



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Hamilton County Tennessee

for year ended June 30, 2011





The outdoor festival RiverRocks included river events (obstacle races, paddleboarding, canoe jousting), mountain events (rock climbing, hang gliding, zipline), terrain events (cycling, hiking, off-road biking) and an early-morning Balloon Glow in Coolidge Park.



Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee
for the year ended June 30, 2011

prepared by the Finance Division
Louis S. Wright, Administrator • Albert C. Kiser, Assistant Administrator

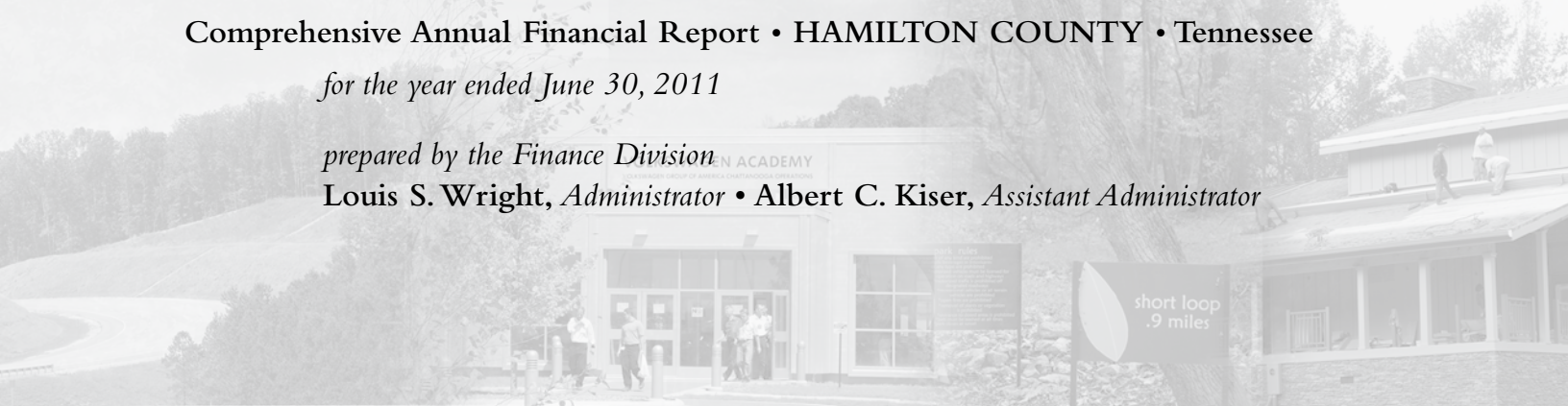




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HAMILTON COUNTY
OFFICE OF THE COUNTY MAYOR
208 Courthouse
Chattanooga, Tennessee 37402

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

January 18, 2012

As we prepare to enter the New Year, it has been a remarkable 12 months in this office. Our economic development efforts continue to produce outstanding results. We have seen the growth of new businesses and the expansion of existing businesses, one company (LJT/Steel) for the fifth time. We unveiled our revitalized Hamilton County Business Development Center which has the capacity to help incubate up to 60 businesses and create 300 jobs. Our success rate for companies who graduate from the BDC five years later is remarkable; more than 90 percent are operating successfully.

We have seen the initial harvest from Enterprise South. The first Volkswagen Passats rolled off the line earlier this year. Now, more than 400 are produced daily. The Hamilton County-made Passat received several awards, notably the Motor Trend 2011 Car of the Year Award. AdWeek cited Volkswagen's "The Force" (Darth Vader) Ad as the best of 2011. In addition, Volkswagen exceeded its goal of hiring 2,000 employees, many of whom live in Hamilton County.

Throughout the first half of 2011, visitors to Enterprise South saw the rapid construction of the Amazon distribution center, and, by the fall, employees' cars were spotted in the parking lot and packages marked Volunteer Drive were being delivered to doorsteps. Amazon is expected to hire 1,600 full-time employees and 2,000 part-timers during the holiday season.

Hamilton County once again retained its AAA bond rating from Standard and Poors, Fitch and Moody's. We are one of only two Tennessee counties to have the coveted AAA rating. This rating was invaluable in accomplishing something that is very important to me, improving our education system. I am proud to say this fall we announced the availability of \$50 million for the construction of two new Hamilton County Schools.

During my political tenure, I have repeatedly stressed my commitment to education. I believe in order for this community to move forward we must provide the best education possible for our children to take advantage of the jobs and opportunities we work hard every day to provide to Hamilton County citizens. This is part of the reason the Read 20 program has my whole hearted support. The investment of 20 minutes reading to a child or grandchild will pay big dividends down the road.

Hamilton County was faced with some tough moments in 2011. The year began with a significant blizzard, then just a few months later mother nature's ugliest side was revealed. Killer tornados ripped though the area on April 27 and 28, leaving behind a wake of grieving families and destroyed homes and dreams. In the days that followed, the resiliency that is Hamilton County was quickly apparent with the efforts of first responders and volunteers rushing to help neighbor, friend and stranger. We came though this crisis and we will the next because of the very nature of the people of Hamilton County.

We faced another challenge after the loss of more than \$10 million in sales tax revenue. We tightened our budget, cutting \$13 million and have asked our workers to provide the outstanding service you have come to expect with less ... and they are. The larger cuts allowed us to be positioned for 2012 and beyond as we continue to wade through these uncertain financial times.



Jim Coppinger
County Mayor

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

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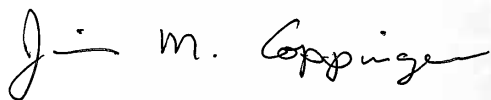
Part of our reasoning for those budget cuts was explained in the 13 “County Conversations” I initiated in early January. We met with county residents in every district, sometimes more than once. I enjoyed the dialogue, the exchange of ideas and the opportunity to explain how your government works.

A government is only as strong as its people. Working together, exchanging ideas and pursuing a common goal of improved education, additional economic development for our existing and new businesses, we will create the better Hamilton County we all strive for.

I have known since birth that I live in a place with bountiful resources, kind and generous people and a government that showcases outstanding services such as those provided by the award-winning Hamilton County Health and Parks and Recreation Departments.

My pledge to you is that at the end of 2012 I will have worked harder to make this a better community that provides more opportunity for all residents. I love living in Hamilton County, I hope you do also.

Sincerely,



Jim Copping
County Mayor

Visit our website at www.hamiltontn.gov



Adjacent to the Volkswagen plant, the 2,700-acre Enterprise South Nature Park opened in December 2010 and features walking/hiking trails, mountain bike trails, paved walking and bike roads, an ADA-accessible trail and four picnic areas.

BOARD OF COMMISSIONERS *for fiscal year ending June 30, 2011*



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



The Glass Bridge, a pedestrian walkway, connects Downtown Chattanooga to the Hunter Museum of American Art, the BluffView Art District and the eastern part of the Tennessee Riverwalk.



The Balloon Glow at RiverRocks 2011 was part of a 10-day event celebrating the Tennessee Valley's natural resources, the health benefits of an active lifestyle and the County's commitment to environmental stewardship and land conservation.



HAMILTON COUNTY, TENNESSEE

LOUIS S. WRIGHT

Administrator of Finance

January 18, 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, 2011. 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, 2011, 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 5,559 employees and a student population of 41,950, the Department of Education operating budget for fiscal year 2011 was \$400,453,965. Hamilton County financed 45.75%, or \$183,223,504 of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$198,534,625, charges for services provided \$11,334,086, investments provided \$401,593 and miscellaneous items provided \$6,960,157.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

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.



In September 2011, Amazon began hiring employees for its distribution center in Enterprise South. A similar facility has been completed in Bradley County. Amazon plans to hire 1,600 full-time employees and 2,000 part-timers during the holiday season.

Built in Chattanooga at the Volkswagen plant in Enterprise South, the Volkswagen Passat won the prestigious Motor Trend Car of the Year award in November 2011. Production began in April 2011. Volkswagen currently employs approximately 2,000. GeStamp, also located in Enterprise South and the first Tier-1 supplier for Volkswagen, announced a 30,000 square foot plant expansion to be completed in early 2012. GeStamp currently has 260 employees, which exceeds their projected employees by 13%.

Enterprise South is also home to the online distribution giant Amazon.com, which is now under operation and has already announced plans to add 2,000 part-time jobs over the initial job total of 1,600.

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

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 most recent extension, construction of a three-mile segment from the Riverwalk's current boundary at Ross's Landing to South Broad Street's connection with St.Elmo, is considered the most challenging to complete. Plans for the new Riverwalk section include a wider paved trail to accommodate a steady and diverse mix of traffic.

This segment will be both one of the most intriguing and useful sections of the Riverpark in terms of the city's history.

The planned pathway will lead around some of the city's most significant industrial sites, as well as offer a continuous view of Lookout Mountain and Moccasin Bend, both of which were focal points in major Civil War battles.

Moccasin Bend is the site of two Native American towns and dozens of ancient archaeological sites and burial mounds.

FUND BALANCE

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
2002	\$ 55,315	\$ 8,897	\$ 1,685
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



A \$3 million ARRA grant was awarded for infrastructure improvement on the west side of the airport. The development, which totalled \$10 million, attracted Wilson Air Center and FedEx, which began leasing hangar space at Lovell Field.

MANAGEMENT'S GOALS AND OBJECTIVES

Management's goals and objectives are to continue to provide infrastructure for future growth and sound fiscal management of county resources while maintaining the quality of life enjoyed here in Hamilton County.

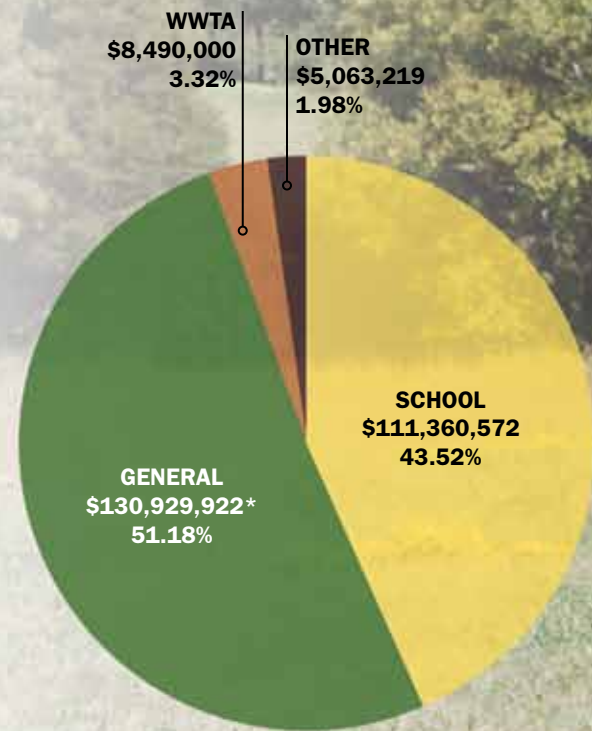
SCHOOLS

Hamilton County has embarked on an aggressive capital plan to build new schools and to bring many older ones into the twenty-first century. In the last 14 years, Hamilton County has provided funding for the completion of 19 new schools (one with private funding) and major renovation of 19 existing structures for a total cost of over \$299 million.

CAPITAL OUTLAY

Expenditures for items such as computers, vehicles, minor renovations and furniture are funded each year in the County's annual operating budget. This allows minor capital expenditures to be funded from current available funds instead of bond issues.

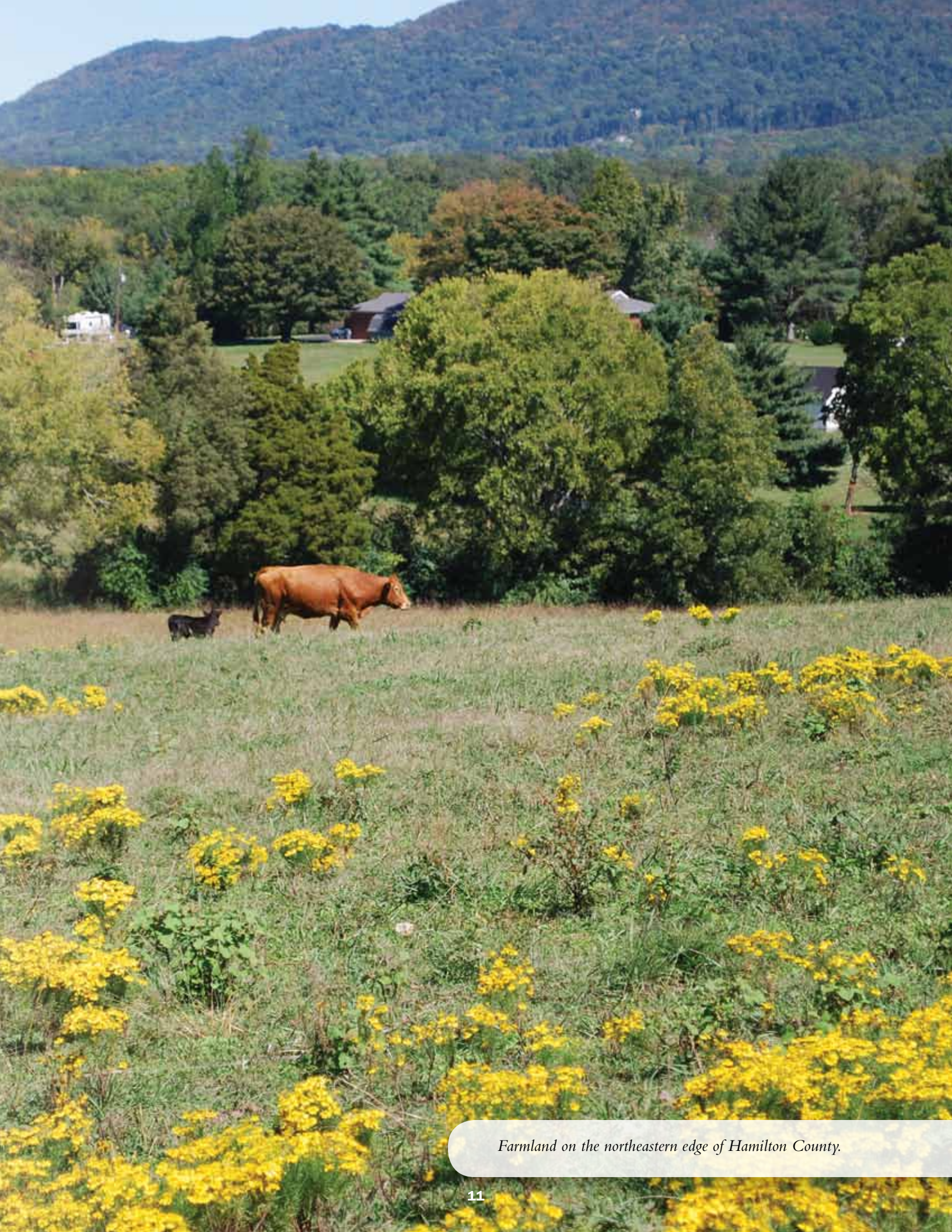
HAMILTON COUNTY TOTAL DEBT AS OF JUNE 30, 2011 \$255,843,713



*Includes \$64,616,000 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
2002	\$ 154,960,000	0.86%	\$ 502
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%	620
2010	206,960,000	0.73%	614
2011	185,550,000	0.67%	551



Farmland on the northeastern edge of Hamilton County.

