COURT JUDGE — 209-5100

JUVENILE COURT CLERK — 209-5250

PUBLIC DEFENDER — 634-6374

REGISTER — 209-6560

SESSIONS COURT JUDGES — 209-7660

SHERIFF — 209-7000

TRUSTEE — 209-7270



**REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

To the Honorable Mayor and the Board of Commissioners
Hamilton County, Tennessee

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee, (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the discretely presented component units of the County as of and for the year ended June 30, 2012, as displayed in the County's basic financial statements, except as described in the last two sentences of this paragraph. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hamilton County "911" Emergency Communications District, which represent 3 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hamilton County "911" Emergency Communications District in the discretely presented component units, 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, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and the sheriff fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position on each of the discretely presented component units, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through xvi of the Financial Section and the required supplementary information on pages B-1 through B-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal and state awards on pages G-1 through G-5, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund (presented on pages C-1 through C-19), combining and individual fund financial statements of the Board of Education (a discretely presented component unit) (pages D-1 through D-9), and financial schedules (pages E-1 through E-12) are presented for purposes of additional analysis and are also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund, combining and individual fund financial statement of the Board of Education (a discretely presented component unit), financial schedules and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hamilton County's basic financial statements. The introductory section (pages 1 through 17) and statistical tables (pages F-1 through F-26) are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Joseph Decasimo and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
December 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The discussion and analysis of Hamilton County's financial performance provides an overall review of the County's financial activities for the year ended June 30, 2012. It is designed to:

- (a) assist the reader in focusing on significant financial issues,
- (b) provide an overview of the County's financial activities,
- (c) identify changes in the County's financial position,
- (d) identify any material deviations from the original financial plan, and
- (e) identify individual fund issues or concerns.

This discussion and analysis is an integral part of the financial statements as a whole.

FINANCIAL HIGHLIGHTS

- The government-wide assets of Hamilton County at the close of fiscal year 2012 were \$582,899,268.
- Revenues for governmental funds decreased \$18,250,218, or 6.9% from last year.
- Expenditures for governmental funds decreased \$23,693,739, or 8.4% from last year.
- Capital project expenditures were \$35,893,329, with \$12,788,243 spent for general government projects.
- Total bonded debt at June 30, 2012 for the County was \$223,705,000, of which \$144,341,232 was for the Hamilton County Department of Education for capital improvements.
- The County had a \$39,897,256 prior period adjustment due to capital assets being understated.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's basic financial statements contain three components:

- (1) government-wide financial statements,
- (2) fund financial statements, and
- (3) notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements. Management's Discussion and Analysis provides a comparative analysis of the County's financial position.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In the government-wide financial statements, the Statement of Net Assets and Statement of Activities provide the reader with a broad overview of the County's financial position.

The Statement of Net Assets combines and consolidates all the County's current financial resources with capital assets and long-term obligations. The end result is net assets, which are segregated into three components:

- (1) investment in capital assets, net of related debt,
- (2) restricted net assets, and
- (3) unrestricted net assets.

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Hamilton County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during fiscal year 2012. Program revenues, which directly offset costs of specific functions, are allocated to those functions, resulting in the net expenses for governmental activities. General revenues, such as taxes, fines and interest earnings, offset the remaining costs resulting in the annual increase or decrease in net assets. This statement is intended to summarize the user's analysis of the net cost of various governmental services that are supported by general revenues.

Governmental activities include general government, public safety, highways and streets, health, social services, and culture and recreation. Currently, Hamilton County has no business-type activities. In addition, the government-wide financial statements include the following legally separate component units: the Hamilton County Department of Education, the Water & Wastewater Treatment Authority, Hamilton County "911" Emergency Communication, and Hamilton County Railroad Authority.

The government-wide financial statements can be found on pages A-1 to A-3 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the major funds, which include the General, Sheriff, Debt Service and Capital Projects funds. Data from the other governmental funds, Constitutional Officers, Governmental Law Library, Hotel/Motel and Economic Crimes, is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual budget for the General and Debt Service funds and certain Special Revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance. The basic governmental fund financial statements can be found on pages A-4 to A-11 of this report.

PROPRIETARY FUNDS

There are two types of proprietary funds – enterprise funds and internal service funds. An internal service fund is the only type of proprietary fund the County maintains. An internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses that fund to account for its self-insurance and risk management programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.



Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Individual fund data for the Internal Service fund is provided on pages A-12 to A-14 of this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is similar to proprietary funds. The basic fiduciary fund financial statements can be found on pages A-15 to A-16 of this report.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages A-20 to A-53 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents required and other supplementary information. Required supplementary information includes the funding progress and employer contributions for the Public Employee Retirement Systems. Other supplementary information includes detailed budgetary information for the General Fund, combining statements

for the nonmajor governmental funds, combining statement of changes in assets and liabilities for the Constitutional Officers Agency Funds, combining statements for the Hamilton County Department of Education and various financial and statistical tables. Combining and individual fund schedules can be found on pages C-6 to D-9; the various financial and statistical tables can be found on pages E-1 to F-26.



GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAMILTON COUNTY, TENNESSEE NET ASSETS

	Governmental Activities	
	2012	2011
ASSETS		
Current and Other Assets	\$ 313,252,357	\$ 299,316,204
Capital Assets	269,646,911	212,801,708
TOTAL ASSETS	582,899,268	512,117,912
LIABILITIES		
Long-term Liabilities	256,641,877	212,972,295
Other Liabilities	163,114,587	197,752,702
TOTAL LIABILITIES	419,756,464	410,724,997
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	241,279,539	177,199,640
Restricted	607,360	716,194
Unrestricted	(78,744,095)	(76,522,919)
TOTAL NET ASSETS	\$ 163,142,804	\$ 101,392,915

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$163,142,804 at the close of the fiscal year ended June 30, 2012.

Net assets are comprised of three elements:

- (1) Investment in capital assets (e.g., land, buildings, infrastructures and equipment), less any related outstanding debt;
- (2) Restricted assets held for restrictions as prescribed by law; and
- (3) Unrestricted assets. The long-term liabilities of \$256,641,877 include \$144,341,232 of debt for assets contributed to the Hamilton County Department of Education, a component unit, which results in negative unrestricted net assets.

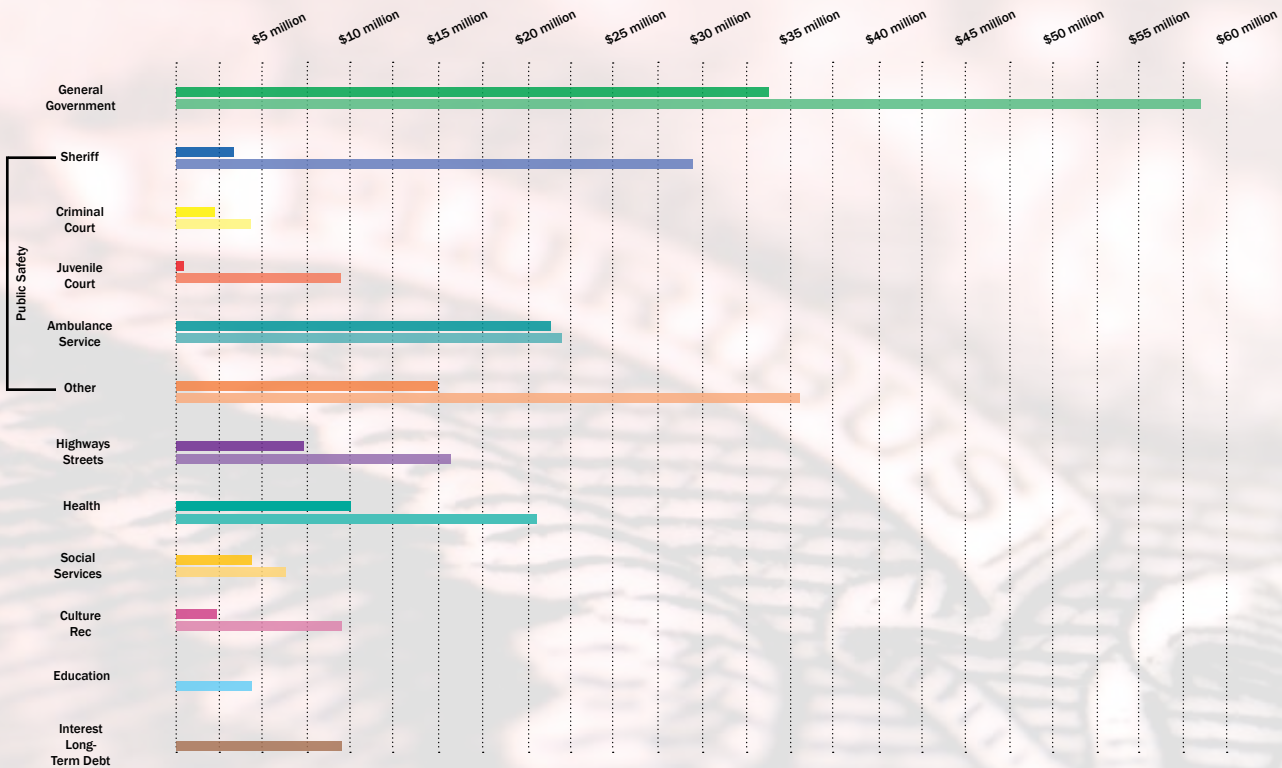
HAMILTON COUNTY, TENNESSEE CHANGES IN NET ASSETS

	Governmental Activities	
	2012	2011
REVENUES		
Program Revenues		
Charges for Services	\$ 60,678,100	\$ 60,874,457
Operating Grants and Contributions	27,124,454	25,675,026
Capital Grants and Contributions	11,819,153	23,786,966
Total Program Revenues	<u>99,621,707</u>	<u>110,336,449</u>
General Revenues		
Property Taxes	128,640,070	128,028,643
Other Taxes	14,932,218	24,777,662
Other	623,836	821,722
Total General Revenues	<u>144,196,124</u>	<u>153,628,027</u>
TOTAL REVENUES	<u>243,817,831</u>	<u>263,964,476</u>
EXPENSES		
General Government	58,143,030	71,919,720
Public Safety	99,615,900	99,950,404
Highways and Streets	15,369,248	18,405,626
Health	20,231,080	22,159,904
Social Services	6,199,607	8,932,771
Culture and Recreation	9,079,005	11,018,276
Education	4,097,398	19,312,528
Interest on Long-Term Debt	8,863,280	8,343,186
TOTAL EXPENSES	<u>221,598,548</u>	<u>260,042,415</u>
Increase (Decrease) in Net Assets before Special Item	22,219,283	3,922,061
Special Item - Loss on donation of property	(366,650)	(4,397,324)
Prior Period Adjustment	<u>39,897,256</u>	<u>—</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 61,749,889</u>	<u>\$ (475,263)</u>

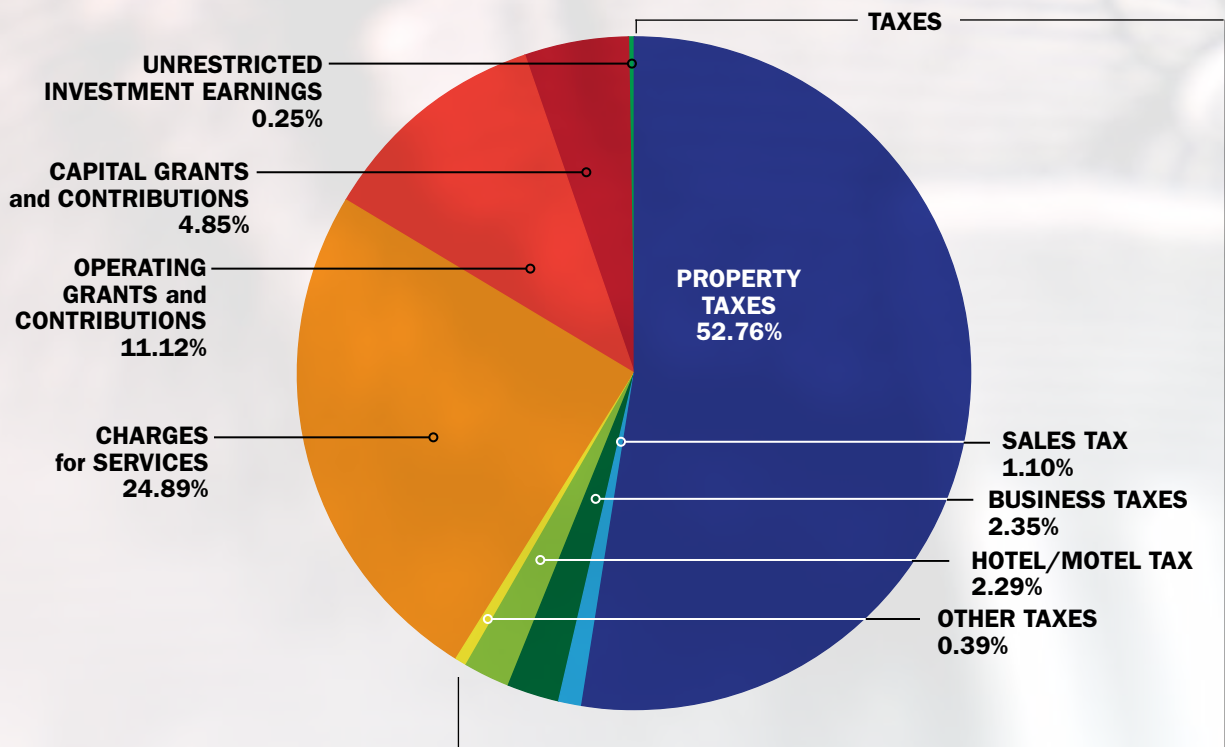
The change in the County's net assets was an increase of \$61,749,889 during the current fiscal year. Key factors that resulted in the net increase include:

- Capital grants and contributions decreased by \$11,967,813 primarily due to the near completion of the rails at Enterprise South Industrial Park.
- Other taxes decreased by \$9,845,444 including a decrease in sales taxes of \$10,135,693. This reduction is due to the expiration of the 1966 sales tax agreement with the City of Chattanooga.
- General government expenses decreased by \$13,776,690 in part due to the expiration of the 1966 sales tax agreement which decreased our portion of funding to some supported agencies within the City.
- Transfers to the Hamilton County Department of Education decreased by \$15,215,130. Schools are constructed by the primary government and upon completion are transferred to the Hamilton County Department of Education.
- With the completion of the Volkswagen Group of America's manufacturing facility, site improvement costs decreased by \$4,030,674.
- A prior period adjustment of \$39,897,256 was needed as a result of an understatement of capital assets. See Note B for additional information of the prior period adjustment.

EXPENSES AND PROGRAM REVENUES



REVENUES BY SOURCE



EXPENSES AND PROGRAM REVENUES

for fiscal year ending June 30, 2012

	REVENUES	EXPENSES
General Government	\$ 33,486,315	\$ 58,143,030
Public Safety		
Sheriff	3,300,525	28,342,846
Criminal Court	2,250,415	3,874,884
Juvenile Court	342,337	8,816,800
Ambulance Services	21,180,453	23,104,366
Other	15,079,606	35,477,004
Highways and Streets	7,486,505	15,369,248
Health	10,086,214	20,231,080
Social Services	4,172,257	6,199,607
Culture and Recreation	2,237,080	9,079,005
Education	—	4,097,398
Interest on long-term debt	—	8,863,280
TOTAL	<u>\$ 99,621,707</u>	<u>\$ 221,598,548</u>

REVENUES BY SOURCE

for fiscal year ending June 30, 2012

	2012	PERCENTAGE	2011	PERCENTAGE
Taxes				
Property Taxes	\$ 128,640,070	52.76%	\$ 128,028,643	48.50%
Sales Tax	2,691,376	1.10%	12,827,069	4.86%
Business Taxes	5,728,456	2.35%	5,825,899	2.21%
Hotel/Motel Tax	5,571,577	2.29%	5,250,752	1.99%
Other taxes	940,809	0.39%	873,942	0.33%
Charges for Services	60,678,100	24.89%	60,874,457	23.06%
Operating Grants and Contributions	27,124,454	11.12%	25,675,026	9.73%
Capital Grants and Contributions	11,819,153	4.85%	23,811,245	9.02%
Unrestricted Investment Earnings	623,836	0.25%	797,443	0.30%
TOTAL	<u>\$ 243,817,831</u>	100.00%	<u>\$ 263,964,476</u>	100.00%

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2012, the County's governmental funds reported combined ending fund balances of \$112,644,486, an increase of \$53,641,831. The assigned portion of fund balance was \$9,149,019. The unassigned portion of fund balance was \$67,071,043. The remainder of fund balance is committed to indicate that it is not available for new spending because it has already been committed:

- 1) To liquidate contracts and purchase orders of \$34,507,270;
- 2) For inventories, prepaid items and notes advances \$1,309,794; and
- 3) To cover other legal requirements \$607,360.

The General, Sheriff, Debt Service and Capital Projects funds are reported as major funds.

The General Fund is the chief operating fund of the County. At the end of fiscal year 2012, assigned fund balance of the General Fund was \$3,721,297, unassigned fund balance of the General Fund was \$99,015,009, while the total fund balance was \$104,430,873. As a measure of the General

Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 67.3% of the total General Fund expenditures, while total fund balance represents 71.0% of that same amount.

The unassigned fund balance of the County's General Fund increased by \$8,966,995 during the current fiscal year. The major reason for that change is largely attributed to general government expenses decreasing by \$13,776,690 in part due to the expiration of the 1966 sales tax agreement which decreased our portion of funding to some supported agencies within the City and a savings of \$1,028,918 in interfund transfers to Debt Service as a result of debt refinancing and a lower interest rate.

The Debt Service fund has a total fund balance of \$387,083, an increase of \$150,580 or 63.7%. Funds are transferred to the Debt Service fund as needed. Therefore, as debt payments increased, transfers into the fund also increased.

Capital Projects has a total fund balance of \$2,463,359. Of this total, commercial paper has a deficit amount of \$27,521,949. This deficit is a result of short-term financing through the issuance of commercial paper. The County participates in a commercial paper program to fund certain project obligations until long-term debt financing is issued. The commercial paper is reflected as a liability rather than revenue in the Capital Projects fund. The revenue will be recognized when the long-term debt replaces the short-term debt. The remaining positive fund balance is \$29,985,308. This represents \$15,857,123 or 52.9% from the issuance of bonds, \$232,410 or 0.8%



from interest earnings and \$13,895,775 or 46.3% from other sources.

We have commitments of \$32,925,982 or 95.7% for school construction, \$193,214 or 0.6% for economic development, \$589,321 or 1.7% for recreation projects and \$698,808 or 2.0% for general government improvements. Commitments for school construction increased \$32,674,042 this year due to new school construction. A new Red Bank Middle School is under construction and construction has just begun for the new Ooltewah Elementary School. Commitments will be increasing next year for recreation projects as we begin a new segment of the Riverwalk.

The Sheriff's fund balance of \$1,532,040 decreased \$482,505 from the prior year. This change of 24% is attributed to a decrease in revenues of \$375,396, or 10.2%. This decrease in revenues is due to a decrease in intergovernmental revenues. While fund balance decreased, expenditures remained relatively flat, decreasing only 0.5%.

PROPRIETARY FUNDS

The County's Proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The County's Proprietary fund is used to account for the self-insurance programs. The County is self-insured for health, unemployment compensation, on-the-job injury claims, property, automobile and liability claims and losses due to liabilities arising under the laws of the state and federal governments. The cost for these programs

is funded through premiums paid by the departments and agencies of Hamilton County Government. Unrestricted net assets for the Proprietary Fund at the end of the fiscal year amounted to \$16,596,304.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$9,358,646 and can be summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$4,719,489 of the increase.
- New grants from various state and federal agencies accounted for \$3,670,234 of the increase.
- Adjustments to operating budgets or new appropriations accounted for a \$968,923 increase.

Actual revenues were less than budgeted revenues by \$3.1 million. This difference is largely due to a shortfall of intergovernmental revenues of \$3.1 million and a shortfall of charges for services of \$3.3 million, offset by taxes that exceeded the budget by \$3.4 million. Investment earnings also fell short of budget due to lower interest rates.

Expenditures were less than budget estimates by \$11.2 million. A large part of this variance is due to conservative spending by the Highway Department, Health Department and reduced capital outlay expenditures. With the favorable variance of actual expenditures to budget, \$9 million was added to fund balance.



CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2012, amounts to \$269,646,911 (net of accumulated depreciation of \$226,993,776). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangibles and construction in progress. Hamilton County donated the historic Engle Stadium to the University of Tennessee at Chattanooga for a net loss of \$614,224, and donated the Spring Creek Transfer Station to the City of East Ridge for a net loss of \$81,692. In addition, capital assets were sold during the year for a gain of \$329,266. The County transferred \$4,097,398 in assets to the Department of Education. For the year, the County's investment in capital assets increased by \$56,845,203 or 21.1%. Additional information on the County's capital assets can be found in the Notes to the Basic Financial Statements – Note J.

Major capital asset events during the current fiscal year included the following:

- Infrastructure construction at Enterprise South Industrial Park
- School construction and renovations
- Prior Period Adjustment. See note B for further information.

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2012

NET OF DEPRECIATION

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 64,447,768	\$ 500,035	\$ (827,540)	\$ 64,120,263
Construction in progress	14,080,187	28,363,936	(16,107,014)	26,337,109
Buildings	131,723,628	5,856,023	(1,590,822)	135,988,829
Improvements other than buildings	24,703,490	533,036	(67,365)	25,169,161
Machinery and equipment	38,144,941	4,550,970	(3,778,174)	38,917,737
Infrastructure	192,051,638	9,059,913	(343,983)	200,767,568
Intangibles	5,022,366	326,599	(8,945)	5,340,020
Depreciation	(217,475,054)	(11,632,823)	2,114,101	(226,993,766)
	<u>\$ 252,698,964</u>	<u>\$ 37,557,689</u>	<u>\$ (20,609,742)</u>	<u>\$ 269,646,911</u>



LONG-TERM DEBT

At the end of fiscal year 2012, the County had general obligation bonds outstanding of \$223,705,000, notes payable and other debt of \$4,170,834 and short-term obligations of \$28,556,000. Of the bonded debt, \$144,341,232 was issued for Hamilton County Department of Education capital improvements program.

The short-term obligations is comprised solely of the Commercial Paper program. Additional information on the County's debt can be found in the Notes to Basic Financial Statements – Note N.

Hamilton County is in a strong position financially and our future is bright due to the sound management practices that have enabled the County to maintain solid fund balances and reserves. One measure of an entity's financial strength is the level of its fund balances. The County has consistently maintained a General Fund balance equivalent to at least three months of expenditures, which places us in an excellent position to adequately address most fiscal emergencies. Our Fund Balance Policy recommends that the fund balance be no less than 25% of the planned operating expenses; however, the FY 2013 projected fund balance is expected to be 53% of planned operating expenses.

The County's excellent bond ratings of AAA by Standard and Poor's and Fitch, Inc., and Aaa by Moody's Investors Service for General Obligation Bonds as well as P-1 by Moody's and F1+ by Fitch for General Obligation Commercial Paper are further evidence of its financial strength. These ratings indicate that the County's bonds are considered to be very high investment quality, which translates to lower interest rates and corresponding lower interest payments. Having solid conservative financial policies and strong financial reserves are principal reasons for these ratings.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in preparing the County's budget for fiscal year 2013:

- It is estimated that overall fund balance for FY 2013 will decrease by \$1,771,390, of which the General Fund is to increase \$3,254,152, while Sheriff and Department of

Education are estimated to use fund balance of \$325,542 and \$4,700,000 respectively.

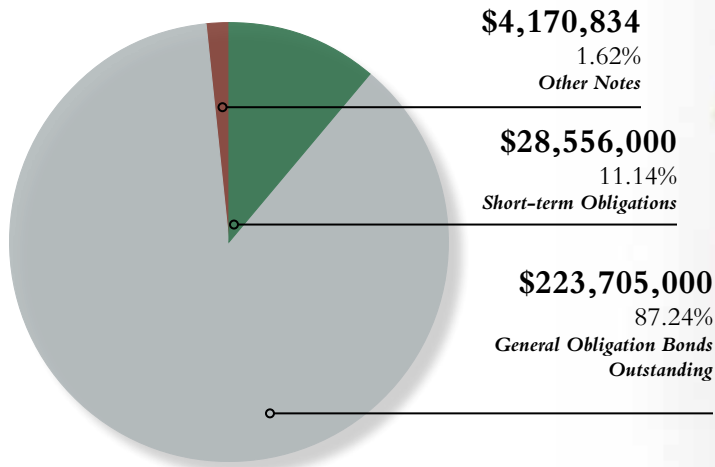
- The County has not increased the property tax rate since FY 2008; however, due to a slight increase in property growth we have conservatively estimated a 2% increase in property tax. Property tax growth projections are based on current information provided by the Assessor of Property. The Assessor monitors and evaluates completed construction not currently on property rolls, and makes projections of values on construction in progress that is expected to be completed by the date of the property tax levy.
- Intergovernmental revenue increased marginally over the last fiscal year, and is primarily due to increases in State Education Funding, but was offset by a reduction in Federal Project Funding in the Department of Education.
- Interfund transfers increased from the prior year, resulting from a decrease in the debt service appropriation and slight increases to the Sheriff's Fund and Juvenile Court Clerk Fund due to the County-wide 3% raises and the related benefits.
- Hamilton County employees had not received a County-wide raise since FY 2009. Therefore, efforts were made to allow for a 3% raise and the required increase in related benefits. This was made possible with the property tax growth, limiting increases in positions, with few exceptions; as well as incurring a savings of 0.33% in pension contributions to the Tennessee Consolidated Retirement System.
- The Tennessee Consolidated Retirement System lowered the County General's contribution to 14.08%.
- The Department of Education (DOE), a discretely presented component unit of Hamilton County with an approved budget of \$384.6 million, represents 60% of the total County budget when you include the debt service obligation attributed to the DOE appropriated in the General Fund. The increase of \$11.2 million for education includes \$4.7 million use of fund balance which represents \$3.2 million over last year's use of fund balance. The Department of Education's combined budget growth is estimated at about 3% for fiscal year 2013. Basic Education Program funding increased

by over 3.5% and is calculated by the State based on multiple parameters; however, one of the main components is student enrollment. In FY 2013, the school district is projecting an increase of over 400 students.

- The largest decrease in expenditures can be attributed to the termination of federal funding from the American Recovery and Reinvestment Act and the end of the related federal stimulus programs. Increases in the expenditure budgets were attributable primarily to school-based personnel. These included the salary increase mandated by the State Department of Education. Salary step increases are calculated annually based on years of service in accordance with the contract with the educational association.
- To balance the Education budget certain challenges had to be addressed, not the least of which was staffing. Administrative positions decreased while instructional staff increased, due to projected growth in student enrollment. With over 80% of School District funds being spent on personnel, the District closely aligns its staffing levels with the State's Basic Education Program.

General Long-Term Debt

<i>General Obligation Bonds Outstanding</i>	\$ 223,705,000	87.24%
<i>Other Notes</i>	4,170,834	1.62%
<i>Short-term obligations</i>	28,556,000	11.14%
	<u>256,431,834</u>	
<i>Less: Unreserved Debt Service Fund Balance</i>	(387,083)	
	<u><u>\$ 256,044,751</u></u>	



REQUESTS FOR INFORMATION

This financial report is designed to present users with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Finance Administrator, 123 East Seventh Street, Chattanooga, TN 37402.

Additional financial information can be found on our web site www.hamiltontn.gov. Two discretely presented component units, "911" Emergency Communication and the Water & Wastewater Treatment Authority have separately issued financial reports that can be obtained from: Hamilton County "911" Emergency Communication District, 3404 Amnicola Highway, Chattanooga, TN 37406; Water & Wastewater Treatment Authority, P.O. Box 8856, Chattanooga, TN 37414.

STATEMENT OF ACTIVITIES

HAMILTON COUNTY, TENNESSEE

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Government activities:			
General government	\$ 58,143,030	\$ 17,742,600	\$ 3,924,562
Public safety:			
Sheriff	28,342,846	1,133,673	2,166,852
Criminal Court	3,874,884	2,250,415	-
Juvenile Court	8,816,800	342,337	-
Ambulance Services	23,104,366	21,180,453	-
Other	35,477,004	8,908,857	6,170,749
Highways and streets	15,369,248	2,515,109	4,971,396
Health	20,231,080	1,893,258	8,192,956
Social services	6,199,607	4,079,181	93,076
Culture and recreation	9,079,005	632,217	1,604,863
Education	4,097,398	-	-
Interest on long-term debt	8,863,280	-	-
TOTAL PRIMARY GOVERNMENT	\$ 221,598,548	\$ 60,678,100	\$ 27,124,454
Component units:			
Department of Education	\$ 401,623,110	\$ 23,634,254	\$ 60,553,096
"911" Emergency communications	10,600,333	3,558,508	1,535,326
Water and wastewater treatment authority	12,097,781	10,977,763	-
Railroad authority	3,229,255	123,235	3,105,087
TOTAL COMPONENT UNITS	\$ 427,550,479	\$ 38,293,760	\$ 65,193,509
General revenues:			
Property taxes			
Sales taxes			
Business taxes			
Hotel/Motel taxes			
Other taxes			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Loss on donation of property			
Total general revenues			
Change in net assets			
Net assets, beginning			
Prior period adjustment			
Net assets, ending			

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

Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets	
	Primary Government Governmental Activities	Components Units
\$ 11,819,153	\$ (24,656,715)	
-	(25,042,321)	
-	(1,624,469)	
-	(8,474,463)	
-	(1,923,913)	
-	(20,397,398)	
-	(7,882,743)	
-	(10,144,866)	
-	(2,027,350)	
-	(6,841,925)	
-	(4,097,398)	
-	(8,863,280)	
<u>\$ 11,819,153</u>	<u>(121,976,841)</u>	
\$ 3,738,339		\$ (313,697,421)
6,053,462		546,963
989,600		(130,418)
-		(933)
<u>\$ 10,781,401</u>		<u>(313,281,809)</u>
	128,640,070	127,411,070
	2,691,376	61,786,864
	5,728,456	-
	5,571,577	-
	940,809	-
	-	128,432,596
	623,836	294,111
	(366,650)	-
	<u>143,829,474</u>	<u>317,924,641</u>
	21,852,633	4,642,832
	101,392,915	426,285,947
	<u>39,897,256</u>	<u>-</u>
	<u>\$ 163,142,804</u>	<u>\$ 430,928,779</u>