FINANCIAL INFORMATION

ACCOUNTING SYSTEM AND INTERNAL CONTROL

The County's accounting system is organized on a "fund" basis. Each fund or account group is a distinct self-balancing accounting entity. The County's day-to-day accounting records are maintained on a cash basis. For financial reporting purposes, the accounting records are converted to the modified and full accrual basis for all applicable funds. On the modified accrual basis, revenues are recognized when measurable and available, and expenditures are recognized when goods or services are received. On the accrual basis, revenues are recognized when earned; expenses are recognized when incurred. Additional information concerning the various funds utilized by Hamilton County can be found in the Notes to Basic Financial Statements – Note A.

In developing the County's accounting system, much consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgements by management. In conjunction with the system of internal control, Hamilton County has an independent internal audit department, which reviews operations as a service to management. This internal audit division is independent of the executive branch.

BUDGET CONTROLS

The Board of Commissioners adopted the 2011 annual budget for the County in August 2010. 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.



CASH MANAGEMENT POLICIES AND PRACTICES

The County pools its cash in order to maximize earnings. Idle monies are invested, with the earnings allocated daily based on each fund's current equity in the pool. Certain capital project funds do not pool their cash with general government but maintain separate investment accounts for arbitrage purposes.

During fiscal year 2011, the County's cash resources were primarily invested in the State of Tennessee Local Government Investment Pool. The County did not invest in any derivatives or similar debt and investment instruments. The interest rates received by the County for the fiscal year ranged from 0.14% to 0.75% and yielded \$797,443 of interest income.

The Hamilton County Board of Commissioners has adopted an investment policy, which sets as its goal the maximizing of investment earnings, while at the same time protecting the security of the principle and maintaining liquidity to meet the cash requirements. The policy sets forth the allowable types of investments as well as the individuals responsible for making those investments. The policy also calls for quarterly reports, which are provided to the County Mayor, the County Board of Commissioners, and the County Auditor.

Associated with any investment activity, there is a risk that a governmental entity will be unable to fully realize its investments. Based on this risk, GASB has taken the position that a governmental entity should disclose information concerning its investments and deposits that will enable

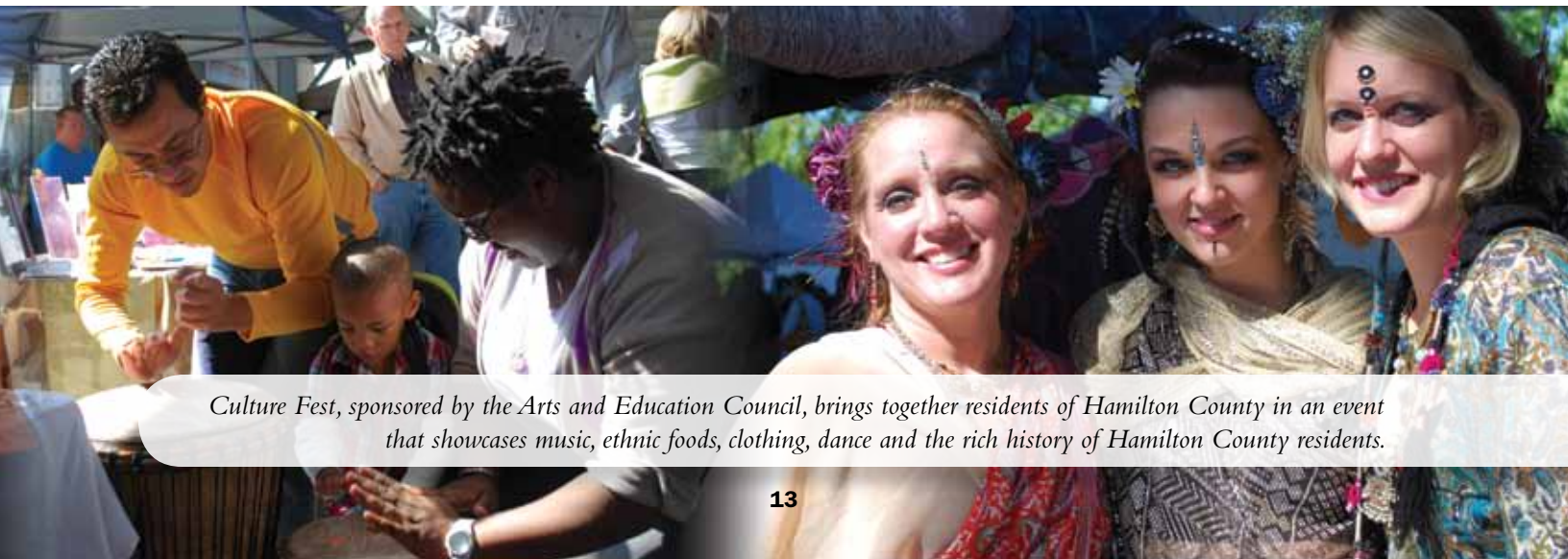
its constituents to better assess the associated risks. This information for Hamilton County has been provided based on criteria established by GASB as described in the Notes to Basic Financial Statements – Note D.

GROUP INSURANCE

Each full-time employee is eligible for group medical and life insurance on the first day of the month following thirty days of employment. The County offers two self-insured group medical plans through Cigna: a Co-pay PPO Plan and a Coinsurance PPO plan.

In an effort to control escalating health insurance costs, the Co-pay PPO plan was closed to new employees as of September 6, 2006. New hires were offered the Coinsurance PPO plan which operates on the basis of a deductible rather than a co-pay for medical services. Consequently, the Coinsurance PPO plan has a less costly premium. To further control costs, County employees enrolled in the Co-Pay PPO plan began paying 10% of the healthcare premium charged to the County in January 2007. The percentage of premiums paid by County employees increases by 1% at the beginning of each fiscal year until the employee's share reaches 15%. The increase scheduled for fiscal year 2011 did not occur due to economic factors that prevented County employees from receiving an annual increase in pay. Currently, the employees participating in the Co-pay PPO plan pay 12% of the premium charged by Cigna.

The County continues to provide \$20,000 of group term life insurance and \$20,000 of accidental death & dismemberment insurance at no cost to each full-time employee.

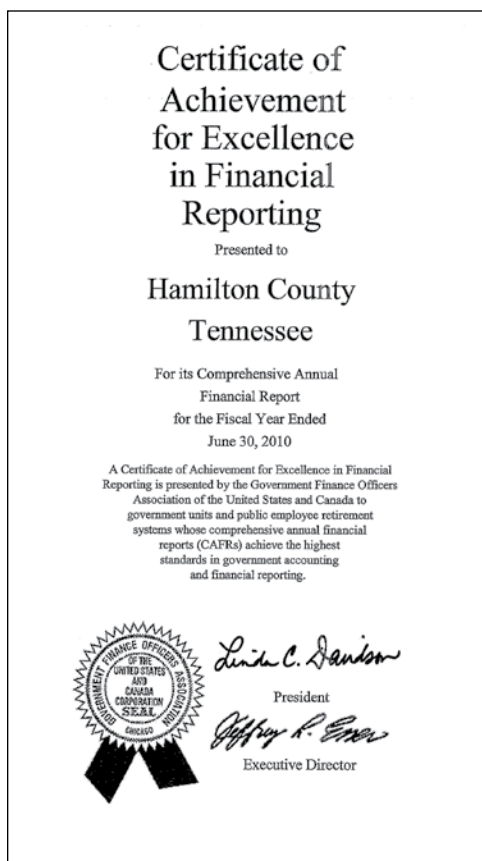


Culture Fest, sponsored by the Arts and Education Council, brings together residents of Hamilton County in an event that showcases music, ethnic foods, clothing, dance and the rich history of Hamilton County residents.

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, 2010. Hamilton County has received this award for 30 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 con-

tinues 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, 2010. This is the ninth 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, 2011 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



The Hamilton County Sheriff's Office color guard presents the United States and Tennessee flags at the September 2011 Hamilton County Fair.

HAMILTON COUNTY GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2011)

Jim Coppinger, *County Mayor*
Jeannine Alday, *Chief of Staff (retired 6/20/11)*
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

Lila Mack, *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. Frank King, *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

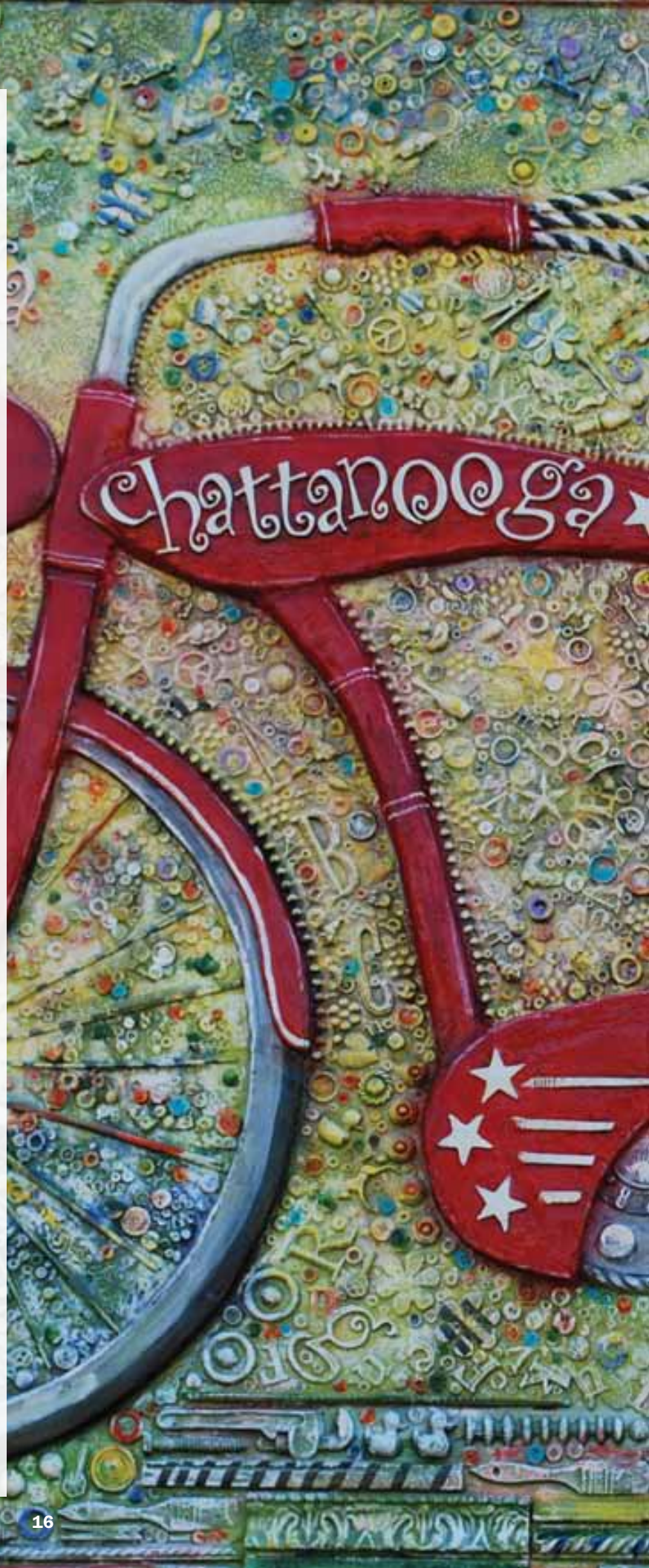
Scott Schoolfield, *Administrator*
Don Allen, *Director of Emergency Services*
Judi Byrd, *Director of Social Services*
Worth Lillard, *Director of Maintenance*
Barbara Payne, *Director of Corrections*
Ron Priddy, *Director of Recreation*