**BALANCE SHEET
GOVERNMENTAL FUNDS**

HAMILTON COUNTY, TENNESSEE

June 30, 2012

	<u>General</u>	<u>Sheriff</u>	<u>Debt Service</u>
ASSETS			
Cash and cash equivalents	\$ 2,304,326	\$ 63,451	\$ 38,053
Investments	84,789,242	2,340,509	373,771
Receivables, net of allowance for uncollectible	134,722,545	332,632	50,358
Due from other funds	7,135,921	134,584	-
Due from component units	1,137,349	-	-
Inventories	1,182,199	-	-
Prepaid items	127,595	-	-
Advance to Component Units	-	-	6,500,000
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 231,399,177</u>	<u>\$ 2,871,176</u>	<u>\$ 6,962,182</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,702,272	\$ 96,817	\$ 34,355
Accrued items and other	8,548,191	1,208,358	-
Intergovernmental payables	1,031,894	-	40,744
Due to other funds	135,549	512	-
Short term obligations	-	-	-
Deferred revenues:			
Uncollected property taxes	114,008,321	-	-
Other	542,077	33,449	6,500,000
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>126,968,304</u>	<u>1,339,136</u>	<u>6,575,099</u>
Fund balances:			
Nonspendable for inventories	1,182,199	-	-
Nonspendable for prepaid items	127,595	-	-
Restricted for general government	-	-	-
Restricted for public safety	-	567,440	-
Committed for general government	100,554	-	-
Committed for public safety	284,219	72,489	-
Committed for capital projects	-	-	-
Assigned for constitutional officers	-	-	-
Assigned for general government	2,067,898	-	-
Assigned for public safety	1,505,360	892,111	-
Assigned for debt service	-	-	387,083
Assigned for highways and streets	51,340	-	-
Assigned for health	91,664	-	-
Assigned for culture and recreation	5,035	-	-
Assigned for capital projects	-	-	-
Unassigned	99,015,009	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>104,430,873</u>	<u>1,532,040</u>	<u>387,083</u>
Total liabilities and fund balances	<u>\$ 231,399,177</u>	<u>\$ 2,871,176</u>	<u>\$ 6,962,182</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,312,702	\$ 3,952,071	\$ 7,670,603
29,544,598	580,014	117,628,134
13,597,444	892,779	149,595,758
-	965	7,271,470
-	-	1,137,349
-	-	1,182,199
-	-	127,595
-	-	6,500,000
<u>\$ 44,454,744</u>	<u>\$ 5,425,829</u>	<u>\$ 291,113,108</u>
\$ 6,181,578	\$ -	\$ 9,015,022
-	1,592,470	11,349,019
10,361	-	1,082,999
7,133,181	2,228	7,271,470
28,556,000	-	28,556,000
-	-	114,008,321
110,265	-	7,185,791
<u>41,991,385</u>	<u>1,594,698</u>	<u>178,468,622</u>
-	-	1,182,199
-	-	127,595
-	39,920	39,920
-	-	567,440
-	-	100,554
-	-	356,708
34,050,008	-	34,050,008
-	3,622,232	3,622,232
-	-	2,067,898
-	168,979	2,566,450
-	-	387,083
-	-	51,340
-	-	91,664
-	-	5,035
357,317	-	357,317
(31,943,966)	-	67,071,043
<u>2,463,359</u>	<u>3,831,131</u>	<u>112,644,486</u>
<u>\$ 44,454,744</u>	<u>\$ 5,425,829</u>	<u>\$ 291,113,108</u>



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

HAMILTON COUNTY, TENNESSEE

June 30, 2012

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

Fund balances - total governmental funds	\$ 112,644,486
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	269,646,911
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.	14,667,826
Internal service funds are used by management to charge the costs of self-insurance programs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	16,596,304
The County-administered 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.	1,107,612
The County OPEB trust fund has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	268,474
Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable	8,542,351
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. 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 bonds	\$223,705,000
Add: original issue premiums	12,891,039
Notes payable & other debt	4,170,834
Landfill post closure costs	200,000
Compensated absences	15,675,004
Accrued interest payable	<u>3,689,283</u>
	<u>(260,331,160)</u>
Net assets of governmental activities	\$ <u><u>163,142,804</u></u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	General	Sheriff	Debt Service
REVENUES			
Taxes	\$ 138,674,490	\$ -	\$ -
Licenses and permits	731,556	-	-
Intergovernmental	24,379,184	2,166,852	899,151
Charges for services	33,218,478	20,392	525,134
Fines, forfeitures and penalties	997,619	564,307	-
Investment earnings	346,346	10,120	-
Miscellaneous	3,310,014	548,974	75,157
	<u>201,657,687</u>	<u>3,310,645</u>	<u>1,499,442</u>
EXPENDITURES			
Current:			
General government	37,136,190	-	-
Public safety:			
Sheriff	-	27,592,036	-
Criminal Court	1,206,960	-	-
Juvenile Court	6,378,125	-	-
Ambulance Services	22,716,010	-	-
Other	33,901,720	-	-
Highways and streets	12,689,019	-	-
Health	19,633,044	-	-
Social services	2,768,031	-	-
Culture and recreation	7,149,295	-	-
Debt service:			
Principal	-	-	22,930,469
Interest and fiscal charges	-	-	8,652,232
Capital outlay:			
General government	3,496,230	-	-
Education	-	-	-
	<u>147,074,624</u>	<u>27,592,036</u>	<u>31,582,701</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,583,063</u>	<u>(24,281,391)</u>	<u>(30,083,259)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,861,580	23,798,886	30,233,839
Transfers out	(56,033,401)	-	-
Sale of capital assets	52,393	-	-
Issuance of bonds	-	-	-
	<u>(46,119,428)</u>	<u>23,798,886</u>	<u>30,233,839</u>
Net change in fund balances	8,463,635	(482,505)	150,580
Fund balances, beginning	<u>95,967,238</u>	<u>2,014,545</u>	<u>236,503</u>
Fund balances, ending	<u>\$ 104,430,873</u>	<u>\$ 1,532,040</u>	<u>\$ 387,083</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 5,586,797	\$ 144,261,287
-	-	731,556
8,618,796	-	36,063,983
235,384	20,163,887	54,163,275
-	32,212	1,594,138
130,398	21,805	508,669
<u>3,200,357</u>	<u>93,856</u>	<u>7,228,358</u>
<u>12,184,935</u>	<u>25,898,557</u>	<u>244,551,266</u>
-	9,822,264	46,958,454
-	-	27,592,036
-	2,602,205	3,809,165
-	1,269,035	7,647,160
-	-	22,716,010
-	1,219	33,902,939
-	-	12,689,019
-	-	19,633,044
-	4,389,230	7,157,261
-	-	7,149,295
-	-	22,930,469
-	-	8,652,232
12,788,243	-	16,284,473
<u>23,105,086</u>	<u>-</u>	<u>23,105,086</u>
<u>35,893,329</u>	<u>18,083,953</u>	<u>260,226,643</u>
<u>(23,708,394)</u>	<u>7,814,604</u>	<u>(15,675,377)</u>
131,958	1,868,718	65,894,981
-	(9,861,580)	(65,894,981)
612,122	-	664,515
<u>68,652,693</u>	<u>-</u>	<u>68,652,693</u>
<u>69,396,773</u>	<u>(7,992,862)</u>	<u>69,317,208</u>
45,688,379	(178,258)	53,641,831
<u>(43,225,020)</u>	<u>4,009,389</u>	<u>59,002,655</u>
<u>\$ 2,463,359</u>	<u>\$ 3,831,131</u>	<u>\$ 112,644,486</u>



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

HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ 53,641,831
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of net assets	39,389,559
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities	(11,632,823)
The issuance of long-term debt provides current 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 and deferred amount on refunding when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment on long-term debt and related items.	(47,828,175)
The net revenues of internal service funds are reported with governmental activities	(2,375,587)
The net effect of various transactions involving capital assets is to decrease net assets	(6,711,391)
The net effect of capital asset transactions involving the Hamilton County Department of Education is to decrease net assets.	(4,097,398)
The net effect of the transaction from a prior period adjustment involving capital asset additions of infrastructures and land resulting in an increase to net assets	39,897,256
The net effect of the change in the net OPEB obligation is included in the governmental activities in the statement of activities	394,282
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities	(76,058)
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	(286,482)
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds	<u>1,434,875</u>
Change in net assets of governmental activities	<u>\$ 61,749,889</u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive Negative
REVENUES				
Taxes	\$ 135,260,272	\$ 135,260,272	\$ 138,674,490	\$ 3,414,218
Licenses and permits	543,500	543,500	731,556	188,056
Intergovernmental revenues	21,177,439	27,567,615	24,379,184	(3,188,431)
Charges for services	15,216,391	15,462,391	12,154,681	(3,307,710)
Fines, forfeitures and penalties	1,037,200	1,037,200	997,619	(39,581)
Investment earnings	502,100	502,100	346,346	(155,754)
Miscellaneous	3,292,958	3,391,330	3,310,014	(81,316)
Total revenues	177,029,860	183,764,408	180,593,890	(3,170,518)
EXPENDITURES				
Current:				
General government	37,155,847	40,177,716	37,116,911	3,060,805
Public safety	42,226,548	45,448,462	43,238,185	2,210,277
Highways and streets	13,054,734	13,667,630	12,084,820	1,582,810
Health	21,274,278	21,186,382	19,616,272	1,570,110
Social services	2,623,506	3,316,863	2,768,031	548,832
Culture and recreation	7,399,353	7,440,990	7,097,183	343,807
Capital outlay	3,369,900	5,224,769	3,305,051	1,919,718
Total expenditures	127,104,166	136,462,812	125,226,453	11,236,359
Excess of revenues over expenditures	49,925,694	47,301,596	55,367,437	8,065,841
OTHER FINANCING SOURCES (USES)				
Transfers in	9,623,000	9,568,000	9,861,580	293,580
Transfers out	(57,109,044)	(57,347,302)	(56,033,401)	1,313,901
Sale of capital assets	-	52,393	52,393	-
Total other financing sources (uses)	(47,486,044)	(47,726,909)	(46,119,428)	1,607,481
Net change in fund balance	2,439,650	(425,313)	9,248,009	9,673,322
Fund balance allocation	(2,439,650)	425,313	-	(425,313)
	<u>\$ -</u>	<u>\$ -</u>	9,248,009	<u>\$ 9,248,009</u>
Add encumbrances at end of year			753,382	
Less encumbrances at beginning of year			(1,537,756)	
Net change in fund balance--(GAAP Modified Accrual Basis)			8,463,635	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			95,967,238	
Fund balance at end of year--(GAAP Modified Accrual Basis)			<u>\$ 104,430,873</u>	

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SHERIFF FUND**

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 2,292,223	\$ 2,519,605	\$ 2,166,852	\$ (352,753)
Charges for current services	16,300	16,300	19,912	3,612
Fines, forfeitures and penalties	565,097	565,097	564,307	(790)
Investment earnings	14,700	14,700	10,090	(4,610)
Miscellaneous	636,350	636,350	545,404	(90,946)
Total revenues	<u>3,524,670</u>	<u>3,752,052</u>	<u>3,306,565</u>	<u>(445,487)</u>
EXPENDITURES				
Current:				
Public safety:				
Administration	1,819,335	1,873,727	1,902,467	(28,740)
Patrol	8,311,366	8,280,084	8,518,317	(238,233)
Jail	10,248,896	10,282,345	10,380,759	(98,414)
Process and court servers	837,289	935,789	806,282	129,507
Communications	668,848	668,848	585,821	83,027
Major crimes	2,055,176	2,055,671	2,040,942	14,729
Fugitive warrant	1,068,110	1,068,111	1,096,212	(28,101)
Civil Process	662,108	662,108	569,528	92,580
Special operations	901,579	901,579	830,201	71,378
Inmate commissary	235,000	235,000	308,271	(73,271)
Governor's hwy safety grant	-	175,638	99,783	75,855
BOJ Bulletproof vest grant	-	8,955	6,508	2,447
Information system	351,586	351,586	364,214	(12,628)
IV-D civil process	199,200	199,200	184,163	15,037
Total budgetary expenditures	<u>27,358,493</u>	<u>27,698,641</u>	<u>27,693,468</u>	<u>5,173</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	<u>(23,833,823)</u>	<u>(23,946,589)</u>	<u>(24,386,903)</u>	<u>(440,314)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	23,692,586	23,791,086	23,791,086	-
Total Other Financing Sources (Uses)	<u>23,692,586</u>	<u>23,791,086</u>	<u>23,791,086</u>	<u>-</u>
Net change in fund balance	(141,237)	(155,503)	(595,817)	(440,314)
Fund balance allocation	141,237	155,503	-	(155,503)
	<u>\$ -</u>	<u>\$ -</u>	(595,817)	<u>\$ (595,817)</u>
Add encumbrances at end of year			128,724	
Less encumbrances at beginning of year			(14,266)	
Deficiency of nonbudgeted revenues and other financing sources under nonbudgeted expenditures and other financing uses (Sheriff Special Projects)			<u>(1,146)</u>	
Net change in fund balance--(GAAP)			(482,505)	
Fund balance at beginning of year--(GAAP)			<u>2,014,545</u>	
Fund balance at end of year--(GAAP)			<u>\$ 1,532,040</u>	

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
June 30, 2012**

	<u>Governmental Activities - Internal Service Fund</u>
CURRENT ASSETS	
Cash	\$ 137,586
Investments	18,755,691
Inventory	478,572
Prepaid insurance	76,336
Prepaid items	<u>44,097</u>
 Total current assets	 <u>19,492,282</u>
LIABILITIES	
Current Liabilities	
Accounts payable	266,696
Accrued claims	<u>2,245,636</u>
 Total current liabilities	 <u>2,512,332</u>
Noncurrent Liabilities	
Accrued claims	<u>383,646</u>
NET ASSETS	
Unrestricted	<u>\$ 16,596,304</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Charges for services	\$ 20,582,456
Other	<u>829,746</u>
Total operating revenues	<u>21,412,202</u>
OPERATING EXPENSES	
Unemployment compensation	183,838
Claims and premiums	19,370,585
Pharmacy	3,107,476
Administration	<u>1,241,057</u>
Total operating expenses	<u>23,902,956</u>
Operating income (loss)	(2,490,754)
NONOPERATING REVENUES	
Investment earnings	<u>115,167</u>
Change in net assets	(2,375,587)
Net assets, beginning	<u>18,971,891</u>
Net assets, ending	<u><u>\$ 16,596,304</u></u>

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



**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	Governmental Activities - Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from insurance premiums	\$ 20,219,586
Cash received from unemployment compensation	645,908
Cash paid for claims and premiums	(19,097,728)
Cash paid for administration	(1,264,377)
Cash paid for pharmacy	<u>(3,214,715)</u>
Net cash used in operating activities	<u>(2,711,326)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(18,755,691)
Proceeds from sale of investments	21,242,802
Interest on investments	<u>115,167</u>
Net cash provided by investing activities	<u>2,602,278</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(109,048)
BEGINNING CASH AND CASH EQUIVALENTS	<u>246,634</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 137,586</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	<u>\$ (2,490,754)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES	
Change in receivable	10,958
Change in inventory	(478,572)
Change in accounts payable	249,993
Change in accrued claims	26,883
Change in prepaid insurance	<u>(29,834)</u>
Total adjustments	<u>(220,572)</u>
Net cash used in operating activities	<u>\$ (2,711,326)</u>

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

**HAMILTON COUNTY, TENNESSEE
June 30, 2012**

	OPEB Trust Fund	Pension Trust Funds	Constitutional Officers Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ -	\$ 59,540	\$ 8,357,180
Certificates of deposit	-	11,367	8,090,056
Investments	-	-	109,791
Investments, at fair value:			
US Gov. Securities	789,236	351,615	-
Municipal Bonds	154,039	72,710	-
Mutual Funds	2,912,806	972,320	-
Domestic Equity Securities	3,342,576	516,559	-
Domestic Corporate Bonds	851,437	373,911	-
Foreign Bonds / Notes	98,208	49,062	-
Foreign Equity Securities	269,574	47,315	-
Total investments	<u>8,417,876</u>	<u>2,383,492</u>	<u>-</u>
Receivables:			
Interest	25,763	10,301	-
Accounts	<u>-</u>	<u>599</u>	<u>106,671</u>
Total assets	<u>8,443,639</u>	<u>2,465,299</u>	<u>16,663,698</u>
LIABILITIES			
Accrued items and other	11,284	482	12,065,409
Intergovernmental payables	<u>-</u>	<u>-</u>	<u>4,598,289</u>
Total liabilities	<u>11,284</u>	<u>482</u>	<u>16,663,698</u>
NET ASSETS			
Assets held in trust for benefits	<u>\$ 8,432,355</u>	<u>\$ 2,464,817</u>	<u>\$ -</u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

	OPEB Trust Fund	Pension Trust Funds
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer	\$ 1,600,000	\$ 67,418
Other	<u> -</u>	<u> 7,800</u>
Total contributions	<u> 1,600,000</u>	<u> 75,218</u>
Investment earnings:		
Net change in fair value of investments	(216,935)	(45,866)
Interest	<u> 207,475</u>	<u> 73,257</u>
Net investment income	<u> (9,460)</u>	<u> 27,391</u>
Total additions	<u> 1,590,540</u>	<u> 102,609</u>
DEDUCTIONS		
Benefits	-	183,726
Misc Expense	21,075	-
Administrative expense	<u> 50,321</u>	<u> 24,244</u>
Total deductions	<u> 71,396</u>	<u> 207,970</u>
Change in net assets	1,519,144	(105,361)
Net assets, beginning	<u> 6,913,211</u>	<u> 2,570,178</u>
Net assets, ending	<u> \$ 8,432,355</u>	<u> \$ 2,464,817</u>

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



**STATEMENT OF NET ASSETS
COMPONENT UNITS**

HAMILTON COUNTY, TENNESSEE

June 30, 2012

	Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority (WWTA)	Railroad Authority	Total
ASSETS					
Cash and cash equivalents	\$ 27,753,462	\$ 1,013,964	\$ 2,903,853	\$ 51,659	\$ 31,722,938
Certificates of deposit	397,480	8,198,821	-	-	8,596,301
Investments	45,199,059	3,687,599	-	-	48,886,658
Receivables, net of allowance for uncollectible	152,886,824	606,525	954,984	948,999	155,397,332
Receivables, restricted	-	-	191,080	-	191,080
Inventories	590,652	-	101,465	-	692,117
Restricted cash	3,455,419	-	3,472,695	-	6,928,114
Prepaid items	118,233	-	485,348	-	603,581
Land and other nondepreciable assets	18,580,714	-	6,811,481	-	25,392,195
Capital assets, net of accumulated depreciation	<u>288,345,826</u>	<u>4,424,271</u>	<u>88,115,997</u>	<u>2,750</u>	<u>380,888,844</u>
Total assets	<u>537,327,669</u>	<u>17,931,180</u>	<u>103,036,903</u>	<u>1,003,408</u>	<u>659,299,160</u>
LIABILITIES					
Accounts payable and other current liabilities	37,605,186	938,687	1,253,972	950,961	40,748,806
Due to primary government	85,769	858,804	192,776	-	1,137,349
Unearned revenue	126,515,383	-	-	-	126,515,383
Noncurrent liabilities:					
Due within one year	9,740,515	-	3,139,086	-	12,879,601
Due in more than one year	14,666,157	-	17,380,734	-	32,046,891
Advance from Primary Government	<u>517,351</u>	<u>-</u>	<u>14,525,000</u>	<u>-</u>	<u>15,042,351</u>
Total liabilities	<u>189,130,361</u>	<u>1,797,491</u>	<u>36,491,568</u>	<u>950,961</u>	<u>228,370,381</u>
NET ASSETS					
Invested in capital assets, net of related debt	306,926,540	4,424,271	59,882,658	2,750	371,236,219
Restricted for:					
State statute	33,271	-	-	-	33,271
School activities funds	3,455,419	-	-	-	3,455,419
WWTA PSLP program	-	-	4,050,036	-	4,050,036
Unrestricted	<u>37,782,078</u>	<u>11,709,418</u>	<u>2,612,641</u>	<u>49,697</u>	<u>52,153,834</u>
Total net assets	<u>\$348,197,308</u>	<u>\$ 16,133,689</u>	<u>\$ 66,545,335</u>	<u>\$ 52,447</u>	<u>\$ 430,928,779</u>

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

**STATEMENT OF ACTIVITIES
COMPONENT UNITS**

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
HAMILTON COUNTY DEPARTMENT OF EDUCATION				
Regular instruction	\$ 190,553,575	\$ 898,952	\$ 22,105,201	\$ 1,893,521
Exceptional instruction	43,358,068	656,938	9,264,285	420,018
Vocational instruction	9,138,496	-	550,252	88,943
Support services:				
Pupil services	13,105,708	-	2,065,781	127,618
Instructional staff	19,379,987	235,420	8,519,298	194,421
Board of education	6,157,407	-	141,204	60,689
Administration	24,638,437	-	160,133	237,775
Business and fiscal services	2,488,832	-	9,076	23,645
Human resources	1,106,203	-	-	10,625
Plant operation and maintenance	35,123,704	-	66,527	316,067
Pupil transportation	15,264,111	-	841,406	149,274
Central and other	2,045,658	-	315	20,005
Operation of noninstructional services:				
Community services	2,913,918	3,062,682	457,129	2,873
Early childhood education	3,741,247	-	3,685,206	10,995
Extracurricular	13,954,119	13,035,350	-	-
Child Nutrition	18,653,640	5,744,912	12,687,283	181,870
TOTAL DEPARTMENT OF EDUCATION	401,623,110	23,634,254	60,553,096	3,738,339
"911" EMERGENCY COMMUNICATIONS				
Emergency communications operations	10,600,333	3,558,508	1,535,326	6,053,462
WATER & WASTEWATER TREATMENT AUTHORITY				
Water and wastewater treatment operations	12,097,781	10,977,763	-	989,600
RAILROAD AUTHORITY				
Railroad authority operations	3,229,255	123,235	3,105,087	-
TOTAL COMPONENT UNITS	\$ 427,550,479	\$ 38,293,760	\$ 65,193,509	\$ 10,781,401

General revenues:
Property taxes
Sales taxes
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Total general revenues
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

Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Railroad Authority	Total
\$ (165,655,901)				\$ (165,655,901)
(33,016,827)				(33,016,827)
(8,499,301)				(8,499,301)
(10,912,309)				(10,912,309)
(10,430,848)				(10,430,848)
(5,955,514)				(5,955,514)
(24,240,529)				(24,240,529)
(2,456,111)				(2,456,111)
(1,095,578)				(1,095,578)
(34,741,110)				(34,741,110)
(14,273,431)				(14,273,431)
(2,025,338)				(2,025,338)
608,766				608,766
(45,046)				(45,046)
(918,769)				(918,769)
(39,575)				(39,575)
<u>(313,697,421)</u>				
	\$ 546,963			546,963
		\$ (130,418)		(130,418)
			\$ (933)	(933)
				<u>(313,281,809)</u>
127,411,070	-	-	-	127,411,070
61,786,864	-	-	-	61,786,864
128,432,596	-	-	-	128,432,596
249,403	40,530	4,178	-	294,111
<u>317,879,933</u>	<u>40,530</u>	<u>4,178</u>	<u>-</u>	<u>317,924,641</u>
4,182,512	587,493	(126,240)	(933)	4,642,832
<u>344,014,796</u>	<u>15,546,196</u>	<u>66,671,575</u>	<u>53,380</u>	<u>426,285,947</u>
<u>\$ 348,197,308</u>	<u>\$ 16,133,689</u>	<u>\$ 66,545,335</u>	<u>\$ 52,447</u>	<u>\$ 430,928,779</u>



NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE June 30, 2012

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NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hamilton County, Tennessee (the County) was incorporated October 25, 1819, by the Tennessee State Legislature and operates under a legislative body – County Mayor form of government. The present form of government was established in 1978 by constitutional amendment.

The financial statements of the County 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. 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.

(1) REPORTING ENTITY

In evaluating the County as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the County may be financially accountable and, as such, should be included within the County’s financial statements. The County (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 County. 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 component units of the primary government (the County) are all discretely presented.

Discretely Presented Component Units

Hamilton County Department of Education – The Hamilton County Department of Education provides public education for grades kindergarten through twelve. The nine-member board is currently comprised of elected members who appoint the superintendent. The Hamilton County Commission levies taxes for the operations of the school system and issues debt for all significant capital projects, thus making the Department of Education fiscally dependent on the primary government. The financial activities also include the operations of a centralized cafeteria system, school activity funds, capital projects, and an internal service fund. Additional information may be obtained from: Hamilton County Department of Education, 6703 Bonny Oaks Drive, Bldg. 200-1, Chattanooga, TN 37421.

Emergency Communication District Board (911) – The “911” Emergency Communication Board was approved by resolution of the Hamilton County Board of Commissioners after the passage of Chapter 867 of the 1984 Tennessee Public Acts which authorized Emergency Communications Districts. The nine-member board is appointed by the County Mayor, is approved by the Hamilton County Board of Commissioners, and is legally separate from Hamilton County. The Board of Commissioners must approve any bonds or indebtedness of the district. Complete financial statements may be obtained from: Hamilton County “911” Emergency Communication District, 3404 Annicola Highway, Chattanooga, TN 37406.

Hamilton County Water & Wastewater Treatment Authority – The Water and Wastewater Treatment Authority (the Authority) was organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. The Authority began operations on July 1, 1994, for the purpose of providing wastewater treatment service to residents of unincorporated areas of Hamilton County, Tennessee. The five-member board is appointed by the Hamilton County Board of Commissioners from recommendations of the County Mayor and is legally separate. The Authority’s Board has final decision-making authority for the entity. The County Board of Commissioners does not approve the Authority’s budget, but they do finance debt for the Authority’s capital projects. Complete financial statements may be obtained from: Water & Wastewater Treatment Authority, P.O. Box 8856, Chattanooga, TN 37414.

Hamilton County Railroad Authority – The Railroad Authority (the Authority) was organized under the Railroad Authority Act of the State of Tennessee. The Authority was established on February 20, 2002 for the purpose of improving rail service in Hamilton County. The five-member Board consists of the County Mayor, City of Chattanooga Mayor, one member elected by the Board of County Commissioners, one member elected by the Chattanooga City Council, and the President and CEO of Chattanooga Area Chamber of Commerce. The Authority’s Board has final decision-making authority for the entity. The Board of Commissioners must approve any bonds or indebtedness of the Authority. Additional information may be obtained from: Hamilton County Railroad Authority, 123 East Seventh Street, Chattanooga, TN 37402.

(2) **ACCOUNTING PRONOUNCEMENTS**

The County plans to adopt GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement establishes accounting and financial reporting requirements for service concession arrangements. Management is in the process of determining the effects that the adoption of this Statement will have on the County’s financial statements.

The County plans to adopt GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*, required for fiscal periods beginning after June 15, 2012, in fiscal 2013. This Statement amends certain reporting entity issues related to component units and equity interests in joint ventures. Management is in the process of determining the effects that the adoption of this Statement will have on the County’s financial statements.

The County plans to adopt GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB And AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements. Management is in the process of determining the effects that the adoption of this Statement will have on the County’s financial statements.

The County plans to adopt GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. Management is in the process of determining the effects that the adoption of this Statement will have on the County’s financial statements.

The County adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53*, required for fiscal periods beginning after June 15, 2011, in fiscal 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when an effective hedging relationship continues and hedge accounting should continue to be applied. Management has determined that the adoption of this Statement had no effect on the County’s financial statements.

(3) **JOINT VENTURES**

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 ongoing financial responsibility. The County participates in the following joint venture:

Carter Street Corporation – The Carter Street Corporation manages the Trade Center and parking garage that were financed by Industrial Development Bonds. Further information, along with condensed financial information, can be found in Note R – Joint Venture.

Related Organizations – The following related organizations are excluded from the financial reporting entity because the County’s accountability for these organizations does not extend beyond making the appointments. Audited financial statements are available from the respective organizations.

Soddy-Daisy/Falling Water Utility District – This utility district is different from the other utility districts of Hamilton County because of the size of the area that it covers. Tennessee Code Annotated, Section 7-82-307(r)(1) & (2) provides for the appointment of seven members of which three members are recommended by the utility commission and the remaining four are appointed by the County Mayor. No other utility district within Hamilton County has a seven-member board. After the board appointments, neither a financial benefit nor a burden to the citizens of Hamilton County arises.

Industrial Development Board of the County of Hamilton – The Industrial Development Board of the County of Hamilton (the Corporation) is a corporation formed for the purpose of promoting and developing commercial, industrial, and manufacturing enterprise and encouraging employment within the boundaries of Hamilton County. The County Board of Commissioners appoints the eleven-member board. The Corporation is authorized and empowered to issue industrial development revenue bonds that do not constitute an indebtedness of Hamilton County, the State of Tennessee, or any political subdivision thereof. The County assumes no responsibility for the day-to-day operating expenses of the Corporation. Fees charged to applicants for funding finance such expenses.

Chattanooga-Hamilton County Hospital Authority – The County Mayor appoints, subject to the approval of the County Board of Commissioners, four members of the eleven-member Hospital Authority Board. The County is committed to fund a minimum of \$1,500,000 annually for indigent patient care to the Authority. The Authority has the ability to issue its own debt, which is not an obligation of the County, and primarily patient revenues finance its operations.

(4) **BASIC FINANCIAL STATEMENTS-GASB STATEMENT NO. 34**

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements, focusing on either the County as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. At June 30, 2012, the County has no business-type activities in the primary government. In the government-wide Statement of Net Assets, the governmental activities (a) are presented on a consolidated basis in a single column and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, highways and streets, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. Program

revenues include revenues from fines and forfeitures, licenses and permits fees, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is designed to view the County as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period. Emphasis here is on the major governmental funds. Non-major governmental funds (by category) are summarized into a single column.

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

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statement. Activities accounted for in the Internal Service Funds include: (1) accounting for the payment of workers' compensation and general liability claims; (2) payment of retiree and employee medical premiums, life insurance and other payroll related expenses, and unemployment claims; and (3) the employee pharmacy. Operating revenues and expenses are the result of providing services to the principal user of the internal service. Any revenues or expenses that are not the result of providing those services are classified as nonoperating. Since the principal users of the internal services are the County's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level and interfund transactions are eliminated. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, highways and streets, etc.).

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

The focus of the GASB Statement No. 34 model is on the County as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual government funds as well as the fiduciary funds (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

(5) BASIS OF PRESENTATION

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

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

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

a) Major Funds:

General Fund – The General Fund is used to account for all revenues and expenditures applicable to the general operations of county government that are not properly accounted for in another fund. All general operating revenues that are not restricted or designated as to their use by outside sources are recorded in the General Fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Sheriff Fund – The Sheriff Fund is used to account for all revenues and expenditures applicable to the operations of the Hamilton County Sheriff, an independently elected officer of Hamilton County. Revenues to fund the Sheriff's operations are primarily generated from appropriations by the Hamilton County General Fund, intergovernmental charges for maintaining state or federal prisoners in the County Jail, and charges for services provided.