LEGAL

Rheubin M. Taylor, *County Attorney*

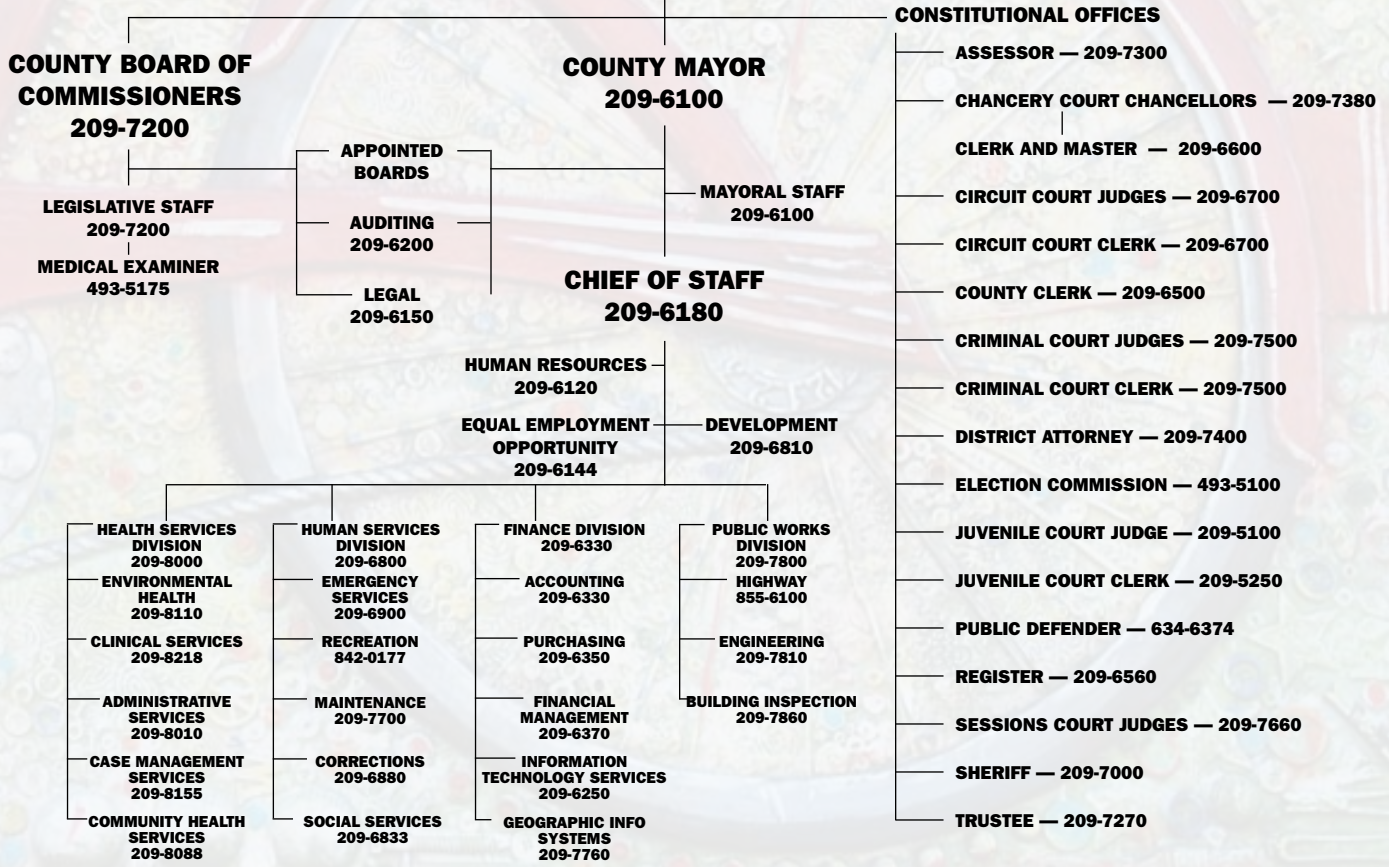
PUBLIC WORKS

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





Ruby Falls, a 145-foot underground waterfall located beneath the surface of Lookout Mountain, is one of the largest accessible to the public, and at 1,120 feet underground, it is one of the deepest commercial caves in the world.

**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, 2011, 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, 2011, 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.

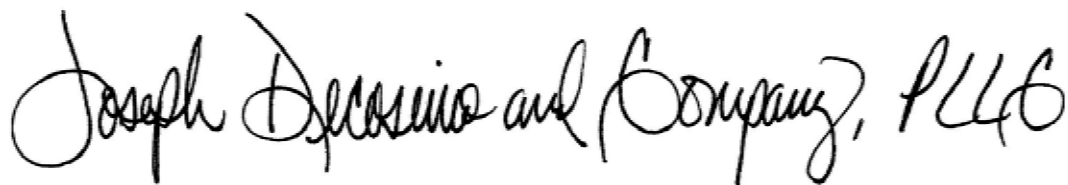
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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. An audit also includes 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, 2011, 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, 2011, 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 January 18, 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.

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 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal and state awards on pages G-1 through G-5 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The 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-18), 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. 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section (pages 1 through 15) and statistical tables (pages F-1 through F-25) have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Chattanooga, Tennessee
January 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011. 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 2011 were \$512,117,912.
- Revenues for governmental funds increased \$24,296,531, or 10.2% from last year.
- Expenditures for governmental funds increased \$7,951,269, or 2.9% from last year.
- Capital project expenditures were \$52,522,665, with \$46,191,752 spent for general government projects.
- Total debt at June 30, 2011 for the County was \$255,843,713, of which \$111,360,572 was for the Hamilton County Department of Education for capital improvements.

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 2011. 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, Statewide Meth Grant, Children's Services 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.



Images from the 2011 Hamilton County Fair, held at Chester Frost Park, September 24 and 25.

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-25.



Macey, with her blue-ribbon winner, Tex, a six-year-old Paint.



GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAMILTON COUNTY, TENNESSEE NET ASSETS

	Governmental Activities	
	2011	2010
ASSETS		
Current and Other Assets	\$ 299,316,204	\$ 301,112,047
Capital Assets	212,801,708	216,941,162
TOTAL ASSETS	512,117,912	518,053,209
LIABILITIES		
Long-term Liabilities	212,972,295	237,272,605
Other Liabilities	197,752,702	178,912,426
TOTAL LIABILITIES	410,724,997	416,185,031
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	177,199,640	143,726,882
Restricted	716,194	25,363,259
Unrestricted	(76,522,919)	(67,221,963)
TOTAL NET ASSETS	\$ 101,392,915	\$ 101,868,178

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 \$101,392,915 at the close of the fiscal year ended June 30, 2011.

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 \$212,972,295 include \$111,360,572 of debt for assets contributed to the Hamilton County Department of Education, a component unit, which results in negative unrestricted net assets.

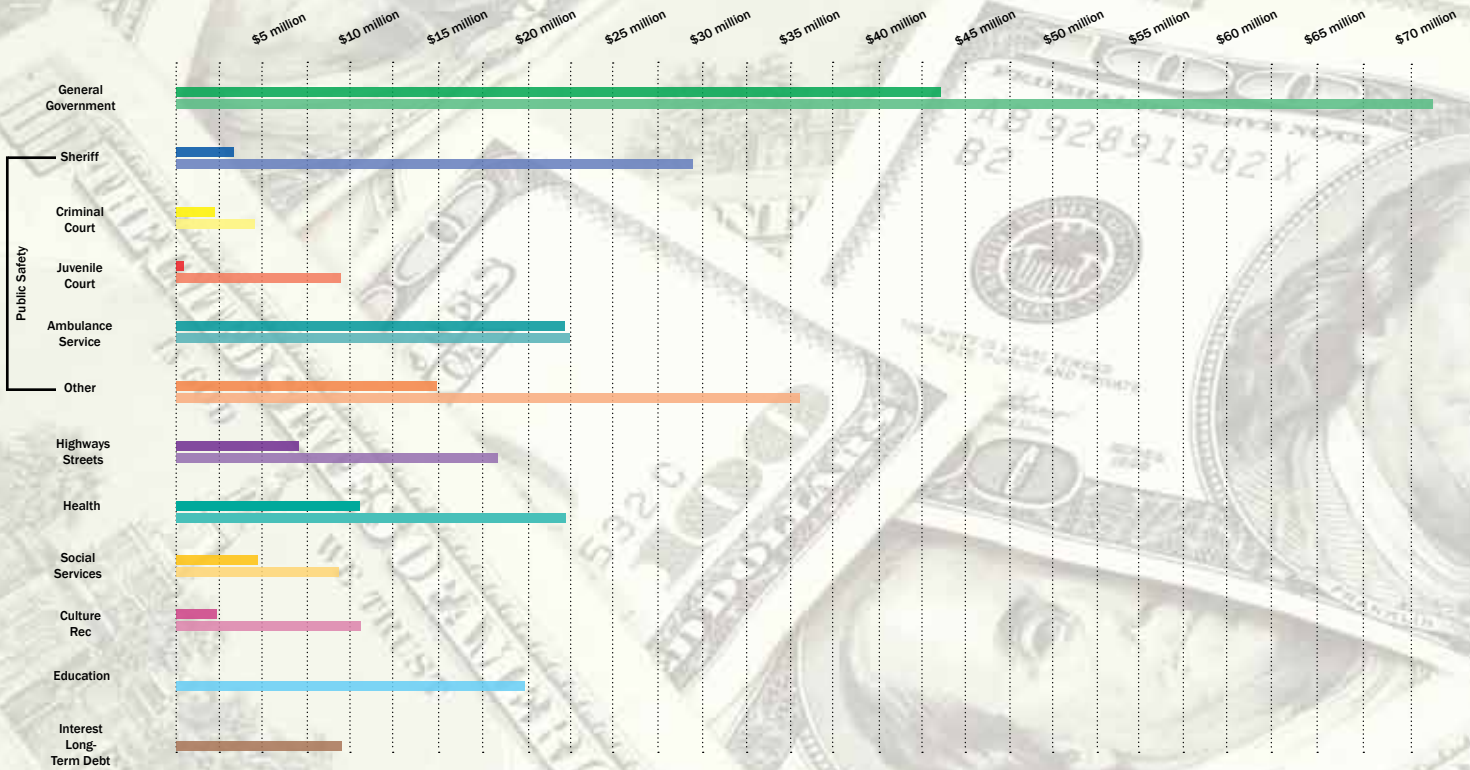
HAMILTON COUNTY, TENNESSEE CHANGES IN NET ASSETS

	Governmental Activities	
	2011	2010
REVENUES		
Program Revenues		
Charges for Services	\$ 60,874,457	\$ 60,866,198
Operating Grants and Contributions	25,675,026	24,716,541
Capital Grants and Contributions	23,786,966	4,088,921
Total Program Revenues	<u>110,336,449</u>	<u>89,671,660</u>
General Revenues		
Property Taxes	128,028,643	124,907,475
Other Taxes	24,777,662	23,374,080
Other	821,722	1,361,192
Total General Revenues	<u>153,628,027</u>	<u>149,642,747</u>
TOTAL REVENUES	<u>263,964,476</u>	<u>239,314,407</u>
EXPENSES		
General Government	71,919,720	60,945,951
Public Safety	99,950,404	98,509,342
Highways and Streets	18,405,626	16,709,116
Health	22,159,904	22,289,607
Social Services	8,932,771	9,922,024
Culture and Recreation	11,018,276	10,867,943
Education	19,312,528	51,348,798
Interest on Long-Term Debt	8,343,186	8,938,643
TOTAL EXPENSES	<u>260,042,415</u>	<u>279,531,424</u>
Increase (Decrease) in Net Assets before Special Item	3,922,061	(40,217,017)
Special Item – Loss on donation of land improvements	(4,397,324)	(69,755,282)
Special Item – Donation of land and building	—	5,950,000
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (475,263)</u>	<u>\$ (104,022,299)</u>

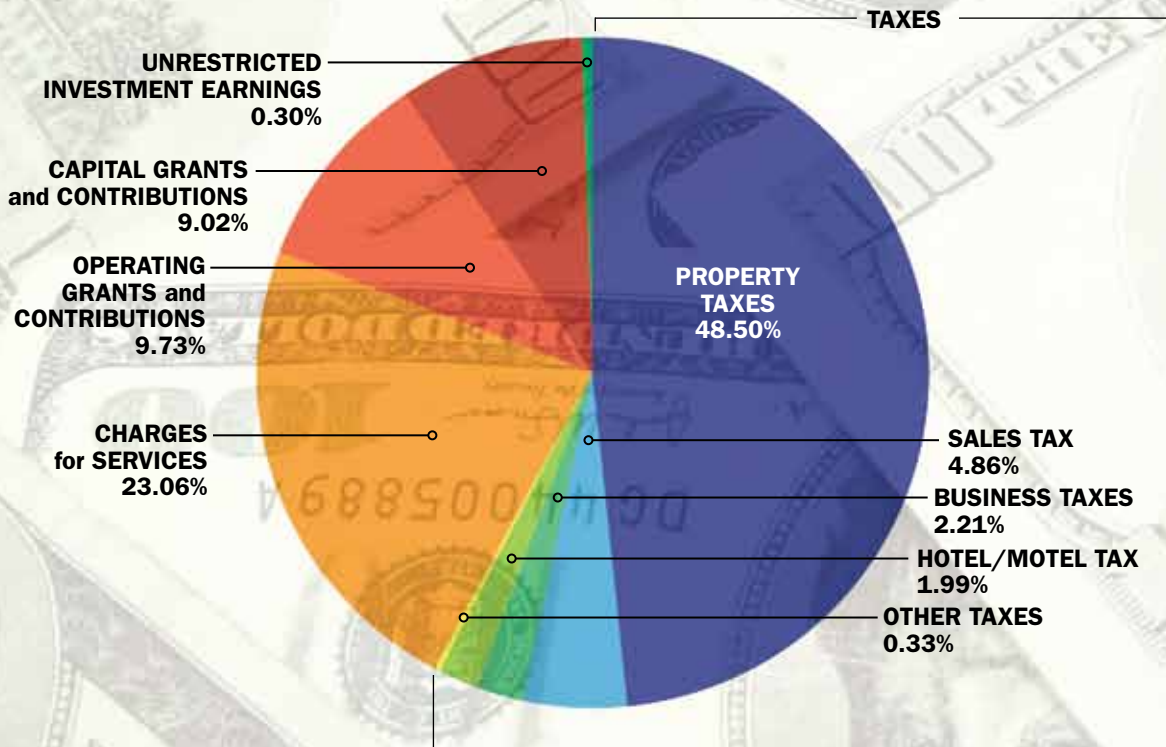
The change in the County's net assets was a decrease of \$475,263 during the current fiscal year. Key factors that resulted in this net decrease include:

- Capital grants and contributions increased \$19,698,045 as a result in various intergovernmental funding for projects at the Enterprise South Industrial Park. These projects included \$9,244,260 for rail construction, \$2,046,635 for Volkswagen site improvements, \$3,525,778 for Amazon and various other projects.
- Transfers to the Department of Education decreased \$32,036,270. Assets are constructed by the primary government and upon completion are transferred to the Department of Education.
- With the near completion of the Volkswagen Group of America's manufacturing facility, site improvement costs decreased by \$65,357,958.