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 Primary Government's governmental activities.

Capital Projects Fund – The Capital Projects Fund is used to account for resources designated to construct or acquire capital assets and major improvements. Revenues are derived primarily from the issuance of long-term liabilities, intergovernmental revenues, grants, and earnings on investments.

b) Other Fund Types:

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

Internal Service Funds – The Internal Service Fund accounts for the County's self-insurance programs. The County is self-insured for unemployment compensation, on-the-job injury claims, property and liability claims, and losses due to liabilities arising under the laws of the state and federal governments. The costs for these programs are funded through premiums paid by the departments and agencies of the County.

Pension Trust Funds – The Pension Trust Funds account for assets held by the County as trustee. These funds are accounted for in the same manner as business enterprises providing similar services. Certain county employees hired prior to July 1, 1977, all current and future county commissioners, and certain county teachers who were employed prior to July 1, 1945, are covered by the Pension Trust Funds.

OPEB Trust Fund – OPEB Trust Fund is used to report the County's "Other Postemployment Benefits", the fund accounts for resources held in trust for a defined benefit postemployment health and medical care plan for County retirees and their dependents. This fund is accounted for in the same manner as business enterprises providing similar services.

Agency Funds – Agency Funds are used to account for fiduciary assets held by the County in a custodial capacity as an agent on behalf of individuals and other government entities. The County's agency fund is used to account for various deposits, bail bonds, performance bonds, and pension trust funds.

c) Non-Current Governmental Assets/Liabilities:

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

(6) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

Accrual – Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual – All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Major revenue sources susceptible to accrual include: grants, interest, sales and use taxes, hotel/motel taxes, property taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received.

The County defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be sixty days.

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

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

(7) BUDGET POLICY AND BUDGETARY DATA

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

On or around June 1, the County Mayor submits to the Hamilton County Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted which allow for taxpayer comments.

Prior to July 1, the Board of Commissioners legally enacts a balanced budget through passage of a resolution.

The County Mayor is authorized to transfer budgeted amounts within divisions within any fund; however, any revisions that alter the total expenditures of any fund or transfer funds between divisions must be approved by the Board of Commissioners.

A legally enacted budget is employed as a management control device during the year for the following governmental funds: General Fund, certain special revenue funds (Sheriff, Hotel Motel and Juvenile Court Clerk) and the Debt Service Fund. Formal budgetary integration is not employed for the remaining Constitutional Officers due to the ability of management to closely monitor and control the transactions in the funds. The remaining special revenue funds are unbudgeted because effective control is maintained through the appropriation of revenues by the General Fund and through management's observation of the limited transactions of these funds.

The budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis and do not include financial information of individual funds, which do not have budgets. Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of the fiscal year.

Encumbrances against budgeted appropriations are recorded during the year upon execution of purchase orders, contracts, or other appropriate documents. Amounts shown as encumbrances at June 30, 2012, reflect material expenditures for goods and services that had not been received or completed at that date. These items are recorded as reservations of fund balances and provide authority for the carryover of appropriations to the subsequent year in order to complete these transactions. Encumbrances are utilized in the General Fund, certain special revenue funds, the Capital Projects Fund, and the General Purpose School Fund, a component unit.

	<u>General</u>	<u>Sheriff</u>	<u>Capital Projects</u>	<u>Total</u>
Primary Government				
Committed for general government	\$ 100,554	\$ -	\$ -	\$ 100,554
Committed for public safety	284,219	72,489	-	356,708
Committed for capital projects	-	-	34,050,008	34,050,008
Assigned for general government	165,772	-	-	165,772
Assigned for public safety	54,798	56,235	-	111,033
Assigned for highways and streets	51,340	-	-	51,340
Assigned for health	91,664	-	-	91,664
Assigned for culture and recreation	5,035	-	-	5,035
Assigned for capital projects	-	-	357,317	357,317
	<u>\$ 753,382</u>	<u>\$ 128,724</u>	<u>\$34,407,325</u>	<u>\$35,289,431</u>
	<u>General Purpose School</u>	<u>Centralized Cafeteria</u>	<u>Education Capital Projects</u>	<u>Total Board of Education</u>
Component Units				
Committed for education	\$1,652,412	\$ -	\$ -	\$ 1,652,412
Committed for centralized cafeteria	-	43,731	-	43,731
Committed for capital projects	-	-	467,608	467,608
	<u>\$1,652,412</u>	<u>\$ 43,731</u>	<u>\$ 467,608</u>	<u>\$ 2,163,751</u>

The various departments within the County are organized by function into separate divisions. The level at which expenditures may not legally exceed appropriations is the division level. All budget amounts included in these financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

The General Fund of the County is organized into seven separate divisions by function (Constitutional Offices, Supported Agencies, Unassigned, Finance, Public Works, Human Services and Health) and it is at that level that expenditures may not legally exceed appropriations. In addition, the Sheriff, Hotel Motel, Debt Service and the Juvenile Court Clerk funds are budgeted and may not legally exceed appropriations.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Non-GAAP Basis)</u>	<u>Variance with Final Budget Positive/(Negative)</u>
General Fund				
Constitutional Offices	\$ 48,115,067	\$ 48,917,594	\$ 47,150,231	\$ 1,767,363
Supported Agencies	3,754,154	3,844,675	3,836,681	7,994
Unassigned	50,593,767	55,757,178	50,517,292	5,239,886
Finance	6,542,386	6,761,137	6,379,986	381,151
Public Works	17,020,107	17,855,672	16,134,487	1,721,185
Human Services	38,601,999	41,176,025	39,313,453	1,862,572
Health	<u>19,585,730</u>	<u>19,497,833</u>	<u>17,927,724</u>	<u>1,570,109</u>
	<u>184,213,210</u>	<u>193,810,114</u>	<u>181,259,854</u>	<u>12,550,260</u>
Debt Service	<u>33,085,790</u>	<u>33,085,790</u>	<u>31,582,701</u>	<u>1,503,089</u>
Sheriff	<u>27,358,493</u>	<u>27,698,641</u>	<u>27,693,468</u>	<u>5,173</u>
Juvenile Court Clerk	<u>2,244,718</u>	<u>2,244,718</u>	<u>2,174,814</u>	<u>69,904</u>
Hotel Motel	<u>5,500,000</u>	<u>5,500,000</u>	<u>5,562,043</u>	<u>(62,043)</u>
Primary Government	<u>\$252,402,211</u>	<u>\$262,339,263</u>	<u>\$248,272,880</u>	<u>\$14,066,383</u>

A separately issued budgetary report is available and can be obtained from Hamilton County Finance Division, 455 North Highland Park Avenue, Chattanooga, Tennessee 37404.

(8) ASSETS, LIABILITIES, AND FUND EQUITY

a) Cash and Cash Equivalents

The County considers cash and cash equivalents to include cash on hand, amounts due from banks, and interest-bearing deposits at various financial institutions.

b) 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. Investments in the State Treasurer's Local Government Investment Pool (LGIP) are classified as investments and are valued at cost. The LGIP is not registered with the SEC as an investment company. However, the LGIP has a policy that it will-and does-operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the pool is the same as the fair value of the pool shares. Any change in the value of investments recorded at fair value is included in investment earnings. At June 30, 2012, total investments in the LGIP were \$17,119.

The County also has investments in the First Tennessee Bank Bizessentials Saving Account. As required by law, these investments are secured by the State Collateral Pool Board. At June 30, 2012, total investments in the Bizessentials Saving Account was \$181,577,528.

c) Receivables

Receivables were recorded in the Governmental, Proprietary, Fiduciary, and Component Unit Funds. Where appropriate, receivables are shown net of an allowance for uncollectible accounts.

d) Inventories and Prepaid Items

Inventories are valued at cost, which approximates market value using the first-in, first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The costs are recorded as expenditures at the time individual inventory items are used (consumption method).

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

e) Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. The County maintains infrastructure asset records consistent with other capital assets. The County's threshold for additions to capital assets is \$5,000 in the primary government and \$5,000 for the Department of Education. 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. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	20 – 50 years
Improvements Other Than Buildings	20 – 50 years
Machinery and Equipment	5 – 20 years
Public Domain Infrastructure	10 – 50 years
Intangibles	5 years

GASB Statement No. 34 requires the reporting and depreciation of infrastructure expenditures. Beginning in the implementation year (July 1, 2001) new infrastructure expenditures have been capitalized and depreciated. Following the implementation of GASB No. 34, the County continued to expand and refine its capital assets. Effective July 1, 2003, the County recorded the infrastructure assets at estimated or actual historical cost, net of accumulated depreciation. Historically, the financial statements have not reflected this asset or the depreciation expense for the systematic allocation of its consumption. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

f) Fund Balance

The County adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*, in fiscal year 2011. In the governmental fund financial statements, the fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are (a) not in spendable form, or (b) legally or contractually required to be maintained intact (e.g., endowments). The fund balance considered "nonspendable" includes items not expected to be converted to cash (e.g., inventories and prepaid items), as well as long-term receivables and the County's investment in its joint venture described in Note R. The County does not have any nonspendable fund balance that is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted for specific purposes. These amounts result from constraints placed on the use of resources (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County Commission. These items are commitments that exceed the \$15,000 threshold set forth by the Hamilton County Purchasing Rules and Regulations. Items committed may only be modified or rescinded by formal action of the County Commission.

Assigned fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. For reporting purposes, assignments may fall into two categories: assigned for specific purposes or assigned for encumbrances that fall below the \$15,000 threshold as set forth by the Hamilton County Purchasing Rules and Regulations. Items assigned as encumbrances may be modified or rescinded by the County Mayor or his designee.

Unassigned fund balance is the residual balance in the general fund (i.e., fund balance that is not either nonspendable, not restricted, committed, or assigned.)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are expended first, and then unrestricted funds are used. Generally, when expenditures are incurred utilizing unrestricted funds, unassigned amounts are expended first, then assigned amounts, then committed amounts.

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets (net of related debt), restricted and unrestricted. Restricted net assets represent constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by County law.

g) Pension Plans

Substantially all County employees are eligible to participate in retirement benefit plans established by either the County or the State of Tennessee.

(9) 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.

a) Property Taxes

Property taxes levied by the County are assessed by the Assessor of Property and collected by the Trustee, both of whom are elected officials of the County. Property tax revenues are recognized when they become measurable and available. "Available" means due or past due and receivable within the current period and collected no longer than 60 days after the close of the current period. Uncollected amounts not considered available are recorded as deferred revenues. Hamilton County has unlimited ability to levy ad valorem taxes.

The property tax calendar applicable to the current fiscal year is as follows:

Lien date	January 1, 2011
Levy date	October 1, 2011
Tax bills mailed	October 1, 2011
Delinquency date	March 1, 2012
Tax sale – 2008 delinquent property taxes	June 7, 2012

b) Grant Revenue

The County, 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 County 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 County.

c) 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.

d) Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds to provide services, construct assets, service debt, etc. 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 they involve organizations external to the County are treated as revenues in the receiving fund and expenditures in the disbursing fund.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. Amounts reported in the fund financial statements as due to/due from other funds are eliminated in the governmental activities column of the government-wide Statement of Net Assets.

e) Payments Between the County 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 from component units consist of debt service payments from “911” Emergency Communication for equipment purchased by the County and from Water and Wastewater Treatment Authority for bonds issued in the County's name.

f) Indirect Costs

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

g) 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) Compensated Absences

County employees earn compensation for absence by a prescribed formula based on their length of service. Compensation for absence is accumulated every pay period and has a cap of 1,680 hours. During the year, the compensation earned may be used for either vacation or absence due to illness. At year end, the liability for compensation for absence earned but not paid to employees is accrued in the government-wide financial statements by function. Upon termination or retirement, employees are paid for the balance accrued in their compensated absence bank.

(10) NET ASSETS

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments 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 that 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 County’s policy is generally to use restricted net assets first, as appropriate opportunities arise.

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

NOTE B – PRIOR PERIOD ADJUSTMENT

An inventory of the Highway Department found that additional infrastructures donated to Hamilton County were not properly reported. As a result, prior year capital assets were understated by \$46,510,070. In addition, certain assets were donated to various municipalities through annexation. These donations totaled \$3,242,781. The effect of this error was to understate land and other capital assets and net assets by \$39,897,256.

	<u>Land</u>	<u>Other Capital Assets</u>	<u>Total</u>
Additions-donations received	\$ 3,372,130	\$ 43,137,940	\$ 46,510,070
Deletions-donations to municipalities	(721,500)	(2,521,281)	(3,242,781)
Accumulated Depreciation (Additions)	-	(5,653,442)	(5,653,442)
Accumulated Depreciation (Deletions)	-	2,283,409	2,283,409
	<u>\$ 2,650,630</u>	<u>\$ 37,246,626</u>	<u>\$ 39,897,256</u>

NOTE C – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

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

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2012, the County had no material excess of expenditures over appropriations in individual funds. The Hotel/Motel fund was over budget by \$62,043 due to a higher collection of tourist related taxes. All Hotel/Motel taxes collected, net of commission, are distributed to the Chattanooga Convention and Visitors Bureau.

Net Assets/Fund Balance Deficit

At June 30, 2012, the County has a deficit of \$78,744,095 in unassigned net assets in the government-wide statement of net assets for governmental activities. This deficit results from the specific reporting requirements of the GASB Statement No. 34 reporting model. The County’s government-wide financial statements include the liability for all general obligation bonds. Historically, significant portions of the County’s general obligation bonds are issued to acquire, construct, and develop facilities for the Department of Education. These facilities are not recorded as capital assets of the County’s governmental activities but are recorded as capital assets of the Department of Education, which is a discretely presented component unit. During the year ending June 30, 2012, the County conveyed \$4,097,398 in capital assets to the Department of Education. At June 30, 2012, the County’s long-term liabilities include general obligation bonds of \$144,341,232 issued for the Department of Education capital projects and notes payable of \$517,351 for capital expenditures.

Due to the nature of capital projects, funding may not be received until after commitments have been fulfilled. Therefore, the capital projects fund may reflect a deficit in unassigned fund balance. At June 30, 2012, the County had a deficit of \$31,943,966 in unassigned fund balance in the capital projects fund. The capital projects fund had a total fund balance of \$2,463,359 at the end of June 30, 2012.

NOTE D – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Custodial credit risk relating to deposits is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2012, all deposits were insured or collateralized, as required by Government policy.

The County’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of six months or less from the date of acquisition.

Investments

At June 30, 2012, investments of the primary government (except for Pension Trust Funds and OPEB Trust Fund) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Primary Government – Governmental Activities:		
Investment in local investment pool	0.00	\$136,332,732
Investment in state investment pool	0.00	17,119
Cash balances classified as investments	0.00	<u>33,974</u>
Total		<u>\$136,383,825</u>
Primary Government – Agency Funds:		
Investment in local investment pool	0.00	<u>\$ 109,791</u>
Total		<u>\$ 109,791</u>
Component Units:		
Investment in local investment pool	0.00	\$ 45,135,005
Investment in state investment pool	0.00	3,687,613
Cash balances classified as investments	0.00	<u>64,040</u>
Total		<u>\$ 48,886,658</u>

Interest rate risk – Interest rate risk is the risk that the fair value of an investment will be adversely affected by changes in interest rates. As a means of limiting the County’s exposure to fair value losses arising from rising interest rates, the County purchases investments with maturities of two years or less as required by state law. The County’s investment policy limits exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio by limiting the weighted average maturity of its investment portfolio to less than one year and holding all investments to maturity using the “ladder” method of investing to meet cash flow needs. The County’s investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk – The County’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions 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 County’s agent in the County’s name, or by the Federal Reserve Banks acting as third party agents. The statutes also authorize the types of investments in which the County can participate. The portfolio manager may invest in any instruments which are in accordance with applicable laws, including but not limited to the following: certificates of deposit and savings accounts in banks and savings and loan institutions; Tennessee Valley Authority Bonds; bonds, notes, or treasury bills of the United States; Federal Land Bank bonds; Federal Home Loan Bank notes and bonds; Federal National Mortgage Association notes and debentures, banks for cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States; the pooled investment fund of the State of Tennessee; or repurchase agreements.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County’s adopted investment policy is designed to maximize investment earnings while protecting the security of principal and providing adequate liquidity. State law requires that the County not have investment longer than two years and all investment to be secured by either the State Collateral Pool Board or the participating bank. At June 30, 2012, the County-held investments in U.S. Government agency securities include Federal Home Loan Bank and Federal National Mortgage Association bonds, which were rated AAA by Moody’s Investor Service. The County also invests in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated.

Pension Trust Funds and Other Post Employment Benefits Trust Fund – The County’s Pension Trust Funds and Other Post Employment Benefits (OPEB) Trust Fund are managed with long-term objectives that include maximizing total investment earnings. State statutes and County policies allow these funds a broader range of investments than other County investments. The County’s Pension Trust Funds and OPEB Trust Fund have no investments in any one issuer that represent 5 percent or more of plan net assets. The credit risk of investments of these funds is summarized as follows:

Pension Trust Funds:

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Treasury Bills	Aaa	\$ 154,961
Agency Securities – FHLB	Aaa	36,487
Agency Securities – FHLMC	Aaa	99,587
Agency Securities – FNMA	Aaa	60,580
Municipal Bonds	Aa2	31,855
Municipal Bonds	Aa3	15,895
Municipal Bonds	Aaa	24,960
Domestic Corporate Bonds	A1	30,798
Domestic Corporate Bonds	A2	69,620
Domestic Corporate Bonds	A3	51,621
Domestic Corporate Bonds	Aa2	17,813
Domestic Corporate Bonds	Aa3	10,348
Domestic Corporate Bonds	Baa1	83,876
Domestic Corporate Bonds	Baa2	93,108
Domestic Corporate Bonds	Baa3	16,727
Foreign Bonds / Notes	A2	15,954
Foreign Bonds / Notes	Aa1	33,108
Mutual Funds	Not rated	972,320
Domestic Equity Securities	Not rated	516,559
Foreign Equity Securities	Not rated	47,315
		<u>\$2,383,492</u>

OPEB Trust Fund:

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Treasury Bills	Aaa	\$ 343,385
Agency Securities – FHLB	Aaa	104,249
Agency Securities – FHLMC	Aaa	220,443
Agency Securities – FNMA	Aaa	121,159
Municipal Bonds	Aa2	53,091
Municipal Bonds	Aa3	26,492
Municipal Bonds	Aaa	44,928
Municipal Bonds	Not Rated	29,528
Domestic Corporate Bonds	A1	71,862
Domestic Corporate Bonds	A2	162,829
Domestic Corporate Bonds	A3	127,448
Domestic Corporate Bonds	Aa2	35,627
Domestic Corporate Bonds	Aa3	36,218
Domestic Corporate Bonds	Baa1	167,633
Domestic Corporate Bonds	Baa2	210,790
Domestic Corporate Bonds	Baa3	39,030
Foreign Bonds / Notes	A2	37,226
Foreign Bonds / Notes	Aa1	60,982
Mutual Funds	Not rated	2,912,806
Domestic Equity Securities	Not rated	3,342,576
Foreign Equity Securities	Not rated	269,574
		<u>\$8,417,876</u>

NOTE E – RECEIVABLES

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

<u>Funds</u>	<u>Property Taxes</u>	<u>Patients</u>	<u>Accounts</u>	<u>Inter-Governmental</u>	<u>Allowance for Uncollectibles</u>	<u>Net</u>
Primary Government:						
General	\$127,844,051	\$13,294,706	\$2,298,791	\$ 6,149,204	\$(14,864,207)	\$134,722,545
Sheriff	-	-	15,115	317,517	-	332,632
Debt service	-	-	50,358	-	-	50,358
Capital projects	-	-	6,059,261	7,538,183	-	13,597,444
Nonmajor	-	-	715,633	177,146	-	892,779
	<u>\$127,844,051</u>	<u>\$13,294,706</u>	<u>\$9,139,158</u>	<u>\$14,182,050</u>	<u>\$(14,864,207)</u>	<u>\$149,595,758</u>
Component Units:						
Governmental	\$139,259,192	\$ -	\$1,836,837	\$19,777,518	\$(7,047,160)	\$153,826,387
Proprietary	-	-	1,682,646	-	-	1,682,646
	<u>\$139,259,192</u>	<u>\$ -</u>	<u>\$3,519,483</u>	<u>\$19,777,518</u>	<u>\$(7,047,160)</u>	<u>\$155,509,033</u>

Property tax receivables include uncollected taxes from the past seven years' levies plus the anticipated levy for the current calendar year. Taxes uncollected after that time are written off, and the property is ultimately sold through a back tax property sale. The allowance for uncollectible tax is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2012.

Patient accounts receivable represent uncollected revenues for services rendered. Ambulance patient accounts that are uncollected after 120 days are considered doubtful and ultimately written off as uncollectible. All other accounts are considered doubtful after a reasonable effort has been made to collect.

NOTE F – SOLID WASTE DISPOSAL POST CLOSURE CARE COSTS

The County utilizes the General Fund to account for post closure care costs of the Hamilton County Birchwood Landfill Area 1 and the TVA Model Landfill. The County completed closure of both Area 1 and the TVA Model Landfill in 2001. In accordance with state and federal regulations, the County is required to perform certain maintenance and monitoring functions for thirty years after closure. The estimated liability for post closure care costs of \$200,000 at June 30, 2012, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$200,000 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2012. However, the actual cost of closure and post closure 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 post closure requirements will be covered by appropriations in the General Fund.

NOTE G – COMMITMENTS AND CONTINGENCIES

The County is a party to various legal proceedings. At the date of these financial statements, the County cannot estimate its liability, if any, from losses that may result from certain proceedings. In the opinion of management and the County attorneys, the potential adverse impact of these proceedings would not be material to the combined financial statements of the County.

The County 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 agency for expenditures disallowed under the terms of the grant. County management is not aware of any potential losses from such disallowance and believes that reimbursements, if any, would not be material.

The County has entered into various construction commitments. Such contracts include contracts for improvements to schools, industrial parks, jails, and other facilities related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2012. The total contractual commitments outstanding as of June 30, 2012, aggregated approximately \$34,507,270. These commitments are reported in the governmental-wide statements. The County has sufficient funds available to cover these commitments.

NOTE H – CONDUIT DEBT OBLIGATION

From time to time, Hamilton County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial commercial facilities deemed to be in the public interest and Single Family Mortgage Revenue Bonds to provide assistance to potential homeowners pursuant to the Tennessee Home Mortgage Finance Act. 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 or homeowner served by the bond issuance. Neither Hamilton County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2012, there is one Industrial Revenue Bond outstanding. The aggregate principal amount payable for the Industrial Revenue Bond series issued at June 30, 2012, is \$20,769,849.

The aggregate principal amount for the remaining series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$234,756,196.

NOTE I – CONSTITUTIONAL OFFICERS

Certain operating expenditures of the Constitutional Officers for the year ended June 30, 2012, which are budgeted and included within the General Fund, are summarized as follows:

	Compensation and Fringe <u>Benefits</u>	Purchased <u>Services</u>	Capital <u>Outlay</u>	<u>Total</u>
Circuit Court Clerk	\$ 831,584	\$ 272,271	\$ 7,978	\$ 1,111,833
Clerk and Master	578,482	134,015	-	712,497
County Clerk	1,229,698	367,745	479	1,597,922
Criminal Court Clerk	1,045,521	157,502	3,938	1,206,961
Juvenile Court Clerk	-	-	86,803	86,803
Register	299,628	77,758	-	377,386
Sheriff	-	-	480,001	480,001
Trustee	307,724	294,171	-	601,895
Election Commission	1,042,389	307,187	-	1,349,576
Assessor of Property	<u>3,030,127</u>	<u>464,131</u>	<u>18,500</u>	<u>3,512,758</u>
	<u>\$ 8,365,153</u>	<u>\$2,074,780</u>	<u>\$ 597,699</u>	<u>\$11,037,632</u>

NOTE J – CAPITAL ASSETS

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

Primary Government

	Beginning Balance <u>Restated</u>	Current Year <u>Additions</u>	Current Year <u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 64,447,768	\$ 500,035	\$ (827,540)	\$ 64,120,263
Construction in progress	<u>14,080,187</u>	<u>28,363,936</u>	<u>(16,107,014)</u>	<u>26,337,109</u>
Total non-depreciable assets	<u>75,527,955</u>	<u>28,863,971</u>	<u>(16,934,554)</u>	<u>90,457,372</u>
Depreciable Assets:				
Buildings	131,723,628	5,856,023	(1,590,822)	135,988,829
Improvements other than buildings	24,703,490	533,036	(67,365)	25,169,161
Machinery and equipment	38,144,941	4,550,970	(3,778,174)	38,917,737
Infrastructure	192,051,638	9,059,913	(343,983)	200,767,568
Intangibles	<u>5,022,366</u>	<u>326,599</u>	<u>(8,945)</u>	<u>5,340,020</u>
Total depreciable assets	<u>391,646,063</u>	<u>20,326,541</u>	<u>(5,789,289)</u>	<u>406,183,315</u>
Less Accumulated Depreciation for:				
Buildings	(57,171,073)	(2,859,008)	994,907	(59,035,174)
Improvements other than buildings	(10,995,768)	(1,203,336)	67,365	(12,131,739)
Machinery and equipment	(30,896,516)	(2,193,250)	1,042,884	(32,046,882)
Infrastructure	(114,612,133)	(4,972,012)	-	(119,584,145)
Intangibles	<u>(3,799,564)</u>	<u>(405,217)</u>	<u>8,945</u>	<u>(4,195,836)</u>
Total accumulated depreciation	<u>(217,475,054)</u>	<u>(11,632,823)</u>	<u>2,114,101</u>	<u>(226,993,776)</u>
Depreciable Assets, net	<u>174,171,009</u>	<u>8,693,718</u>	<u>(3,675,188)</u>	<u>179,189,539</u>
Governmental activities capital assets, net	<u>\$ 252,698,964</u>	<u>\$ 37,557,689</u>	<u>\$ (20,609,742)</u>	<u>\$ 269,646,911</u>

Beginning Balances have been restated according to the changes from the prior period adjustment discussed in Note B.

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Non-Depreciable Assets:				
Land	\$ 17,237,414	\$ 1,400,000	\$ (81,700)	\$ 18,555,714
Construction in progress	3,212,698	4,824,884	(1,226,101)	6,811,481
Other non-depreciable assets	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total non-depreciable assets	<u>20,475,112</u>	<u>6,224,884</u>	<u>(1,307,801)</u>	<u>25,392,195</u>
Depreciable Assets:				
Buildings	476,419,642	2,412,441	(389,723)	478,442,360
Improvements other than buildings	23,559,097	289,025	(202,957)	23,645,165
Machinery and equipment	33,562,500	1,723,875	(989,541)	34,296,834
Utility plant	<u>111,202,326</u>	<u>2,069,410</u>	<u>-</u>	<u>113,271,736</u>
Total depreciable assets	<u>644,743,565</u>	<u>6,494,751</u>	<u>(1,582,221)</u>	<u>649,656,095</u>
Less Accumulated Depreciation for:				
Buildings	(192,914,445)	(9,420,616)	645,302	(201,689,759)
Improvements other than buildings	(17,503,759)	(840,771)	200,326	(18,144,204)
Machinery and equipment	(21,372,424)	(2,629,109)	829,078	(23,172,455)
Utility plant	<u>(22,710,482)</u>	<u>(3,039,672)</u>	<u>(10,679)</u>	<u>(25,760,833)</u>
Total accumulated depreciation	<u>(254,501,110)</u>	<u>(15,930,168)</u>	<u>1,664,027</u>	<u>(268,767,251)</u>
Depreciable Assets, net	<u>390,242,455</u>	<u>(9,435,417)</u>	<u>81,806</u>	<u>380,888,844</u>
Component units capital assets, net	<u>\$ 410,717,567</u>	<u>\$ (3,210,533)</u>	<u>\$ (1,225,995)</u>	<u>\$ 406,281,039</u>

Hamilton County donated the historic Engle Stadium to the University of Tennessee at Chattanooga for a net loss of \$614,224, and donated the Spring Creek Transfer Station to the City of East Ridge for a net loss of \$81,692. In addition, capital assets were sold during the year for a gain of \$329,266.

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
Ambulance	\$ 519,910
Criminal Court	61,288
General Government	2,768,761
Health	204,820
Highway	5,101,582
Juvenile Court	134,015
Public Safety	986,560
Recreation	1,274,646
Sheriff	565,734
Social Services	<u>15,507</u>
Total	<u>\$ 11,632,823</u>
Discretely Presented Component Units:	
Department of Education	\$ 12,257,562
Water & Wastewater Treatment Authority	3,160,482
“911” Emergency Communications	511,574
Railroad Authority	<u>550</u>
Total	<u>\$ 15,930,168</u>

Hamilton County transferred \$4,097,398 from construction in progress to the Department of Education.

NOTE K – EMPLOYEE RETIREMENT SYSTEMS

Hamilton County provides retirement benefits through five pension plans. The majority of employees participate in two retirement plans provided by the Tennessee Consolidated Retirement System (TCRS). One of the TCRS plans is the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit plan which is available for all County employees except teachers. The other TCRS plan, the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), is available to teachers of the Hamilton County School system. It is a cost sharing, multiple-employer, defined benefit pension plan in which most teachers participate.

The remaining employees who are eligible for retirement benefits participate in three single-employer, defined benefit pension plans (Employees’ Retirement Plan, Commissioners’ Retirement Plan, and Teachers’ Retirement Plan). The County acts as Trustee for these plans.

The following is a summary of each of these plans:

Tennessee Consolidated Retirement Systems

(1) Political Subdivision Pension Plan (PSPP)

Plan Description:

Employees of Hamilton County are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member’s highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining

the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamilton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/PS/.

Funding Policy:

Hamilton County adopted a noncontributory retirement plan for its employees on July 1, 1981 by assuming employee contributions up to 5 percent of annual covered payroll.

Hamilton County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, was 14.41% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost:

For the year ending June 30, 2012, Hamilton County’s annual pension cost of \$14,332,188 to TCRS was equal to Hamilton County’s required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent per year compounded annually; (b) projected 3.0 percent annual rate of inflation; (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries); (d) projected 3.5 percent annual increase in the Social Security wage base; and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamilton County’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was twenty years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$14,332,188	100.00%	\$ -
6/30/11	14,938,598	100.00%	-
6/30/10	14,406,682	100.00%	-

Funded Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 91.92% funded. The actuarial accrued liability for benefits was \$382.73 million, and the actuarial value of assets was \$351.80 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$30.93 million. The covered payroll (annual payroll of active employees covered by the plan) was \$97.32 million, and the ratio of the UAAL to the covered payroll was 31.78%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the UAALs for benefits.