EXPENSES AND PROGRAM REVENUES



REVENUES BY SOURCE



EXPENSES AND PROGRAM REVENUES

for fiscal year ending June 30, 2011

	<u>REVENUES</u>	<u>EXPENSES</u>
General Government	\$ 43,200,024	\$ 71,919,720
Public Safety		
Sheriff	3,659,971	29,218,502
Criminal Court	2,265,859	4,126,994
Juvenile Court	360,824	8,947,936
Ambulance Services	22,093,664	22,343,290
Other	14,474,262	35,313,682
Highways and Streets	6,836,642	18,405,626
Health	10,506,149	22,159,904
Social Services	4,810,399	8,932,771
Culture and Recreation	2,128,655	11,018,276
Education	—	19,312,528
Interest on long-term debt	—	8,343,186
TOTAL	<u>\$ 110,336,449</u>	<u>\$ 260,042,415</u>

REVENUES BY SOURCE

for fiscal year ending June 30, 2011

	<u>2011</u>	<u>PERCENTAGE</u>	<u>2010</u>	<u>PERCENTAGE</u>
Taxes				
Property Taxes	\$ 128,028,643	48.50%	\$ 124,907,475	52.19%
Sales Tax	12,827,069	4.86%	12,931,526	5.40%
Business Taxes	5,825,899	2.21%	5,066,223	2.12%
Hotel/Motel Tax	5,250,752	1.99%	4,523,689	1.89%
Other taxes	873,942	0.33%	852,642	0.36%
Charges for Services	60,874,457	23.06%	60,866,198	25.43%
Operating Grants and Contributions	25,675,026	9.73%	24,716,541	10.33%
Capital Grants and Contributions	23,811,245	9.02%	4,585,849	1.92%
Unrestricted Investment Earnings	797,443	0.30%	864,264	0.36%
TOTAL	<u>\$ 263,964,476</u>	100.00%	<u>\$ 239,314,407</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 2011, the County's governmental funds reported combined ending fund balances of \$59,002,655, a decrease of \$20,952,820. The assigned portion of fund balance was \$8,630,016. The unassigned portion of fund balance was \$43,272,853. 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 the prior period \$5,102,163;
- 2) for inventories, prepaid items and notes advances \$1,281,429; and
- 3) to cover other legal requirements \$716,194.

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 2011, assigned fund balance of the General Fund was \$3,100,039, unassigned fund balance of the General Fund was \$90,048,014, while the total fund balance was \$95,967,238. 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 58.9% of the total General Fund expenditures, while total fund balance represents 62.8% of that same amount.

The unassigned fund balance of the County's General Fund increased by \$7,213,118 during the current fiscal year. The major reason for that change is largely attributed to property taxes. Taxes increased by \$2,999,091 or 2.1% due to continued growth in the tax base.

The Debt Service fund has a total fund balance of \$236,503, a decrease of \$61,057 or 20.5%. It is expected that the change in debt service fund balance will remain relatively flat. 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 fund balance deficit of \$43,225,020. 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. Consequently, as spending and commitments for project obligations occur, fund balance declines. The revenue will be recognized when the long-term debt replaces the short-term debt.

Commitments for school construction decreased this year due to purchase of an existing building rather than new construction. However, commitments will be increasing with the construction of a new middle school in Red



Bank. Economic development commitments have continued to decrease due to completion of site improvements related to Volkswagen Group of America manufacturing facility. Infrastructure improvements for Enterprise South Industrial Park are nearing completion as well.

The Sheriff's fund balance of \$2,014,545 decreased \$636,258 from the prior year. This change of 24.0% is attributed to an increase in expenditures of \$816,952, or 3.0%, and no change in the budgeted appropriation from the General Fund. This increase in expenditures is due to an increase in compensation and fuel costs. While fund balance decreased, revenues remained relatively flat, increasing only 2.6%. This increase is largely attributed to an increase in intergovernmental revenues.

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 \$18,971,891.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$6,767,017 and can be summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$3,321,435 of the increase.
- New grants from various state and federal agencies accounted for \$2,163,211 of the increase.
- Adjustments to operating budgets or new appropriations accounted for a \$1,282,371 increase.

Actual revenues were less than budgeted revenues by \$3.2 million. This difference is largely due to a shortfall of intergovernmental revenues of \$3.7 million and a shortfall of miscellaneous revenues of \$2.6 million, offset by taxes and charges for services that exceeded the budget by \$1.7 million and \$1.6 million respectively. Investment earnings also fell short of budget due to lower interest rates and fewer funds available for investing as a result of expenditures made for site improvements at Enterprise South.

Expenditures were less than budget estimates by \$13.9 million. A large part of this variance is due to conservative spending by the Highway Department and reduced capital outlay expenditures as site improvements for Volkswagen Group of America come to a close. With the favorable variance of actual expenditures to budget, \$7.3 million was added to fund balance while the General Fund was originally budgeted to use \$2 million.



From left to right: Erlanger opens a Wellness Center on Volkswagen Drive, the 21st Century Waterfront is the site for RiverRocks, the Creative Discovery Museum provides fun for all ages and the Riverwalk connects us all.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2011, amounts to \$212,801,708 (net of accumulated depreciation of \$214,105,021). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangibles and construction in progress. The County donated \$4,397,324 in land improvements to the City of Chattanooga for Enterprise Industrial Park and transferred \$19,312,528 in assets to the Department of Education. Consequently, the County's investment in capital assets decreased \$4,139,454 or 1.9%. Additional information on the County's capital assets can be found in the Notes to 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

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2011

NET OF DEPRECIATION

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 61,840,844	\$ 32,700	\$ (76,406)	\$ 61,797,138
Construction in progress	23,883,661	26,456,398	(36,259,872)	14,080,187
Buildings	122,703,798	9,019,830	—	131,723,628
Improvements other than buildings	24,464,438	239,052	—	24,703,490
Machinery and equipment	37,925,398	3,021,431	(2,801,888)	38,144,941
Infrastructure	147,261,248	4,173,731	—	151,434,979
Intangibles	4,493,934	690,190	(161,758)	5,022,366
Depreciation	(205,632,159)	(10,381,081)	1,908,219	(214,105,021)
	<u>\$ 216,941,162</u>	<u>\$ 33,252,251</u>	<u>\$ (37,391,705)</u>	<u>\$ 212,801,708</u>



The new Volkswagen plant is expected to generate \$12 billion in income growth and an additional 9,500 jobs related to the project. In September 2011, Passat number 10,000 rolled off the assembly line.

LONG-TERM DEBT

At the end of fiscal year 2011, the County had general obligation bonds outstanding of \$185.55 million, notes payable and other debt of \$5,677,713 and short-term obligations of \$64.616 million. Of this debt, \$111,360,572 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in preparing the County's budget for fiscal year 2012:

- It is estimated that overall fund balance for FY 2012 will increase by \$830,696, of which the General Fund is to increase \$2,439,650, while Sheriff and Department of Education are estimated to use fund balance of \$141,237 and \$1,467,717 respectively.
- Total budgeted taxes increased slightly over the prior year's budget with an estimated growth of only 0.45%. Recent in lieu of property tax agreements have provided for full property taxes payable to the Department of Education. However, the same agreements have allowed companies that are relocating or expanding in Hamilton County to pay reduced or no property taxes to the General Fund during the life of the contract. Contract terms vary depending upon the individual companies' development phase. 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.
- For the fifth budget year, an appropriation of \$1.6 million has been allocated to fund the estimated annual required contribution for Hamilton County General Government's other post-employment benefits.

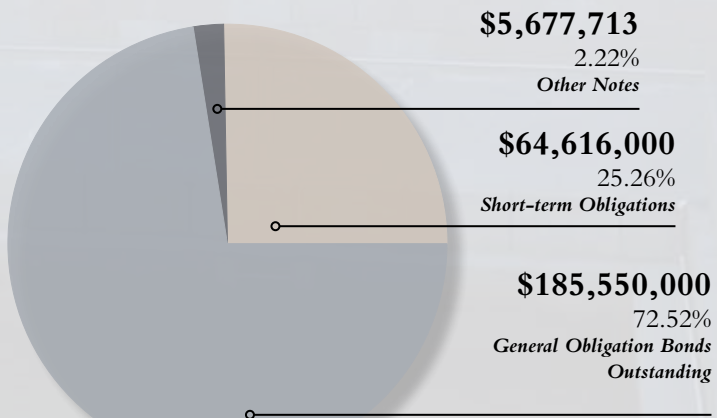
- The Tennessee Consolidated Retirement System held the County General's contribution steady at 14.41%.
- Local sales tax is estimated to decrease \$10,345,000 or 78.7% from the prior year's budget. The decrease is due to the 1966 sales tax agreement expiring. State law provides that 50% of any local option sales tax proceeds be used for school purposes. The remaining one half is divided and helps fund health and welfare services of non-profit agencies. It is the non-education portion that changed. This half of proceeds can either be distributed to the city in which collected or by a contractual agreement. The City of Chattanooga no longer allows their portion of sales tax to be retained by the County as joint support of non-profit agencies.
- The Department of Education, a discretely presented component unit of Hamilton County with an approved budget of \$373,432,876 represents 59.7% of the total County budget. The total increase of \$1,524,835 includes \$1,467,717 of fund balance. Revenues for the Department of Education for the budget year 2012 are projected to be relatively flat with a slight increase of \$1,141,356 or 0.31% of total budget.
- The largest increases in expenditures can be attributed to 1) an increase in the certificated teachers' retirement plan per the state's actuarial study; 2) salary step increases per the negotiated contract with the educational association; and 3) medical insurance costs. Salary step increases are calculated annually based on years of service in accordance with the contract with the educational association. Beginning FY2011, the Department of Education moved to a fully self-insured medical health plan. In addition, the Department of Education is working collaboratively with the educational association to identify ways to slow down the rising health care costs by lowering the utilization rate.
- 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. The District closely aligns its staffing levels with the state's Basic Education Program.

Ross's Landing and the dramatic water cannons at its base.

JOJO SV SME
 GUWIS-GUWI BADO GALIJUV
 ROSS SLANDING

General Long-Term Debt

General Obligation Bonds Outstanding	\$ 185,550,000	72.52%
Other Notes	5,677,713	2.22%
Short-term obligations	64,616,000	25.26%
	<u>255,843,713</u>	
Less: Unreserved Debt Service Fund Balance	(236,503)	
	<u><u>\$ 255,607,210</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 website <http://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.

The Chattanooga Market, the region's largest producer-only arts and crafts and farmers' market, is held Sundays from 11 a.m. to 4 p.m., May through December at the open-air First Tennessee Pavilion.

STATEMENT OF ACTIVITIES

HAMILTON COUNTY, TENNESSEE

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Government activities:			
General government	\$ 71,919,720	\$ 16,164,972	\$ 3,248,086
Public safety:			
Sheriff	29,218,502	1,267,582	2,392,389
Criminal Court	4,126,994	2,265,859	-
Juvenile Court	8,947,936	360,824	-
Ambulance Services	22,343,290	22,093,664	-
Other	35,313,682	8,918,963	5,555,299
Highways and streets	18,405,626	2,490,007	4,346,635
Health	22,159,904	2,229,402	8,276,747
Social services	8,932,771	4,476,458	333,941
Culture and recreation	11,018,276	606,726	1,521,929
Education	19,312,528	-	-
Interest on long-term debt	8,343,186	-	-
TOTAL PRIMARY GOVERNMENT	\$ 260,042,415	\$ 60,874,457	\$ 25,675,026
Component units:			
Department of Education	\$ 398,437,239	\$ 23,152,726	\$ 69,250,245
"911" Emergency communications	11,623,993	3,731,072	1,586,887
Water and wastewater treatment authority	10,782,115	10,691,435	-
Railroad authority	2,159,182	125,785	2,031,886
TOTAL COMPONENT UNITS	\$ 423,002,529	\$ 37,701,018	\$ 72,869,018
General revenues:			
Property taxes			
Sales taxes			
Business taxes			
Hotel/Motel taxes			
Other taxes			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Special item - loss on donation of land improvements			
Total general revenues and special item			
Change in net assets			
Net assets, beginning			
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
\$ 23,786,966	\$ (28,719,696)	
-	(25,558,531)	
-	(1,861,135)	
-	(8,587,112)	
-	(249,626)	
-	(20,839,420)	
-	(11,568,984)	
-	(11,653,755)	
-	(4,122,372)	
-	(8,889,621)	
-	(19,312,528)	
-	(8,343,186)	
<u>\$ 23,786,966</u>	<u>(149,705,966)</u>	
\$ 18,616,477		\$ (287,417,791)
5,460,199		(845,835)
1,121,794		1,031,114
-		(1,511)
<u>\$ 25,198,470</u>		<u>(287,234,023)</u>
	128,028,643	121,489,230
	12,827,069	58,023,163
	5,825,899	-
	5,250,752	-
	873,942	-
	24,279	119,192,520
	797,443	298,765
	(4,397,324)	-
	<u>149,230,703</u>	<u>299,003,678</u>
	(475,263)	11,769,655
	<u>101,868,178</u>	<u>414,516,292</u>
	<u>\$ 101,392,915</u>	<u>\$ 426,285,947</u>

**BALANCE SHEET
GOVERNMENTAL FUNDS**

HAMILTON COUNTY, TENNESSEE

June 30, 2011

	General	Sheriff	Debt Service
ASSETS			
Cash and cash equivalents	\$ 1,164,656	\$ 59,006	\$ 39,042
Investments	75,444,121	2,893,332	178,105
Receivables, net of allowance for uncollectibles	131,242,529	385,804	48,763
Due from other funds	7,381,481	-	-
Due from component units	2,336,497	-	-
Inventories	1,136,736	-	-
Prepaid items	144,693	-	-
Advance to Component Units	-	-	6,500,000
	<u>\$ 218,850,713</u>	<u>\$ 3,338,142</u>	<u>\$ 6,765,910</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,774,841	\$ 97,397	\$ 29,407
Accrued items and other	7,303,260	1,226,181	-
Intergovernmental payables	414,118	-	-
Due to other funds	82,125	19	-
Short term obligations	-	-	-
Unearned revenues:			
Uncollected property taxes	111,617,421	-	-
Other	691,710	-	6,500,000
	<u>122,883,475</u>	<u>1,323,597</u>	<u>6,529,407</u>
Fund balances:			
Nonspendable for inventories	1,136,736	-	-
Nonspendable for prepaid items	144,693	-	-
Committed for general government	169,623	-	-
Committed for public safety	119,524	14,266	-
Committed for highways and streets	748,303	-	-
Committed for health	425,803	-	-
Committed for culture and recreation	74,503	-	-
Committed for capital projects	-	-	-
Restricted for general government	-	-	-
Restricted for public safety	-	680,903	-
Assigned for constitutional officers	-	-	-
Assigned for general government	1,756,214	-	-
Assigned for public safety	1,343,825	1,319,376	-
Assigned for debt service	-	-	236,503
Unassigned	90,048,014	-	-
	<u>95,967,238</u>	<u>2,014,545</u>	<u>236,503</u>
Total liabilities and fund balances	<u>\$ 218,850,713</u>	<u>\$ 3,338,142</u>	<u>\$ 6,765,910</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 123,725	\$ 6,554,857	\$ 7,941,286
25,265,261	762,505	104,543,324
12,004,490	1,085,084	144,766,670
17,818	64,307	7,463,606
-	-	2,336,497
-	-	1,136,736
-	-	144,693
-	-	6,500,000
<u>\$ 37,411,294</u>	<u>\$ 8,466,753</u>	<u>\$ 274,832,812</u>
\$ 4,962,768	\$ -	\$ 7,864,413
-	4,208,554	12,737,995
3,748,414	-	4,162,532
7,132,652	248,810	7,463,606
64,616,000	-	64,616,000
-	-	111,617,421
176,480	-	7,368,190
<u>80,636,314</u>	<u>4,457,364</u>	<u>215,830,157</u>
-	-	1,136,736
-	-	144,693
-	-	169,623
-	-	133,790
-	-	748,303
-	-	425,803
-	-	74,503
3,550,141	-	3,550,141
-	35,291	35,291
-	-	680,903
-	3,818,970	3,818,970
-	-	1,756,214
-	155,128	2,818,329
-	-	236,503
(46,775,161)	-	43,272,853
<u>(43,225,020)</u>	<u>4,009,389</u>	<u>59,002,655</u>
<u>\$ 37,411,294</u>	<u>\$ 8,466,753</u>	<u>\$ 274,832,812</u>



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

HAMILTON COUNTY, TENNESSEE

June 30, 2011

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

Fund balances - total governmental funds		\$ 59,002,655
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.		212,801,708
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.		15,356,825
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.		18,971,891
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.		1,183,670
Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable		9,172,335
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	\$185,550,000	
Add: original issue premiums	5,641,678	
Notes payable & other debt	5,677,713	
OPEB obligation	125,808	
Landfill post closure costs	210,000	
Compensated absences	15,767,096	
Accrued interest payable	<u>2,123,874</u>	
		<u>(215,096,169)</u>
Net assets of governmental activities		<u>\$ 101,392,915</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, 2011**

	<u>General</u>	<u>Sheriff</u>	<u>Debt Service</u>
REVENUES			
Taxes	\$ 146,570,876	\$ -	\$ -
Licenses and permits	519,985	-	-
Intergovernmental	22,384,687	2,392,389	897,950
Charges for services	34,980,776	20,874	532,524
Fines, forfeitures and penalties	921,509	568,389	-
Investment earnings	438,509	21,990	2,312
Miscellaneous	<u>2,926,250</u>	<u>678,319</u>	<u>71,609</u>
Total revenues	<u>208,742,592</u>	<u>3,681,961</u>	<u>1,504,395</u>
EXPENDITURES			
Current:			
General government	36,678,683	-	-
Public safety:			
Sheriff	-	27,915,703	-
Criminal Court	1,201,985	-	-
Juvenile Court	6,593,837	-	-
Ambulance Services	21,746,243	-	-
Other	34,316,120	-	-
Highways and streets	11,521,034	-	-
Health	22,015,989	-	-
Social services	5,337,025	-	-
Culture and recreation	9,823,405	-	-
Debt service:			
Principal	-	-	23,755,338
Interest and fiscal charges	-	-	9,072,871
Capital outlay:			
General government	3,609,018	-	-
Education	-	-	-
Total expenditures	<u>152,843,339</u>	<u>27,915,703</u>	<u>32,828,209</u>
Excess (deficiency) of revenues over (under) expenditures	<u>55,899,253</u>	<u>(24,233,742)</u>	<u>(31,323,814)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	8,993,859	23,564,159	31,262,757
Transfers out	(56,898,879)	-	-
Sale of capital assets	<u>52,847</u>	<u>33,325</u>	<u>-</u>
Total other financing sources and uses	<u>(47,852,173)</u>	<u>23,597,484</u>	<u>31,262,757</u>
Net change in fund balances	8,047,080	(636,258)	(61,057)
Fund balances, beginning	<u>87,920,158</u>	<u>2,650,803</u>	<u>297,560</u>
Fund balances, ending	<u>\$ 95,967,238</u>	<u>\$ 2,014,545</u>	<u>\$ 236,503</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 5,265,154	\$ 151,836,030
-	-	519,985
19,839,075	-	45,514,101
237,139	19,285,457	55,056,770
-	33,900	1,523,798
140,966	31,638	635,415
<u>3,965,376</u>	<u>73,831</u>	<u>7,715,385</u>
<u>24,182,556</u>	<u>24,689,980</u>	<u>262,801,484</u>
-	9,483,686	46,162,369
-	-	27,915,703
-	2,576,977	3,778,962
-	2,200,410	8,794,247
-	-	21,746,243
-	6,925	34,323,045
-	-	11,521,034
-	-	22,015,989
-	3,542,468	8,879,493
-	-	9,823,405
-	-	23,755,338
-	-	9,072,871
46,191,752	-	49,800,770
<u>6,330,913</u>	<u>-</u>	<u>6,330,913</u>
<u>52,522,665</u>	<u>17,810,466</u>	<u>283,920,382</u>
<u>(28,340,109)</u>	<u>6,879,514</u>	<u>(21,118,898)</u>
233,268	1,838,695	65,892,738
-	(8,993,859)	(65,892,738)
<u>79,906</u>	<u>-</u>	<u>166,078</u>
<u>313,174</u>	<u>(7,155,164)</u>	<u>166,078</u>
(28,026,935)	(275,650)	(20,952,820)
<u>(15,198,085)</u>	<u>4,285,039</u>	<u>79,955,475</u>
<u>\$ (43,225,020)</u>	<u>\$ 4,009,389</u>	<u>\$ 59,002,655</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, 2011

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	\$ (20,952,820)
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	56,131,683
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities	(10,381,081)
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 refundings 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.	24,519,703
The net revenues of internal service funds are reported with governmental activities	(473,341)
The net effect of various transactions involving capital assets is to decrease net assets	(26,180,203)
The net effect of capital asset transactions involving the Hamilton County Department of Education is to decrease net assets.	(19,312,528)
The net effect of the transaction involving capital assets related to the special item-loss on donation of land improvements to the Volkswagen Group of America, Inc is to decrease net assets	(4,397,324)
The net effect of the change in the net OPEB obligation is included in the governmental activities in the statement of activities	(125,808)
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities	(78,665)
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	(423,282)
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds	<u>1,198,403</u>
Change in net assets of governmental activities	<u>\$ (475,263)</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, 2011

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive Negative
REVENUES				
Taxes	\$ 144,835,772	\$ 144,835,772	\$ 146,570,876	\$ 1,735,104
Licenses and permits	550,500	550,500	519,985	(30,515)
Intergovernmental revenues	21,389,798	26,100,384	22,384,687	(3,715,697)
Charges for services	13,080,808	13,080,808	14,701,306	1,620,498
Fines, forfeitures and penalties	1,090,700	1,090,700	921,509	(169,191)
Investment earnings	450,250	450,250	438,509	(11,741)
Miscellaneous	5,506,200	5,508,900	2,926,250	(2,582,650)
Total revenues	<u>186,904,028</u>	<u>191,617,314</u>	<u>188,463,122</u>	<u>(3,154,192)</u>
EXPENDITURES				
Current:				
General government	38,329,026	39,961,573	36,568,815	3,392,758
Public safety	44,445,455	47,845,882	43,513,563	4,332,319
Highways and streets	13,724,564	13,807,303	12,121,192	1,686,111
Health	24,193,147	24,162,193	21,965,617	2,196,576
Social services	5,666,719	5,669,411	5,334,308	335,103
Culture and recreation	10,049,280	10,186,109	9,868,207	317,902
Capital outlay	4,417,511	5,960,248	3,921,173	2,039,075
Total expenditures	<u>140,825,702</u>	<u>147,592,719</u>	<u>133,292,875</u>	<u>14,299,844</u>
Excess of revenues over expenditures	<u>46,078,326</u>	<u>44,024,595</u>	<u>55,170,247</u>	<u>11,145,652</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	8,328,842	8,328,842	8,993,858	665,016
Transfers out	(56,498,243)	(56,498,243)	(56,898,879)	(400,636)
Sale of capital assets	49,000	49,000	52,846	3,846
Total other financing sources (uses)	<u>(48,120,401)</u>	<u>(48,120,401)</u>	<u>(47,852,175)</u>	<u>268,226</u>
Net change in fund balance	(2,042,075)	(4,095,806)	7,318,072	11,413,878
Fund balance allocation	<u>2,042,075</u>	<u>4,095,806</u>	<u>-</u>	<u>(4,095,806)</u>
	<u>\$ -</u>	<u>\$ -</u>	7,318,072	<u>\$ 7,318,072</u>
Add encumbrances at end of year			1,537,756	
Less encumbrances at beginning of year			(808,748)	
Net change in fund balance--(GAAP Modified Accrual Basis)			8,047,080	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			<u>87,920,158</u>	
Fund balance at end of year--(GAAP Modified Accrual Basis)			<u>\$ 95,967,238</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, 2011**

	Original Budget	Final Budget	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 2,042,577	\$ 2,618,995	\$ 2,392,389	\$ (226,606)
Charges for current services	15,450	16,200	20,874	4,674
Fines, forfeitures and penalties	586,350	586,350	568,389	(17,961)
Investment earnings	13,950	13,950	21,990	8,040
Miscellaneous	743,871	743,121	678,319	(64,802)
Total revenues	<u>3,402,198</u>	<u>3,978,616</u>	<u>3,681,961</u>	<u>(296,655)</u>
EXPENDITURES				
Current:				
Public safety:				
Administration	2,454,119	2,531,470	2,350,121	181,349
Patrol	8,264,925	8,476,096	8,396,767	79,329
Jail	10,231,462	10,377,915	10,415,291	(37,376)
Process and court servers	837,535	837,535	719,246	118,289
Communications	676,913	676,913	632,306	44,607
Major crimes	1,888,021	1,893,270	1,862,862	30,408
Fugitive warrant	1,081,449	1,036,550	1,142,932	(106,382)
Civil Process	725,492	655,320	674,088	(18,768)
Special operations	840,683	1,259,694	930,021	329,673
Inmate commissary	294,000	294,000	284,996	9,004
Governor's hwy safety grant	-	313,472	198,260	115,212
BOJ Bulletproof vest grant	-	21,831	38,501	(16,670)
IV-D civil process	-	199,200	185,103	14,097
Total budgetary expenditures	<u>27,294,599</u>	<u>28,573,266</u>	<u>27,830,494</u>	<u>742,772</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	<u>(23,892,401)</u>	<u>(24,594,650)</u>	<u>(24,148,533)</u>	<u>446,117</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	23,564,159	23,564,159	23,564,159	-
Sale of capital assets	-	-	33,325	33,325
Total Other Financing Sources (Uses)	<u>23,564,159</u>	<u>23,564,159</u>	<u>23,597,484</u>	<u>33,325</u>
Net change in fund balance	(328,242)	(1,030,491)	(551,049)	479,442
Fund balance allocation	<u>328,242</u>	<u>1,030,491</u>	-	<u>(1,030,491)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>(551,049)</u>	<u>\$ (551,049)</u>
Add encumbrances at end of year			14,266	
Less encumbrances at beginning of year			<u>(99,475)</u>	
Net change in fund balance--(GAAP)			(636,258)	
Fund balance at beginning of year--(GAAP)			<u>2,650,803</u>	
Fund balance at end of year--(GAAP)			<u>\$ 2,014,545</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, 2011**