(2) State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP)**Plan Description:**

The Hamilton County Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost sharing, multiple-employer defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced benefit is available to vested members who are at least age 55 or have twenty-five years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at 3 percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/Schools.

Funding Policy:

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The employer contribution rate for Hamilton County Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2012 was 9.05% of annual covered payroll. The employer contribution requirement for Hamilton County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010 were \$14,591,484, \$14,431,297, and \$10,039,596, respectively, equal to the required contribution for each year.

Hamilton County Administered Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the Employees', Commissioners', and Teachers' Retirement Funds are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized when due, and the County has made a formal commitment to provide the contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. There are no investments in any one organization that represent 5 percent or more of plan net assets.

Actuarial Assumptions and Estimates

The actuarial calculations are based on the benefits provided under the terms of the plans in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are always subject to continual revisions as results are compared to past expectations and new estimates are made about the future. The actuarial methods used and calculations determined reflect a long term perspective as the techniques used are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of the related assets.

Plan Description and Provisions:

(1) Employees' Pension Plan

The County maintains a closed, single-employer defined benefit pension plan for employees who elected to continue in this plan when it closed to new enrollment in 1977.

The plan is designed for each participant to contribute 6.4 percent of the first \$800 of monthly salary toward the cost of the plan; in practice, the County contributes these amounts on behalf of the participants. A participant whose service terminates prior to eligibility for normal retirement (and who is not disabled) is entitled only to a return of the employee contribution made by him or on his behalf.

The normal retirement benefit is 50 percent of the employee's final average earnings, where final average earnings are based on the four-year period of service, which yields the highest arithmetic average of basic salary not in excess of \$800 per month. For employees hired prior to April 15, 1969, normal retirement date is the earlier of (1) completion of twenty-four years of credited service or (2) completion of twenty years of credited service and attainment of age 55. For employees hired thereafter, normal retirement date is the attainment of age 65 and completion of twenty-four years of credited service. In the event of total and permanent disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their final average earnings, based on their years of credited service at the time of disability. Benefit provisions are established and amended by the Private Acts of Tennessee.

(2) Commissioners' Pension Plan

The County maintains a single-employer defined benefit plan for County Commissioners in which each Commissioner can elect to participate. Those who elect to participate are not required to contribute to the plan. Contributions previously made were refunded to plan participants. Credit for prior service can be purchased.

There are no limits on the time at which a Commissioner (or former Commissioner with at least five years of service) can elect to purchase such credit. Each participant accrues a monthly benefit of 2.5% of five-year average pay per year of credit service, payable upon retirement at or after age 55. Accrued benefits are vested after five years of service. Benefit provisions are established and amended by the Private Acts of Tennessee.

(3) Teachers' Pension Plan

The County maintains a closed, single-employer defined benefit plan for a group of teachers who are receiving as annuities amounts arising from the refund of their contributions to an earlier plan. Although these annuity payments could be discontinued at any time, they have been extended throughout the lifetime of the remaining plan participants. The amount of the monthly pension benefit received by each participant has been previously determined.

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Retirees and beneficiaries receiving benefits	26	11	5
Vested terminated employees	-	3	-
Active employees:			
Fully vested	-	4	-
Non vested	-	5	-
Actuarial valuation date	June 30, 2011	June 30, 2011	June 30, 2011

Funding Policy and Other Information:

Hamilton County contributes to each plan at an actuarially determined rate. Administrative costs are financed through contributions and investment earnings. The annual required contributions, actual contributions, and other pertinent information for each plan for the year ending June 30, 2012 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u>	<u>Commissioners'</u>	<u>Teachers'</u>
	Private Acts of TN	Private Acts of TN	Pension Board
	Actuarially	Actuarially	Actuarially
Contribution authorization:			
How contributions are determined:			
Required contribution rate:			
Active employees	6.4%	N/A	N/A
Employer	-	Actuarially Determined	-
Other contributing entities	N/A	N/A	-
Actual contributions:			
Employees	-	-	-
Employer	-	\$ 67,418	-
Other contributing entities	N/A	N/A	\$7,800
Date of last actuarial valuation	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial valuation date for current contributions	June 30, 2011	June 30, 2011	June 30, 2011
Actual assumptions:			
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Method for actuarial value of assets	Market Value	Market Value	Market Value
Inflation rate	N/A	N/A	N/A
Investment return	7.5%	6.0%	5.0%
Projected salary increases	N/A	4.0%	N/A
Amortization:			
Method	Level Dollar	Level Dollar	Level Dollar
Period	10 years open	10 years open	10 years open

Annual Pension Cost:

For the year ended June 30, 2012, no employer contributions were made for the Employees' and Teachers' Pension Plans. Other contributions to the Commissioners' Pension Plan totaled \$67,418.

The County's annual pension cost and net pension obligation (asset) related to the General Pension Plans for the current year were as follows:

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Annual required contribution	\$ -	\$ 50,074	\$ 2,075
Interest on net pension obligation (asset)	(18,313)	(10,324)	(38,372)
Adjustment to annual required contribution	<u>35,572</u>	<u>23,378</u>	<u>99,386</u>
Annual pension cost	17,259	63,128	63,089
Contributions made	<u>-</u>	<u>(67,418)</u>	<u>-</u>
Increase in net pension obligation (asset)	17,259	(4,290)	63,089
Net pension obligation (asset) at beginning of year	<u>(244,171)</u>	<u>(172,066)</u>	<u>(767,433)</u>
Net pension obligation (asset) at the end of year	<u>\$ (226,912)</u>	<u>\$ (176,356)</u>	<u>\$ (704,344)</u>

Trend Information:

	<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u> <u>(Asset)</u>
Employees' Plan	6/30/12	\$ 17,259	0.0%	\$ (226,912)
	6/30/11	18,572	0.0%	(244,171)
	6/30/10	19,984	0.0%	(262,743)
Commissioners' Plan	6/30/12	63,128	106.8%	(176,356)
	6/30/11	60,207	112.0%	(172,066)
	6/30/10	58,972	127.6%	(164,855)
Teachers' Plan	6/30/12	63,089	0.0%	(704,344)
	6/30/11	67,304	0.0%	(767,433)
	6/30/10	73,116	0.0%	(834,737)

Schedule of Funding Progress

(Dollar amounts in thousands)

Hamilton County Administered Plans

Actuarial Valuation Date (<u>entry age normal</u>)	Actuarial Value of Assets (a)	Actuarial Liability(AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Employees' Retirement						
06/30/11	\$ 2,025	\$ 705	\$ (1,320)	** 287.1%	\$ -	N/A
06/30/09	1,787	873	(914)	** 204.7%	-	N/A
06/30/07	2,256	1,083	(1,173)	** 208.4%	-	N/A
Commissioners' Retirement						
06/30/11	\$ 519	\$ 700	\$ 181	74.2%	\$ 187	96.6%
06/30/09	482	702	220	68.6%	196	112.3%
06/30/07	414	652	238	63.5%	192	124.2%
Teachers' Retirement						
06/30/11	\$ 26	\$ 42	\$ 16	61.1%	\$ -	N/A
06/30/09	57	64	7	89.1%	-	N/A
06/30/07	95	100	5	95.2%	-	N/A

**Considered a "funding excess"

Financial Reports:

The Hamilton County 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 plans' financial statements are as follows:

Combining Statement of Plan Net Assets

	Employees' Pension	Commissioners' Pension	Teachers' Pension	Total Pension Trust Funds
ASSETS:				
Cash	\$ (169,157)	\$ 225,620	\$ 3,077	\$ 59,540
Certificate of Deposit	-	-	11,367	11,367
Investments, at fair value				
US Gov. Securities	351,615	-	-	351,615
Foreign Bonds/Notes	49,062	-	-	49,062
Mutual Funds	661,407	310,913	-	972,320
Domestic Equity Securities	516,559	-	-	516,559
Domestic Corporate Bonds	373,911	-	-	373,911
Foreign Securities	47,315	-	-	47,315
Municipal Bonds	72,710	-	-	72,710
Total investments	<u>2,072,579</u>	<u>310,913</u>	<u>-</u>	<u>2,383,492</u>
Interest receivable	9,760	541	-	10,301
Intergovernmental	-	-	599	599
Total Receivables	<u>9,760</u>	<u>541</u>	<u>599</u>	<u>10,900</u>
Total Assets	<u>1,913,182</u>	<u>537,074</u>	<u>15,043</u>	<u>2,465,299</u>
LIABILITIES				
Accrued Items & Other	-	-	482	482
NET ASSETS				
Held in trust for pension benefits	<u>\$ 1,913,182</u>	<u>\$ 537,074</u>	<u>\$ 14,561</u>	<u>\$ 2,464,817</u>

Combining Statement of Changes in Plan Net Assets

	Employees' Pension	Commissioners' Pension	Teachers' Pension	Pension Trust Funds
ADDITIONS:				
Contributions				
Employer	\$ -	\$ 67,418	\$ -	\$ 67,418
Other	-	-	7,800	7,800
Total contributions	<u>-</u>	<u>67,418</u>	<u>7,800</u>	<u>75,218</u>
Investments earnings:				
Net increase (decrease) in fair value of investments	(42,748)	(3,118)	-	(45,866)
Interest	63,238	10,008	11	73,257
Net investment income (loss)	<u>20,490</u>	<u>6,890</u>	<u>11</u>	<u>27,391</u>
Total additions	<u>20,490</u>	<u>74,308</u>	<u>7,811</u>	<u>102,609</u>
DEDUCTIONS:				
Benefits	115,998	52,128	15,600	183,726
Consulting Fees	3,482	3,200	3,154	9,836
Miscellaneous expense	72	-	250	322
Administrative expense	12,811	1,275	-	14,086
Total deductions	<u>132,363</u>	<u>56,603</u>	<u>19,004</u>	<u>207,970</u>
Change in net assets	(111,873)	17,705	(11,193)	(105,361)
Net assets, beginning	2,025,055	519,369	25,754	2,570,178
Net assets, ending	<u>\$1,913,182</u>	<u>\$ 537,074</u>	<u>\$ 14,561</u>	<u>\$2,464,817</u>

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

(1) Plan Description:

Primary Government

In addition to providing pension benefits, the County provides OPEB benefits (health care) for certain retired employees through a single-employer defined benefit healthcare plan. Employees who have retired under one of the County's retirement plans and who are ineligible for Medicare can elect to continue their health care coverage under this plan until they become eligible for Medicare. Benefits are established and amended by the County Commission. A stand-alone financial report is not issued.

Department of Education (Department)

In addition to providing pension benefits, the Department, a discretely presented component unit, provides a portion of its OPEB benefits (health care and dental) for certain retired employees through a single-employer defined benefit healthcare plan. Employees who have retired under one of the Department's retirement plans and who are ineligible for Medicare can elect to continue their health care and dental coverage until they become eligible for Medicare. Benefits are established and amended by the Hamilton County School Board. A stand-alone financial report is not issued.

(2) **Funding Policy:**

Primary Government

In fiscal year 2011, the County established an Other Postemployment Benefits Trust (OPEB Trust) which is used to partially pre-fund benefits. The County's general fund has contributed \$8,000,000 (\$1,600,000 for fiscal year 2012 plus \$6,400,000 for fiscal years 2008, 2009, 2010 and 2011) to the OPEB Trust to pre-fund 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 County's Governmental Activities - Internal Service Fund. Eligible retirees pay a premium using a formula based on date of retirement, years of service, and the County's computed cost for active employees. During fiscal year 2012, the County and retirees contributed \$1,450,967 and \$63,636 respectively to this internal service fund for these health care benefits for 113 retirees. Funding is established and amended by the County Commission, and no planned increases were approved for fiscal year 2012.

Department of Education

Eligible retirees pay a premium using a formula based on date of retirement, years of service, and the Department of Education's computed cost for active employees. During fiscal year 2012, the Department contributed \$7,499,576 for these health care benefits for 696 retirees. The Department will make contributions to its Department of Education - Internal Service Fund in amounts sufficient to cover the pay-as-you-go component plus administrative costs. The Department has no plans at this time to fund the remaining portion of the annual required contributions. Funding is established and amended by the Hamilton County School Board, and no planned increases were approved for fiscal year 2012.

(3) **Annual OPEB Cost and Net OPEB Obligation:**

The County's annual OPEB cost (expense) 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 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amounts contributed to the Plans, and changes in the County's net OPEB obligation.

Annual OPEB Cost and Net OPEB Obligation:

	Primary Government	Department of Education	Total
Net OPEB Obligation – July 1	\$ 125,808	\$ 11,376,336	\$ 11,502,144
Annual required contribution	3,033,618	9,323,251	12,356,869
Interest on net OPEB obligation	8,178	455,053	463,231
Adjustment to annual required contribution	(18,360)	(467,223)	(485,583)
Annual OPEB cost (expense)	3,023,436	9,311,081	12,334,517
Expected payout for Retiree Benefits	(1,817,718)	(7,499,576)	(9,317,294)
Current Year Contribution to Trust	(1,600,000)	-	(1,600,000)
Contribution made	(3,417,718)	(7,499,576)	(10,917,294)
Increase (decrease) in net OPEB obligation	(394,282)	1,811,505	1,417,223
Net OPEB obligation – June 30	\$ (268,474)	\$ 13,187,841	\$ 12,919,367
% of annual OPEB cost contributed	113.0%	80.54%	88.5%
% of annual OPEB cost to total contribution	113.0%	80.54%	88.5%

(4) Funded Status and Funding Progress:

Primary Government

As of July 1, 2011, the most recent actuarial valuation date, the County employees post retirement medical insurance benefits plan was 20% funded. The actuarial accrued liability for benefits was \$34,175,128 and the actuarial value of assets was \$6,846,734, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,328,394. The covered payroll (annual payroll of active employees covered by the plan) was \$71,164,995, and the ratio of the UAAL to the covered payroll was 38.4%. In fiscal year 2011, the primary government established an OPEB Trust and contributed \$6,400,000 to fund the annual required contribution. For the year ended June 30, 2012, \$1,600,000 was contributed to the OPEB Trust, and an additional \$1,600,000 has been budgeted for fiscal year ended June 30, 2013.

Department of Education

As of July 1, 2011, the most recent actuarial valuation date, the Department of Education employees post retirement medical and dental insurance benefits plan was 0% funded. The actuarial accrued liability for benefits was \$89,329,785, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$89,329,785. The covered payroll (annual payroll of active employees covered by the plan) was \$192,370,258, and the ratio of the UAAL to the covered payroll was 46.4%. The Department of Education will make payments in amounts sufficient to cover annual benefits paid and administrative costs but has no plans at this time to fund the remaining portion of the annual required contributions.

(5) Actuarial Valuations:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plans and the annual required contributions of the County and plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

(6) Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members at 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 the long-term perspective of the calculations.

Primary Government

The actuarial valuation method used is the entry age normal actuarial cost method in which the actuarial value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. Projected salary increases are based on 3% per year. Ninety-five percent (95%) of future eligible retirees are assumed to elect medical coverage upon retirement. The actuarial value of plan assets is developed by adjusting expected assets on the valuation date toward market value of assets by an amount equal to one-third of the difference between expected and market asset values. The resulting actuarial value shall not exceed 120% of the market value, or be less than 80% of the market value.

Department of Education

The actuarial valuation method used is the entry age normal actuarial cost method in which the actuarial value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. Projected salary increases are based on 3% per year. Ninety-five percent (95%) of future eligible retirees are assumed to elect medical coverage upon retirement. Seventy percent (70%) of participants currently on leave of absence are assumed to return to retirement eligibility.