	Governmental Activities - Internal Service Fund
CURRENT ASSETS	
Cash	\$ 246,634
Investments	21,242,802
Due from component unit	10,958
Prepaid insurance	73,841
Prepaid items	<u>16,758</u>
Total current assets	<u>21,590,993</u>
LIABILITIES	
Current Liabilities	
Accounts payable	16,703
Accrued claims	<u>2,074,005</u>
Total current liabilities	<u>2,090,708</u>
Noncurrent Liabilities	
Accrued claims	<u>528,394</u>
NET ASSETS	
Unrestricted	<u>\$ 18,971,891</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, 2011**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Charges for services	\$ 21,984,177
Other	<u>734,100</u>
Total operating revenues	<u>22,718,277</u>
OPERATING EXPENSES	
Unemployment compensation	94,752
Claims and premiums	20,650,667
Pharmacy	1,672,014
Administration	<u>936,214</u>
Total operating expenses	<u>23,353,647</u>
Operating income (loss)	(635,370)
NONOPERATING REVENUES	
Investment earnings	<u>162,029</u>
Change in net assets	(473,341)
Net assets, beginning	<u>19,445,232</u>
Net assets, ending	<u><u>\$ 18,971,891</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, 2011**

	Governmental Activities - Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from (paid for) insurance premiums	\$ 21,886,895
Cash paid for unemployment compensation	(92,819)
Cash paid for claims and premiums	(20,837,016)
Cash paid for administration	(936,216)
Cash paid for pharmacy	<u>(866,921)</u>
Net cash provided by operating activities	<u>(846,077)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(21,242,802)
Proceeds from sale of investments	22,101,480
Interest on investments	<u>162,029</u>
Net cash used in investing activities	<u>1,020,707</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	174,630
BEGINNING CASH AND CASH EQUIVALENTS	<u>72,004</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 246,634</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	<u>\$ (635,370)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in receivable	(10,196)
Change in due from component unit	(10,959)
Change in accounts payable	(216,690)
Change in accrued claims	(3,744)
Change in prepaid insurance	<u>30,882</u>
Total adjustments	<u>(210,707)</u>
Net cash provided by operating activities	<u>\$ (846,077)</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, 2011**

	OPEB Trust Fund	Pension Trust Funds	Constitutional Officers Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 5,010	\$ -	\$ 7,595,885
Certificates of deposit	-	26,356	7,641,383
Investments, at fair value:			
US Gov. Securities	963,758	538,208	103,074
Municipal Bonds	25,474	15,284	-
Mutual Funds	987,054	589,179	-
Domestic Equity Securities	3,036,613	702,803	-
Domestic Corporate Bonds	702,917	386,577	-
Foreign Bonds/ Notes	96,565	53,380	-
Foreign equity securities	<u>1,074,076</u>	<u>300,831</u>	<u>-</u>
Total investments	<u>6,886,457</u>	<u>2,586,262</u>	<u>103,074</u>
Receivables:			
Interest	21,744	10,308	-
Accounts	<u>-</u>	<u>-</u>	<u>57,298</u>
Total assets	<u>6,913,211</u>	<u>2,622,926</u>	<u>15,397,640</u>
LIABILITIES			
Accrued items and other		52,748	9,906,009
Intergovernmental payables	<u>-</u>	<u>-</u>	<u>5,491,631</u>
Total liabilities	<u>-</u>	<u>52,748</u>	<u>15,397,640</u>
NET ASSETS			
Assets held in trust for benefits	<u>\$ 6,913,211</u>	<u>\$ 2,570,178</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, 2011**

	OPEB Trust Fund	Pension Trust Funds
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Other	\$ 6,400,000	\$ 67,418
Plan members	<u> -</u>	<u> 10,051</u>
Total contributions	<u> 6,400,000</u>	<u> 77,469</u>
Investment earnings:		
Net change in fair value of investments	440,768	272,969
Misc Revenue	1,702	-
Non Cash Distribution	6,666	-
Interest	<u> 99,437</u>	<u> 45,245</u>
Net investment income	<u> 548,573</u>	<u> 318,214</u>
Total additions	<u> 6,948,573</u>	<u> 395,683</u>
DEDUCTIONS		
Benefits	-	193,585
Non Cash Distribution Loss	6,720	-
Misc Expense	184	-
Administrative expense	<u> 28,458</u>	<u> 32,333</u>
Total deductions	<u> 35,362</u>	<u> 225,918</u>
Change in net assets	6,913,211	169,765
Net assets, beginning	<u> -</u>	<u> 2,400,413</u>
Net assets, ending	<u> \$ 6,913,211</u>	<u> \$ 2,570,178</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, 2011

	Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority (WWTA)	Railroad Authority	Total
ASSETS					
Cash and cash equivalents	\$ 23,925,991	\$ 556,359	\$ 4,907,516	\$ 51,992	\$ 29,441,858
Certificates of deposit	383,598	8,163,635	-	-	8,547,233
Investments	27,877,405	3,683,040	-	-	31,560,445
Receivables, net of allowance for uncollectible	155,356,254	709,674	1,244,589	1,964,590	159,275,107
Receivables, restricted	-	-	290,726	-	290,726
Inventories	803,032	-	154,813	-	957,845
Restricted cash	3,411,354	-	1,097,663	-	4,509,017
Prepaid items	692,424	-	142,058	-	834,482
Land and other nondepreciable assets	17,519,167	-	2,955,945	-	20,475,112
Capital assets, net of accumulated depreciation	<u>296,664,027</u>	<u>4,501,026</u>	<u>89,074,102</u>	<u>3,300</u>	<u>390,242,455</u>
Total assets	<u>526,633,252</u>	<u>17,613,734</u>	<u>99,867,412</u>	<u>2,019,882</u>	<u>646,134,280</u>
LIABILITIES					
Accounts payable and other current liabilities	38,043,692	961,013	1,153,192	1,966,502	42,124,399
Due to primary government	1,036,775	1,106,525	204,155	-	2,347,455
Unearned revenue	120,513,197	-	-	-	120,513,197
Noncurrent liabilities:					
Due within one year	9,052,940	-	540,808	-	9,593,748
Due in more than one year	13,357,358	-	16,239,841	-	29,597,199
Advance from Primary Government	<u>614,494</u>	<u>-</u>	<u>15,057,841</u>	<u>-</u>	<u>15,672,335</u>
Total liabilities	<u>182,618,456</u>	<u>2,067,538</u>	<u>33,195,837</u>	<u>1,966,502</u>	<u>219,848,333</u>
NET ASSETS					
Invested in capital assets, net of related debt	314,183,194	4,501,026	60,191,557	3,300	378,879,077
Restricted for:					
State statute	160,160	-	-	-	160,160
School activities funds	3,411,354	-	-	-	3,411,354
WWTA PSLP program	-	-	1,388,389	-	1,388,389
Unrestricted	<u>26,260,088</u>	<u>11,045,170</u>	<u>5,091,629</u>	<u>50,080</u>	<u>42,446,967</u>
Total net assets	<u>\$344,014,796</u>	<u>\$ 15,546,196</u>	<u>\$ 66,671,575</u>	<u>\$ 53,380</u>	<u>\$ 426,285,947</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, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
HAMILTON COUNTY DEPARTMENT OF EDUCATION				
Regular instruction	\$ 187,130,699	\$ 869,350	\$ 27,881,185	\$ 10,173,073
Exceptional instruction	42,956,682	550,636	10,570,596	2,270,214
Vocational instruction	9,511,720	-	962,717	504,684
Support services:				
Pupil services	13,324,171	-	2,955,061	766,872
Instructional staff	23,413,532	171,514	10,318,478	-
Board of education	5,825,516	-	-	-
Administration	24,277,164	-	348,805	1,296,631
Business and fiscal services	2,273,770	-	-	-
Human resources	1,017,400	-	-	-
Plant operation and maintenance	33,628,332	-	1,502	1,737,456
Pupil transportation	14,558,507	-	910,013	774,334
Central and other	2,390,272	-	484	-
Operation of noninstructional services:				
Community services	2,905,661	2,820,680	160,711	153,410
Early childhood education	3,708,522	-	3,638,210	-
Extracurricular	13,764,555	13,224,596	-	-
Child Nutrition	17,750,736	5,515,950	11,502,483	939,803
TOTAL DEPARTMENT OF EDUCATION	398,437,239	23,152,726	69,250,245	18,616,477
"911" EMERGENCY COMMUNICATIONS				
Emergency communications operations	11,623,993	3,731,072	1,586,887	5,460,199
WATER & WASTEWATER TREATMENT AUTHORITY				
Water and wastewater treatment operations	10,782,115	10,691,435	-	1,121,794
RAILROAD AUTHORITY				
Railroad authority operations	2,159,182	125,785	2,031,886	-
TOTAL COMPONENT UNITS	\$ 423,002,529	\$ 37,701,018	\$ 72,869,018	\$ 25,198,470

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
\$ (148,207,091)				\$ (148,207,091)
(29,565,236)				(29,565,236)
(8,044,319)				(8,044,319)
(9,602,238)				(9,602,238)
(12,923,540)				(12,923,540)
(5,825,516)				(5,825,516)
(22,631,728)				(22,631,728)
(2,273,770)				(2,273,770)
(1,017,400)				(1,017,400)
(31,889,374)				(31,889,374)
(12,874,160)				(12,874,160)
(2,389,788)				(2,389,788)
229,140				229,140
(70,312)				(70,312)
(539,959)				(539,959)
207,500				207,500
<u>(287,417,791)</u>				
	\$ (845,835)			(845,835)
		\$ 1,031,114		1,031,114
			\$ (1,511)	(1,511)
				<u>(287,234,023)</u>
121,489,230	-	-	-	121,489,230
58,023,163	-	-	-	58,023,163
119,192,520	-	-	-	119,192,520
256,285	34,007	8,473	-	298,765
<u>298,961,198</u>	<u>34,007</u>	<u>8,473</u>	<u>-</u>	<u>299,003,678</u>
11,543,407	(811,828)	1,039,587	(1,511)	11,769,655
<u>332,471,389</u>	<u>16,358,024</u>	<u>65,631,988</u>	<u>54,891</u>	<u>414,516,292</u>
<u>\$ 344,014,796</u>	<u>\$ 15,546,196</u>	<u>\$ 66,671,575</u>	<u>\$ 53,380</u>	<u>\$ 426,285,947</u>



NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE June 30, 2011

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NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE JUNE 30, 2011

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, 625 Walnut St., Room 220, Chattanooga, TN 37402.

(2) **ACCOUNTING PRONOUNCEMENTS**

The County adopted GASB Statement No. 59, *Financial Instruments Omnibus*, required for periods beginning after June 15, 2010, in fiscal 2011. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The adoption of this Statement did not have a material effect on the County’s financial condition and results of operations.

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 plans to adopt 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. This Statement sets forth criteria that establish when an effective hedging relationship continues and hedge accounting should continue to be applied after the replacement of a swap counterparty or a swap counterparty's credit support provider. Management is in the process of determining the effects that the adoption of this Statement will have 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 \$3,000,000 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, 2011, 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 Post-Employment Benefits", the fund accounts for resources held in trust for a defined benefit post-employment 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 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. In addition, certain amounts included in the Debt Service Fund are not included in the budgetary amounts. 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, 2011, 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				
Encumbered for general government	\$ 169,623	\$ -	\$ -	\$ 169,623
Encumbered for public safety	119,524	14,266	-	133,790
Encumbered for highways and streets	748,303	-	-	748,303
Encumbered for health	425,803	-	-	425,803
Encumbered for culture and recreation	74,503	-	-	74,503
Encumbered for capital projects	-	-	3,550,141	3,550,141
	<u>\$ 1,537,756</u>	<u>\$ 14,266</u>	<u>\$ 3,550,141</u>	<u>\$ 5,102,163</u>

	<u>General Purpose School</u>	<u>Centralized Cafeteria</u>	<u>Education Capital Projects</u>	<u>Total Board of Education</u>
Component Units				
Encumbered for education	\$ 7,144,449	\$ -	\$ -	\$ 7,144,449
Encumbered for centralized cafeteria	-	18,241	-	18,241
Encumbered for capital projects	-	-	4,837,516	4,837,516
	<u>\$ 7,144,449</u>	<u>\$ 18,241</u>	<u>\$ 4,837,516</u>	<u>\$ 12,000,206</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 eight separate divisions by function (Constitutional Officers, Supported Agencies, Unassigned, Capital Outlay, Finance, Public Works, Human Services and Health) and it is at that level that expenditures may not legally exceed appropriations. In addition, the Sheriff, Debt Service and the Juvenile Court Clerk funds are budgeted and may not legally exceed appropriations.

(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.

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*, required for fiscal periods beginning after June 15, 2010, in fiscal 2011. This Statement revises fund balance categories and classifications, and clarifies governmental fund type definitions. The adoption of this Statement did not result in changes to the County's governmental funds. The statement did not affect the County's financial position or results of operations, although the fund balances of governmental funds have been reported in classifications different than those used in prior years. The fund balances as of June 30, 2010 that have been reported for comparative purposes have been reclassified in order to be consistent with the current year's classifications.

In the governmental fund financial statements, 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.) Fund balance not in spendable form 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 joint venture. 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 government's highest level of decision-making authority, which for the County is the County Commission. Amounts are reported as committed pursuant to resolutions or ordinances passed by the Commission (legislative branch), which have also been approved by the County Mayor (executive branch.)

Assigned fund balance consists of amounts constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Assignments may be made upon the authority of the County Mayor or designee.

Unassigned fund balance is the residual balance in the general fund (i.e., fund balance that is not nonspendable, and is 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, 2010
Levy date	October 1, 2010
Tax bills mailed	October 1, 2010
Delinquency date	March 1, 2011
Tax sale – 2007 delinquent property taxes	June 23, 2011

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.

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) Vacation Pay and Sick Leave

County employees are paid for vacation and absence due to sickness by prescribed formula based on length of service. The liability for unpaid leave earned by employees, which may be used in subsequent years or paid upon termination or retirement, is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements.

i) Subsequent Events

For the year ended June 30, 2011, the County has evaluated subsequent events for potential recognition and disclosure through January 18, 2012, the date of financial statement issuance.

On November 8, 2011, the County issued general obligation bonds (Series 2011A Bonds) in the amount of \$61,310,000 and general obligation refunding bonds (Series 2011B Bonds) in the amount of \$20,535,000. The Series 2011A Bonds were issued to retire \$41,060,000 of Bond Anticipation Notes and \$27,000,000 for new projects. The bonds were issued at a premium of \$7,181,563. The Series 2011B Bonds were issued to retire \$22,260,000 in outstanding debt with maturity dates from January 1, 2013 through January 1, 2019 (\$15,830,000) and January 1, 2024, 2028 and 2034 (\$6,430,000). The present value of savings to Hamilton County is \$2,297,867. A portion of the proceeds of the Series 2011B Bonds will be used to purchase direct non-callable obligations, the principal of and interest on which are unconditionally guaranteed as to full and timely payments by the United States of America and obligations of any agency or instrumentality of the United States (the “Federal Securities”). The principal of and interest of the Federal Securities, together with the cash held in the Escrow fund will be sufficient to pay, when due, the principal of, and the redemption premium and interest on the Refunded Bonds through January 1, 2010, the redemption date.

(10) NET ASSETS

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investments in fixed 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 – SPECIAL ITEMS – LOSS ON DONATION OF LAND IMPROVEMENTS

Volkswagen Group of America, Inc. (VW) announced its decision to build an automotive production facility in Chattanooga, Tennessee in July 2008. As part of the agreement with Volkswagen Group of America, a fully prepared project site estimated to cost over \$305,000,000 is being provided at no cost to the Company. Included in this agreement was land that was jointly owned by the County and the City of Chattanooga. In conjunction with this agreement, the County has donated a total of \$74,152,606 of land improvements, with \$4,397,324 in the current year to VW and the City of Chattanooga.

The County believes the transaction is a significant item, subject to management's control, that meets one, but not both of the criteria for identifying extraordinary items. The criteria used for determining an extraordinary item are: 1) unusual in nature, and 2) infrequent in occurrence. Although the transaction is unusual in nature for a government, the County believes it is not unreasonable to expect a similar transaction sometime in the future. Consequently, the County has recorded a \$4,397,324 special item loss on donation of land improvements to account for this transaction.

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, 2011, the County had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

At June 30, 2011, the County has a deficit of \$76,522,919 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, 2011, the County conveyed \$19,312,528 in capital assets to the Department of Education. At June 30, 2011, the County's long-term liabilities include general obligation bonds of \$110,746,078 issued for the Department of Education capital projects and notes payable of \$614,494 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, 2011, the County had a deficit of \$46,775,161 in unassigned fund balance in the capital projects fund. The capital projects fund also had a total fund deficit of \$43,225,020 at the end of June 30, 2011.

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, 2011, 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, 2011, 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:		
U.S. Government agency securities	1.85	\$ 3,987,160
Investment in local investment pool	0.00	121,766,539
Investment in state investment pool	0.00	17,427
Cash balances classified as investments	0.00	<u>15,000</u>
Total	0.06	<u>\$125,786,126</u>
Primary Government – Agency Funds:		
U.S. Government agency securities	1.85	\$ 3,741
Investment in local investment pool	0.00	<u>99,333</u>
Total	0.07	<u>\$ 103,074</u>
Component Units:		
U.S. Government agency securities	1.85	\$ 1,009,099
Investment in local investment pool	0.00	26,802,558
Investment in state investment pool	0.00	3,683,052
Cash Balances classified as investments	0.00	<u>65,736</u>
Total	0.06	<u>\$ 31,560,445</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, 2011, 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. Government and Agency Securities	Not rated	\$ 184,922
U.S. Government and Agency Securities	Aaa	353,286
Municipal Bonds	Aa3	15,284
Domestic Corporate Bonds	A1	11,034
Domestic Corporate Bonds	A2	68,314
Domestic Corporate Bonds	A3	59,485
Domestic Corporate Bonds	Aa3	26,729
Domestic Corporate Bonds	Baa1	55,484
Domestic Corporate Bonds	Baa2	100,927
Domestic Corporate Bonds	Baa3	64,604
Foreign Bonds / Notes	Aa1	15,322
Foreign Bonds / Notes	Aa2	10,124
Foreign Bonds / Notes	A2	15,257
Foreign Bonds / Notes	Baa3	12,677
Mutual Funds	Not rated	589,179
Domestic Equity Securities	Not rated	702,803
Foreign Equity Securities	Not rated	<u>300,831</u>
		<u>\$2,586,262</u>

OPEB Trust Fund:

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Government and Agency Securities	Not rated	\$344,855
U.S. Government and Agency Securities	Aaa	618,903
Municipal Bonds	Aa3	25,474
Domestic Corporate Bonds	A1	22,068
Domestic Corporate Bonds	A2	131,902
Domestic Corporate Bonds	A3	118,964
Domestic Corporate Bonds	Aa3	48,257
Domestic Corporate Bonds	Baa1	105,841
Domestic Corporate Bonds	Baa2	168,211
Domestic Corporate Bonds	Baa3	107,674
Foreign Bonds / Notes	Aa1	25,536
Foreign Bonds / Notes	Aa2	20,247
Foreign Bonds / Notes	A2	25,427
Foreign Bonds / Notes	Baa3	25,355
Mutual Funds	Not rated	987,054
Domestic Equity Securities	Not rated	3,036,613
Foreign Equity Securities	Not rated	<u>1,074,076</u>
		<u>\$6,886,457</u>

NOTE E – RECEIVABLES

Receivables at June 30, 2011, consist of the following:

Funds	Property Taxes	Patients	Accounts	Inter-Governmental	Allowance for Uncollectibles	Net
Primary Government:						
General	\$122,682,455	\$8,681,323	\$2,330,711	\$ 7,660,664	\$(10,112,624)	\$131,242,529
Sheriff	-	-	12,819	372,985	-	385,804
Debt service	-	-	48,763	-	-	48,763
Capital projects	-	-	2,144,699	9,859,791	-	12,004,490
Nonmajor	-	-	655,564	429,520	-	1,085,084
	<u>\$122,682,455</u>	<u>\$8,681,323</u>	<u>\$5,192,556</u>	<u>\$18,322,960</u>	<u>\$(10,112,624)</u>	<u>\$144,766,670</u>
Component Units:						
Governmental	\$132,039,142	\$ -	\$3,414,930	\$28,469,199	\$(5,901,684)	\$158,021,587
Proprietary	-	-	1,253,520	-	-	1,253,520
	<u>\$132,039,142</u>	<u>\$ -</u>	<u>\$4,668,450</u>	<u>\$28,469,199</u>	<u>\$(5,901,684)</u>	<u>\$159,275,107</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, 2011.

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 \$210,000 at June 30, 2011, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$210,000 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, 2011. 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, 2011. The total contractual commitments outstanding as of June 30, 2011, aggregated approximately \$4,430,194. 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, 2011, there is one Industrial Revenue Bond outstanding. The aggregate principal amount payable for the Industrial Revenue Bond series issued at June 30, 2011, is \$21,290,578.

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, 2011, 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	\$ 818,461	\$ 271,127	\$ 19,362	\$ 1,108,950
Clerk and Master	560,482	225,861	-	786,343
County Clerk	1,248,472	440,742	6,172	1,695,386
Criminal Court Clerk	1,057,828	135,921	8,236	1,201,985
Juvenile Court Clerk	-	-	22,830	22,830
Register	356,893	78,120	338	435,351
Sheriff	-	-	652,445	652,445
Trustee	283,363	100,183	366	383,912
Election Commission	1,139,304	277,392	26,518	1,443,214
Assessor of Property	<u>3,013,720</u>	<u>288,669</u>	<u>17,867</u>	<u>3,320,256</u>
	<u>\$ 8,478,523</u>	<u>\$1,818,015</u>	<u>\$ 754,134</u>	<u>\$11,050,672</u>

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 61,840,844	\$ 32,700	\$ (76,406)	\$ 61,797,138
Construction in progress	23,883,661	26,456,398	(36,259,872)	14,080,187
Total non-depreciable assets	<u>85,724,505</u>	<u>26,489,098</u>	<u>(36,336,278)</u>	<u>75,877,325</u>
Depreciable Assets:				
Buildings	122,703,798	9,019,830	-	131,723,628
Improvements other than buildings	24,464,438	239,052	-	24,703,490
Machinery and equipment	37,925,398	3,021,431	(2,801,888)	38,144,941
Infrastructure	147,261,248	4,173,731	-	151,434,979
Intangibles	4,493,934	690,190	(161,758)	5,022,366
Total depreciable assets	<u>336,848,816</u>	<u>17,144,234</u>	<u>(2,963,646)</u>	<u>351,029,404</u>
Less Accumulated Depreciation for:				
Buildings	(54,498,729)	(2,672,344)	-	(57,171,073)
Improvements other than buildings	(9,805,278)	(1,190,490)	-	(10,995,768)
Machinery and equipment	(30,411,231)	(2,231,746)	1,746,461	(30,896,516)
Infrastructure	(107,508,397)	(3,733,703)	-	(111,242,100)
Intangibles	(3,408,524)	(552,798)	161,758	(3,799,564)
Total accumulated depreciation	<u>(205,632,159)</u>	<u>(10,381,081)</u>	<u>1,908,219</u>	<u>(214,105,021)</u>
Depreciable Assets, net	<u>131,216,657</u>	<u>6,763,153</u>	<u>(1,055,427)</u>	<u>136,924,383</u>
Governmental activities capital assets, net	<u>\$ 216,941,162</u>	<u>\$ 33,252,251</u>	<u>\$ (37,391,705)</u>	<u>\$ 212,801,708</u>

Discretely Presented Component Units

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 17,246,414	\$ -	\$ (9,000)	\$ 17,237,414
Construction in progress	3,990,452	608,268	(1,386,022)	3,212,698
Other non-depreciable assets	25,000	-	-	25,000
Total non-depreciable assets	<u>21,261,866</u>	<u>608,268</u>	<u>(1,395,022)</u>	<u>20,475,112</u>
Depreciable Assets:				
Buildings	459,114,777	17,406,311	(101,446)	476,419,642
Improvements other than buildings	22,540,419	1,018,678	-	23,559,097
Machinery and equipment	30,990,556	3,327,209	(755,265)	33,562,500
Utility plant	108,453,094	2,749,232	-	111,202,326
Total depreciable assets	<u>621,098,846</u>	<u>24,501,430</u>	<u>(856,711)</u>	<u>644,743,565</u>
Less Accumulated Depreciation for:				
Buildings	(183,839,891)	(9,013,318)	(61,236)	(192,914,445)
Improvements other than buildings	(17,313,401)	(336,275)	145,917	(17,503,759)
Machinery and equipment	(20,181,156)	(1,943,725)	752,457	(21,372,424)
Utility plant	(19,729,683)	(2,970,856)	(9,943)	(22,710,482)
Total accumulated depreciation	<u>(241,064,131)</u>	<u>(14,264,174)</u>	<u>827,195</u>	<u>(254,501,110)</u>
Depreciable Assets, net	<u>380,034,715</u>	<u>10,237,256</u>	<u>(29,516)</u>	<u>390,242,455</u>
Component units capital assets, net	<u>\$ 401,296,581</u>	<u>\$ 10,845,524</u>	<u>\$ (1,424,538)</u>	<u>\$ 410,717,567</u>

Depreciation expense is charged to functions as follows:

Primary Government - Governmental Activities:

Ambulance	\$ 525,682
Criminal Court	346,749
General Government	2,078,908
Health	187,254
Highway	4,107,445
Juvenile Court	133,325
Public Safety	804,384
Recreation	1,237,489
Sheriff	936,861
Social Services	22,984
Total	<u><u>\$ 10,381,081</u></u>

Discretely Presented Component Units:

Department of Education	\$ 10,380,927
Water & Wastewater Treatment Authority	3,083,929
"911" Emergency Communications	798,768
Railroad Authority	550
Total	<u><u>\$ 14,264,174</u></u>

Hamilton County donated \$23,709,852 of the assets transferred from construction in progress. Of this amount, \$19,312,528 was donated to the Department of Education and \$4,397,324 was donated to the City of Chattanooga for land improvements related to the Enterprise South Industrial Park as further discussed in Note B.

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 high 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 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, 2011, 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, 2011, Hamilton County’s annual pension cost of \$14,406,682 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, 2009, which established contribution rates effective July 1, 2010.

Trend Information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/11	\$14,406,682	100.00%	\$ -
6/30/10	14,938,598	100.00%	-
6/30/09	15,063,655	100.00%	-

Funded Status and Funding Progress:

As of July 1, 2009, the most recent actuarial valuation date, the plan was 82.35% funded. The actuarial accrued liability for benefits was \$352.88 million, and the actuarial value of assets was \$290.59 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$62.29 million. The covered payroll (annual payroll of active employees covered by the plan) was \$97.45 million, and the ratio of the UAAL to the covered payroll was 63.92%.