The Schedule of Funding Progress for both plans is presented as required supplementary information following the notes to the financial statements.

Other key assumptions are as follows:

	<u>Primary Government</u>	<u>Department of Education</u>
Healthcare Cost Trend		
Annual medical costs increase, first year	10%	9.5%
Future annual increases - medical	5% over a 10-year period	5% over a 9-year period
Dental	N/A	Capped at \$1,000/year
UAAL Amortization Period	30 years closed	30 years closed
Investment Return	6.5%	4.0%
Inflation Rate	2.5%	2.5%
Projected Salary Increase	3.0%	3.0%
Post Retirement Benefit Increases	None	None

NOTE M – SHORT TERM OBLIGATIONS

In August 2006, the Board of Commissioners approved a resolution authorizing the issuance of short term financing in the form of Commercial Paper with the aggregate principal amount not to exceed \$125,000,000. Commercial Paper debt is authorized by the state statute for Bond Anticipation Notes (BAN's) but varies from BAN's in that interest is paid monthly. Under the terms of the Commercial Paper agreements, all commercial paper reaching maturity is refinanced through the issuance of replacement short-term Commercial Paper debt, and ultimately is replaced with long-term general obligation debt. The Commercial Paper debt is used as a vehicle for financing certain public works projects and the incidental and necessary expenses related thereto. Hamilton County issued \$5,000,000 in short-term financing in the form of Commercial Paper and retired \$41,060,000 into long-term debt for a total of \$28,556,000 for the year ended June 30, 2012.

A summary of the short-term financing transactions for the year ended June 30, 2012, follows:

<u>Fund/Issue</u>	<u>Outstanding 7/1/11</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/12</u>
Commercial Paper	<u>\$64,616,000</u>	<u>\$ 5,000,000</u>	<u>\$41,060,000</u>	<u>\$28,556,000</u>
Total	<u>\$64,616,000</u>	<u>\$ 5,000,000</u>	<u>\$41,060,000</u>	<u>\$28,556,000</u>

NOTE N – LONG-TERM LIABILITIES

Long-term liabilities, which consist of serially maturing general obligation bonds, compensated absences, and certain notes to be repaid by the County, are summarized in the following sections:

General Obligation Bonds – Hamilton County 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 County. These bonds are generally issued as 15- to 30- year serial bonds with the 15-year term being prevalent for the last few years. Proceeds from the issuance of general obligation bonds are used to finance construction of new school facilities, major repair or replacement of old school facilities, and certain public work projects and the incidental and necessary expenses related thereto. General obligation bonds are summarized by issue as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Amount Due Within One Year</u>
General Improvement, Series 1998-B	4.65-5.10%	\$ 4,470,000	\$ 250,000
General Improvement, Series 2008-A	3.50-5.00%	10,572,621	961,755
School, Series 2008-A	3.50-5.00%	60,552,379	5,508,245
General Improvement, Series 2008-B	3.25-5.00%	3,677,138	1,085,631
School, Series 2008-B	3.25-5.00%	12,597,862	3,719,369
General Improvement, Series 2009	3.00-4.375%	7,136,010	595,020
School, Series 2009	3.00-4.375%	18,168,990	1,514,980
General Improvement, Series 2010-A	3.00-4.00%	7,475,000	-
General Improvement, Series 2010-B	2.00-4.25%	12,885,000	1,615,000
General Improvement, Series 2010-C	0.75-5.00%	4,325,000	325,000
General Improvement, Series 2011-A	3.00-5.00%	12,875,000	616,345
School, Series 2011-A	3.00-5.00%	48,435,000	2,318,655
General Improvement, Series 2011-B	3.00-5.00%	7,923,000	1,130,500
Water & Wastewater Treatment Authority (WWTA), Series 2011-B	3.00-5.00%	8,025,000	300,000
School, Series 2011-B	3.00-5.00%	4,587,000	654,500
Total payable from the Debt Service Fund		<u>\$ 223,705,000</u>	<u>\$ 20,595,000</u>

Note Payable and Other Debt – The County entered into a Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 17, 1999. This Agreement reserves funds for the County in the amount of \$9,000,000 (the “Loan”) from the proceeds of the Authority’s adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1997. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 14-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. As of June 30, 2012, the County has withdrawn \$8,998,350 of the Funds reserved to fund certain public works projects and the incidental and necessary expenses related thereto. At June 30, 2012, the balance due per the Agreement was \$1,607,000, of which \$788,000 is due within one year.

The County has entered into an Agreement with the City of Chattanooga to fund a portion of the municipalities' debt obligations. This Agreement includes obligations for the University of Tennessee at Chattanooga Stadium project, the Memorial Auditorium project, and the Bessie Smith Hall project. This Agreement represents direct general obligations of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for these payments. As of June 30, 2012, the County's remaining obligations to the City of Chattanooga total \$1,697,500, of which \$402,500 is due within one year.

The County has a long-term Agreement with the Corrections Corporation of America ("CCA") for the management of the Hamilton County Penal Farm. This Agreement requires the County to make annual payments through 2013. The County's obligation under this Agreement is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. At June 30, 2012, the County's remaining obligation for this Agreement was \$348,983, of which \$267,005 is due within one year.

The County entered into a Loan Agreement (the "Agreement") with the Tennessee State School Bond Authority (the "Authority"), pursuant to TCA Sections 49-3-1202 et seq. as amended (the "Act") December 20, 2003. This Agreement reserves funds for the County in the amount of \$1,365,000 (the Loan) from the proceeds of the Authority's Qualified Zone Academy Bonds (the "Bonds"), Series 2003. The County is obligated under the Agreement to repay the Loan in installments consisting of principal and administrative expenses payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit and taxing power of the County are irrevocably pledged for its repayment. For the purpose of providing funds to finance the cost of the Projects, including the payment of legal and fiscal cost incident to the issuance and sale of the Bonds and the Loan Agreement and making and receiving the loan from the Authority, the Hamilton County Department of Education, on behalf of the County, shall make annual payments of principal in amounts equal to approximately level debt service payable in the years 2004 through 2017. The loan shall not bear interest. As of June 30, 2012, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2012, the County's remaining obligation was \$517,351, of which \$90,733 is due within one year.

Annual Debt Service Requirements to Maturity for General Obligation Bonds and Notes Payable and Other Debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds:		
2013	\$ 20,595,000	\$ 9,334,136
2014	20,625,000	8,572,743
2015	19,410,000	7,788,739
2016	19,545,000	7,033,830
2017	16,425,000	6,296,155
2018-2022	80,115,000	19,922,476
2023-2027	44,980,000	4,529,423
2028-2031	2,010,000	176,496
	<u>\$ 223,705,000</u>	<u>\$ 63,653,998</u>
Notes Payable and Other Debt:		
2013	\$ 1,548,239	\$ 70,670
2014	1,414,211	49,291
2015	518,233	29,377
2016	535,734	10,013
2017-2018	154,417	-
	<u>\$ 4,170,834</u>	<u>\$ 159,351</u>

Changes in Long-term Liabilities – During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Primary Government:					
Government Activities:					
General Obligation Bonds	\$ 185,550,000	\$ 81,845,000	\$ 43,690,000	\$ 223,705,000	\$ 20,595,000
Notes payable and other debt	5,677,713	-	1,506,879	4,170,834	1,548,239
OPEB Obligation	125,808	3,023,436	3,149,244	-	-
Landfill post closure costs	210,000	-	10,000	200,000	10,000
Compensated absences	15,767,096	4,882,519	4,974,611	15,675,004	2,487,305
	<u>207,330,617</u>	<u>89,750,955</u>	<u>53,330,734</u>	<u>243,750,838</u>	<u>\$ 24,640,544</u>
Net deferred premium	5,641,678	8,671,563	1,422,202	12,891,039	
	<u>\$ 212,972,295</u>	<u>\$ 98,422,518</u>	<u>\$ 54,752,936</u>	<u>\$ 256,641,877</u>	
	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Component Units:					
Notes payable and other debt	\$ 14,379,949	\$ 10,042,497	\$ 10,200,787	\$ 14,221,659	\$ 763,086
OPEB Obligation	11,376,336	9,311,081	7,499,576	13,187,841	7,499,576
Pollution Remediation	2,376,000	3,901,820	-	6,277,820	2,376,000
Compensated absences	11,033,962	628,796	443,926	11,218,831	2,240,939
	<u>39,166,247</u>	<u>23,884,193</u>	<u>18,144,289</u>	<u>44,906,151</u>	<u>\$ 12,879,601</u>
Net deferred premium	24,700	-	4,359	20,341	
	<u>\$ 39,190,947</u>	<u>\$ 23,884,193</u>	<u>\$ 18,148,648</u>	<u>\$ 44,926,492</u>	

Debt service requirements for general obligation bonds, notes payable and other debt are met by the General Fund, Hotel/Motel Fund, and intergovernmental revenues received directly by the Debt Service Fund. OPEB obligations and landfill post closure costs are being liquidated by the General Fund and compensated absences are liquidated by the General Fund and Special Revenue Funds.

Total additions in Long-term Liabilities of Governmental Activities above are different than total proceeds from bonds and notes in the accompanying financial statements. The differences are due to original issue discounts and premiums on bonds, the accrual of construction draws on certain projects in the Capital Projects Fund, OPEB obligations and compensated absences earned during the year.

Total reductions in Long-term Liabilities for Governmental Activities above exceed principal retirement expenditures in the Debt Service Fund by the amount of landfill post-closure care costs paid from the General Fund, OPEB funding accrued in the General Fund and transferred to the trust fund, and compensated absences used during the year.

NOTE O – DEFEASED DEBT

In prior years, the County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in a trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2012, the County's balance of the defeased debt outstanding was zero.

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

During the course of normal operations, the County has numerous transactions between funds. Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Interfund receivables/payables are transactions reimbursing a fund for expenditures made for the benefit of another fund. Such transactions are recorded as expenditures and an interfund payable in the receiving fund. Such transactions are recorded as an interfund receivable in the disbursing fund. On the governmental funds balance

sheet, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated on the statement of net assets.

<u>Receivable Primary Government</u>	<u>Payable Primary Government</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 7,133,181
General Fund	Nonmajor Governmental Funds	2,228
General Fund	Sheriff	512
Nonmajor Governmental Funds	General Fund	965
Sheriff	General Fund	134,584
		<u>\$ 7,271,470</u>

<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Fund	Water & Wastewater Authority	\$ 192,776
General Fund	"911" Emergency Communication	858,804
General Fund	General Purpose School	81,171
General Fund	Centralized Cafeteria	4,598
		<u>\$ 1,137,349</u>

NOTE Q – INTERFUND TRANSFERS

Transfers within the County are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. Interfund transfers are transactions between funds transferring funds out of one fund to support the operations of another fund.

<u>Transfers in Primary Government</u>	<u>Transfers Out Primary Government</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 9,861,580
Debt Service	General Fund	30,233,839
Sheriff	General Fund	23,798,886
Capital Projects	General Fund	131,958
Nonmajor Governmental Funds	General Fund	1,868,718
		<u>\$ 65,894,981</u>

NOTE R – JOINT VENTURE

The Carter Street Corporation is a nonprofit corporation that was organized by the City of Chattanooga, Tennessee, and Hamilton County, Tennessee. The Corporation serves as the coordinating body for the development, operation, and management of the Chattanooga/Hamilton County Convention and Trade Center and parking garage and is lessor of the adjoining hotel. Of the five-member board, two members are appointed by the County Mayor and two members are appointed by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Mayor and the Mayor of Chattanooga.

The City and the County funded the original construction of the Chattanooga/Hamilton County Convention and Trade Center and parking garage through Lease Rental Revenue Bonds, which has been repaid. In accordance with the lease agreement, the County has a one-third equity interest in the Corporation.

Complete financial statements may be obtained from: Carter Street Corporation, Chattanooga Hamilton County Convention & Trade Center, 1 Carter Plaza, Chattanooga, TN 37401.

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

ASSETS	
Cash	\$ 1,623,550
Accounts receivable	124,478
Inventories	51,228
Prepaid expenses	36,053
Premises and equipment	<u>10,018,986</u>
Total assets	<u>11,854,295</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued items	119,920
Accrued expenses	108,314
Advanced deposits	<u>233,170</u>
Total liabilities	<u>461,404</u>
Net Assets	
Invested in capital assets, Net of related debt	10,018,986
Temporarily restricted	95,169
Unrestricted	<u>1,278,736</u>
Total net assets	<u>\$11,392,891</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:

Total operating revenues	\$ 3,370,977
Total operating expenses	(3,402,714)
Less depreciation and amortization	<u>(604,297)</u>
Loss from operations	(636,034)
Non-operating revenues	311,927
Non-operating expenses	<u>200,000</u>
Net income	(124,107)
Net assets at July 1, 2011	<u>11,516,998</u>
Net assets at June 30, 2012	<u>\$11,392,891</u>

NOTE S – RISK MANAGEMENT

Hamilton County has various exposures to loss as a result of its operations and service delivery, including liability, errors and omissions, on-the-job injuries, unemployment compensation and property damage (for various risk of loss associated with its property). The County maintains an Internal Service Fund to finance these various exposures to loss. The County utilizes a third-party claims administrator to establish and monitor case reserves and adjust claims associated with its self insurance program. In addition, the County has an independent actuary review its funding on an annual basis.

The County is self-funded for liability, on-the-job injuries, errors and omissions, unemployment compensation and the first \$25,000 per incident on property and boiler/machinery claims. The County has an excess liability policy with limits of \$1,000,000 per occurrence and a \$700,000 retention covering liability claims outside of the County's tort limits, and non-tort claims such as \$2,000,000 aggregate employment-related liability, medical malpractice, benefits, law enforcement liability and automobile liability. The County has a liability policy to cover election polling booth locations with a \$1,000 deductible and a \$1,000,000 per occurrence and aggregate limit. The County also has a jointly owned Pollution Legal Liability Policy with the City of Chattanooga, which covers specified acreage at the Enterprise South Industrial Park identified for development with limits of \$35,000,000 and a \$500,000 deductible with a term of up to 15

years, which commenced on January 8, 2003. There were no significant reductions in insurance coverage from the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

Hamilton County Department of Education, a component unit, maintains a separate Internal Service Fund for providing risk management services, which include handling property claims, auto and general liability claims, and injuries to employees. All risk is retained for auto and general liability claims, injuries to employees, the first \$1,000 per incident on boiler/machinery claims, and the first \$10,000 per incident on property claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated and periodically re-evaluated, taking into consideration the effect of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. Changes in the balances of claims liabilities during the year are as follows:

	<u>Total Primary Government</u>	<u>Total Component Units</u>
Unpaid claims, June 30, 2010	\$ 2,820,287	\$ 2,773,013
Incurred claims	21,409,466	54,213,973
Claims payments	<u>(21,627,354)</u>	<u>(52,102,102)</u>
Unpaid claims, June 30, 2011	2,602,399	4,884,884
Incurred claims	22,955,149	54,968,803
Claims payments	<u>(22,928,266)</u>	<u>(53,233,184)</u>
Unpaid claims, June 30, 2012	<u>\$ 2,629,282</u>	<u>\$ 6,620,503</u>

On July 1, 2010, Hamilton County Department of Education began self-insuring the HMO portion of employee medical claims in addition to the PPO claims which were already self-insured.

At June 30, 2012, the Hamilton County Internal Service Fund has net assets of \$16,596,304, and the Department of Education Internal Service Fund has net assets of \$15,966,681. These net assets balances are designated for future catastrophic losses.