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 AALs 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 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, 2011 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 year ending June 30, 2011, 2010, and 2009 were \$14,431,297, \$10,039,596, and \$10,344,519, 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' Pension Plan</u>	<u>Commissioners' Pension Plan</u>	<u>Teachers' Pension Plan</u>
Retirees and beneficiaries receiving benefits	26	11	7
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, 2011 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u> Private Acts of TN	<u>Commissioners'</u> Private Acts of TN	<u>Teachers'</u> Pension Board
Contribution authorization:	Private Acts of TN	Private Acts of TN	Pension Board
How contributions are determined:	Actuarially	Actuarially	Actuarially
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	-
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, 2011, 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	\$ -	\$ 47,700	\$ 938
Interest on net pension obligation (asset)	(19,706)	(9,891)	(41,737)
Adjustment to annual required contribution	<u>38,278</u>	<u>22,398</u>	<u>108,103</u>
Annual pension cost	18,572	60,207	67,304
Contributions made	<u>-</u>	<u>(67,418)</u>	<u>-</u>
Increase in net pension obligation (asset)	18,572	(7,211)	67,304
Net pension obligation (asset) at beginning of year	<u>(262,743)</u>	<u>(164,855)</u>	<u>(834,737)</u>
Net pension obligation (asset) at end of year	\$ <u>(244,171)</u>	\$ <u>(172,066)</u>	\$ <u>(767,433)</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:	6/30/11	\$18,572	0.0%	\$ (244,171)
	6/30/10	19,984	0.0%	(262,743)
	6/30/09	21,506	0.0%	(282,727)
Commissioners' Plan:	6/30/11	60,207	112.0%	(172,066)
	6/30/10	58,972	127.6%	(164,855)
	6/30/09	62,754	119.9%	(148,569)
Teachers' Plan:	6/30/11	67,304	0.0%	(767,433)
	6/30/10	73,116	0.0%	(834,737)
	6/30/09	79,070	0.0%	(907,853)

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 Accrued 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) *	287.10%	\$ -	N/A
06/30/09	1,787	873	(914) *	204.70%	\$ -	N/A
06/30/07	2,256	1,083	(1,173) *	208.40%	\$ -	N/A
Commissioners' Retirement						
06/30/11	\$ 519	\$ 700	\$ 181	74.20%	\$ 187	96.60%
06/30/09	482	702	220	68.60%	196	112.30%
06/30/07	414	652	238	63.50%	192	124.20%
Teachers' Retirement						
06/30/11	\$ 26	\$ 42	\$ 16	61.10%	\$ -	N/A
06/30/09	57	64	7	88.50%	\$ -	N/A
06/30/07	95	100	5	95.20%	\$ -	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	Reclass	Total Pension Trust Funds
ASSETS					
Cash	\$ (265,677)	\$ 213,532	\$ (105)	\$ 52,250	\$ -
Certificates of Deposit	-	-	26,356	-	26,356
Investments, at fair value					
US Govt. Securities	538,208	-	-	-	538,208
Money Market Funds	48,315	-	-	-	48,315
Mutual Funds	252,464	305,833	-	-	558,297
Common Stock	702,803	-	-	-	702,803
Domestic Corporate Bonds	386,577	-	-	-	386,577
Foreign Securities	<u>352,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,062</u>
Total investments	<u>2,280,429</u>	<u>305,833</u>	<u>-</u>	<u>-</u>	<u>2,586,262</u>
Interest receivable	<u>10,303</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>10,308</u>
Total Receivables	<u>10,303</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>10,308</u>
Total Assets	<u>2,025,055</u>	<u>519,370</u>	<u>26,251</u>	<u>52,250</u>	<u>2,622,926</u>
LIABILITIES:					
Accrued Items & Other	<u>-</u>	<u>-</u>	<u>498</u>	<u>52,250</u>	<u>52,748</u>
NET ASSETS					
Held in trust for pension benefits	<u>\$ 2,025,055</u>	<u>\$ 519,370</u>	<u>\$ 25,753</u>	<u>\$ -</u>	<u>\$ 2,570,178</u>

Combining Statement of Changes in Plan Net Assets

	Employees' Pension	Commissioners' Pension	Teachers' Pension	Total Pension Trust Funds
ADDITIONS				
Contributions				
Employer	\$ -	\$ 67,418	\$ -	\$ 67,418
Members	-	-	10,051	10,051
Total contributions	-	67,418	10,051	77,469
Investment earnings:				
Net increase (decrease) in fair value of investments	272,969	-	-	272,969
Interest	45,197	34	14	45,245
Net investment income (loss)	318,166	34	14	318,214
Total additions	318,166	67,452	10,065	395,683
DEDUCTIONS				
Benefits	118,344	55,140	20,101	193,585
Consulting Fees	4,719	4,719	4,720	14,158
Miscellaneous expense	1,273	75	500	1,848
Administrative expense	16,325	-	-	16,325
Total deductions	140,661	59,934	25,321	225,916
Change in net assets	177,505	7,518	(15,256)	169,767
Net assets, beginning	1,847,550	511,852	41,009	2,400,411
Net assets, ending	\$ 2,025,055	\$ 519,370	\$ 25,753	\$ 2,570,178

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 contributed \$6,400,000 (\$1,600,000 for fiscal year 2011 plus \$4,800,000 for fiscal years 2008, 2009 and 2010) to the OPEB Trust to prefund benefits. Only the prefunded portion of the OPEB cost is included in the OPEB Trust. The pay-as-you-go component is funded and accounted for in the 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 2011, the County and retirees contributed \$1,631,145 and \$73,977 respectively to this internal service fund for these health care benefits for 130 retirees. Funding is established and amended by the County Commission.

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 2011, the Department contributed \$6,848,928 for these health care benefits for 768 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.

(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:

	<u>Primary Government</u>	<u>Department of Education</u>	<u>Total</u>
Net OPEB Obligation - July 1	\$4,791,141	\$ 9,348,727	\$ 14,139,868
Annual required contribution	3,316,984	8,879,110	12,196,094
Interest on net OPEB obligation	311,424	373,949	685,373
Adjustment to annual required contribution	<u>(262,596)</u>	<u>(376,522)</u>	<u>(639,118)</u>
Annual OPEB cost (expense)	3,365,812	8,876,537	12,242,349
Expected payout for Retiree Benefits	(1,631,145)	(6,848,928)	(8,480,073)
Current Year Contribution to Trust	(1,600,000)	-	(1,600,000)
Additional Contribution to Trust (prior 3 years)	<u>(4,800,000)</u>	<u>-</u>	<u>(4,800,000)</u>
Contribution made	(8,031,145)	(6,848,928)	(14,880,073)
Increase(decrease) in net OPEB obligation	<u>(4,665,333)</u>	<u>2,027,609</u>	<u>(2,637,724)</u>
Net OPEB obligation - June 30	<u>\$ 125,808</u>	<u>\$11,376,336</u>	<u>\$ 11,502,144</u>
% of annual OPEB cost contributed	96.0%	77.16%	82.3%
% of annual OPEB cost to total contribution	238.6%	77.16%	121.5%

(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, another \$1,600,000 will be contributed to the OPEB Trust.

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>
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
Discount rate	6.5%	4%

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 work projects and the incidental and necessary expenses related thereto. Hamilton County issued \$21,556,000 in short-term financing in the form of Commercial Paper for a total of \$64,616,000 for the year ended June 30, 2011.

A summary of the short-term financing transactions for the year ended June 30, 2011 follows:

<u>Fund/Issue</u>	<u>Outstanding 7/1/10</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/11</u>
Commercial Paper	\$43,060,000	\$21,556,000	\$ _____ -	\$64,616,000
Total	\$43,060,000	\$21,556,000	\$ _____ -	\$64,616,000

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%	\$ 4,705,000	\$ 235,000
General Improvement, Series 2004 School, Series 2004	4.00 – 4.125%	10,133,333	1,266,667
Water & Wastewater Treatment Authority, Series 2004	4.00 – 4.125%	5,866,667	733,333
General Improvement, Series 2008-A	4.00 – 4.65%	8,490,000	230,000
School, Series 2008-A	3.5 – 5.00%	11,534,377	961,755
General Improvement, Series 2008-B	3.5 – 5.0%	66,060,623	5,508,245
School, Series 2008-B	3.25 – 5.00%	5,585,182	1,908,045
General Improvement, Series 2009	3.25 – 5.0%	19,134,818	6,536,955
School, Series 2009	3.00 – 4.375%	7,731,030	595,020
General Improvement, Series 2010-A	3.00 – 4.375%	19,683,970	1,514,980
General Improvement, Series 2010-B	3.00 – 4.00%	7,475,000	-
General Improvement, Series 2010-C	2.00 – 4.25%	14,500,000	1,615,000
Total payable from the Debt Service Fund	0.75 – 5.00%	<u>4,650,000</u>	<u>325,000</u>
		<u>\$185,550,000</u>	<u>\$21,430,000</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 2, 1996. This Agreement reserved funds for the County in the amount of \$9,500,000 (the “Loan”) from the proceeds of the Authority’s Adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1995. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 15-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. The County has withdrawn \$9,500,000 of the Funds reserved to fund certain public work projects and the incidental and necessary expenses related thereto. At June 30, 2011, the balance due per the Agreement was zero.

The County entered into another 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, 2011, 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, 2011, the balance due per the Agreement was \$2,364,000, of which \$757,000 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, 2011, the County's remaining obligations to the City of Chattanooga total \$2,082,500, of which \$385,000 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, 2011, the County's remaining obligation for this Agreement was \$616,719, of which \$267,736 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, 2011, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2011, the County's remaining obligation was \$614,494, 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:		
2012	\$ 21,430,000	\$ 7,520,273
2013	17,810,000	6,689,173
2014	17,770,000	5,988,979
2015	16,440,000	5,319,175
2016	16,395,000	4,735,316
2017-2021	61,730,000	15,061,421
2022-2026	30,005,000	3,388,446
2027-2031	2,305,000	717,775
2032-2034	<u>1,665,000</u>	<u>157,169</u>
	<u>\$185,550,000</u>	<u>\$ 49,577,727</u>
Notes Payable and Other Debt:		
2012	1,500,469	91,834
2013	1,548,239	70,670
2014	1,414,211	49,291
2015	518,233	29,377
2016	535,734	10,013
2017-2018	<u>160,827</u>	<u>-</u>
	<u>\$ 5,677,713</u>	<u>\$ 251,185</u>

Changes in Long-term Liabilities – During the year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Primary Government- Governmental Activities					
General obligation bonds	\$206,960,000	\$ -	\$ 21,410,000	\$185,550,000	\$ 21,430,000
Notes payable and other debt	8,030,725	-	2,353,012	5,677,713	1,500,469
OPEB Obligation	4,791,141	3,365,812	8,031,145	125,808	125,808
Landfill post closure costs	220,000	-	10,000	210,000	10,000
Compensated absences	<u>15,583,117</u>	<u>4,853,948</u>	<u>4,669,969</u>	<u>15,767,096</u>	<u>2,334,985</u>
	235,584,983	8,219,760	36,474,126	207,330,617	\$ <u>25,401,262</u>
Net deferred premium	<u>6,478,763</u>	-	<u>837,085</u>	<u>5,641,678</u>	
	<u>\$242,063,746</u>	<u>\$8,219,760</u>	<u>\$ 37,311,211</u>	<u>\$212,972,295</u>	

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Component Units:					
Note payable and other debt	\$ 15,168,747	\$ -	\$ 788,798	\$ 14,379,949	\$ 540,808
OPEB Obligation	9,348,727	8,876,537	6,848,928	11,376,336	6,848,928
Pollution Remediation	2,376,000	-	-	2,376,000	-
Compensated absences	<u>10,502,822</u>	<u>610,209</u>	<u>79,069</u>	<u>11,033,962</u>	<u>2,204,012</u>
	37,396,296	9,486,746	7,716,795	39,166,247	\$ <u>9,593,748</u>
Net deferred premium	<u>29,058</u>	-	<u>4,358</u>	<u>24,700</u>	
	<u>\$ 37,425,354</u>	<u>\$ 9,486,746</u>	<u>\$ 7,721,153</u>	<u>\$ 39,190,947</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, 2011, the amount of defeased debt outstanding amounted to 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	\$ 7,132,652
General Fund	Nonmajor Governmental Funds	248,810
General Fund	Sheriff	19
Capital Projects	General Fund	17,818
Nonmajor Governmental Funds	General Fund	<u>64,307</u>
		\$ <u>7,463,606</u>

<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Fund	Water & Wastewater Authority	\$ 193,197
General Fund	"911" Emergency Communication	1,106,526
General Fund	General Purpose School	1,011,211
General Fund	Centralized Cafeteria	25,563
Internal Service Funds	Water & Wastewater Authority	<u>10,958</u>
		\$ <u>2,347,455</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	\$ 8,993,859
Debt Service	General Fund	31,262,757
Sheriff	General Fund	23,564,159
Capital Projects	General Fund	233,268
Nonmajor Governmental Funds	General Fund	<u>1,838,695</u>
		\$ <u>65,892,738</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, 2011, is as follows:

ASSETS	
Cash	\$ 1,158,316
Accounts receivable	85,884
Due from other governments	7,750
Inventories	52,061
Prepaid expenses	21,301
Premises and equipment	<u>10,521,144</u>
Total assets	<u>11,846,456</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued items	198,493
Deferred revenue	10,000
Advanced deposits	<u>120,965</u>
Total liabilities	<u>329,458</u>

Net Assets

Invested in capital assets, Net of related debt	10,521,144
Restricted	1,762
Unrestricted	<u>994,092</u>
Total net assets	<u>\$11,516,998</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:

Total operating revenues	\$ 3,522,826
Total operating expenses	(3,267,620)
Less depreciation and amortization	<u>(620,121)</u>
Loss from operations	(364,915)
Non-operating revenues	359,580
Non-operating expenses	<u>-</u>
Net income	(5,335)
Net assets at July 1, 2010	<u>11,522,333</u>
Net assets at June 30, 2011	<u>\$11,516,998</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 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. In addition, the County carries a \$1,000,000 excess auto liability policy for out-of-state travel. 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, 2009	\$ 2,790,614	\$ 3,193,681
Incurred claims	20,902,375	29,743,890
Claims payments	<u>(20,872,702)</u>	<u>(30,164,558)</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	\$ <u>2,602,399</u>	\$ <u>4,884,884</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, 2011, the Hamilton County Internal Service Fund has net assets of \$18,971,891, and the Department of Education Internal Service Fund has net assets of \$13,530,731. These net assets balances are designated for future catastrophic losses.

