



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

# **Hamilton County Tennessee**

*for year ended June 30, 2010*



Local artists have found the renovation, restoration and expansion of downtown icons like the Market Street Bridge, the Walnut Street Pedestrian Bridge, the Passage and Waterfront, the Tennessee Aquarium and Hunter Museum to provide endless subject matter.



**Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee**  
*for the year ended June 30, 2010*

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



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

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

December 27, 2010

As I begin my fifth term, our vision for Hamilton County remains tied to economic development. Volkswagen will begin production of their new vehicle in the early part of 2011. The Volkswagen factory will have two thousand workers employed at their facility. Seven companies have chosen to create businesses at the Enterprise South, Volkswagen Supplier Park. Those companies will be responsible for 500 new jobs. The neighboring Gestamp facility will produce 230 jobs.



Claude Ramsey  
 County Mayor

Over the past year we have seen new investment in this community with IBI Power and Homeserve USA choosing Hamilton County as a place to grow their companies employing 200 people. This past year has seen the expansion of such significant businesses as Aerisyn, LJT, Wrigley and Chattem. I actively support the success and expansion of all Hamilton County businesses.

Hamilton County is investing \$4.2 million with the use of federal grants to renovate the Business Development Center which serves 55 start-up companies, employing more than 400 people.

Hamilton County has now received the valued AAA bond rating from Standard and Poor's, Moody's and Fitch's rating services. Hamilton County is one of only two Tennessee counties to receive AAA bond ratings. This AAA rating allows us to use your money in a better way to receive lower interest rates when we borrow money for projects designed to improve our community.

Hamilton County remains committed to giving our children the education they need to obtain the skilled technological jobs that continue to come to Hamilton County. I continue to champion my Read 20 initiative which calls for all students to read at grade level by the time they complete the third grade. I'm delighted to tell you East Hamilton High School opened in August of 2009.

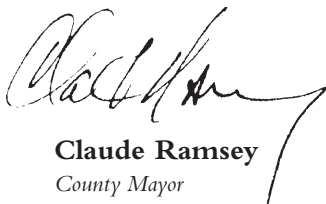
The Hamilton County Health Department initiated a community process to identify ways to reduce infant mortality.

The McDaniel Building, a 5,700 square foot building donated to Hamilton County by Life Care Centers of America, is our newest facility. The building is currently being converted into an office facility to replace one of our older downtown buildings. It will also host a new employee wellness center and pharmacy in 2011.

Work continues on the Enterprise South Nature Park which opened in December. I encourage people to come out and experience this latest jewel from our parks and recreation department.

My commitment to create a better Hamilton County with great opportunity for all residents has never been stronger.

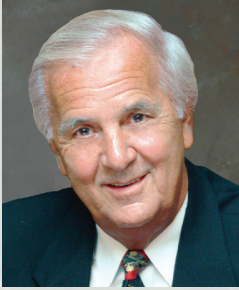
Sincerely,



**Claude Ramsey**  
 County Mayor

Visit [www.hamiltontn.gov](http://www.hamiltontn.gov)

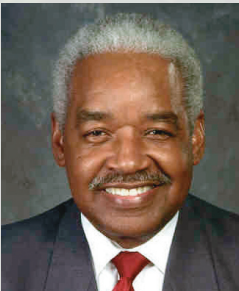
# BOARD OF COMMISSIONERS *for fiscal year ending June 30, 2010*



Curtis D. Adams  
*Commissioner*  
*(retired as of May 13, 2010)*



Larry Henry  
*Commissioner*



Gregory Beck  
*Commissioner*



Bill Hullander  
*Commissioner*



John Brooks  
*Commissioner*



Warren Mackey  
*Commissioner*



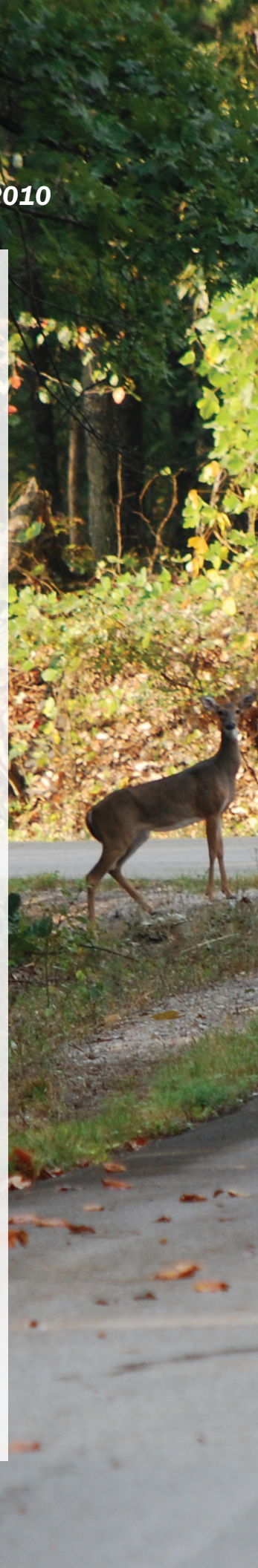
Richard Casavant  
*Chairman, Pro Tempore*



Fred Skillern  
*Chairman*



Jim Coppinger  
*Commissioner*







Chester Bankston  
*Commissioner*



Joe Graham  
*Commissioner*



Gregory Beck  
*Commissioner*



Larry Henry  
*Commissioner*



Tim Boyd  
*Commissioner*



Warren Mackey  
*Commissioner*



Jim Coppinger  
*Chairman, Pro Tempore*



Fred Skillern  
*Chairman*



James A. (Jim) Fields  
*Commissioner*

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



*Adjacent to the Volkswagen plant, the 2,700-acre Enterprise South Nature Park features 4.5 miles of walking/hiking trails, 10 miles of mountain bike trails, 5 miles of paved walking and bike roads, a one-mile ADA-accessible woodland trail and four picnic areas.*



HAMILTON COUNTY, TENNESSEE

**LOUIS S. WRIGHT**

*Administrator of Finance*

December 27, 2010

**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, 2010. 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, 2010, 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 and 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 and 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 5,943 employees and a student population of 40,904, the Department of Education operating budget for fiscal year 2010 was \$391,700,444. Hamilton County financed 45.58%, or \$178,536,627 of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$194,272,631, charges for services provided \$10,767,773 and miscellaneous items provided \$8,123,413.

## 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 which is home to a manufacturing site of Volkswagen Group of America. The plant is scheduled to begin producing cars in 2011.

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

## FUND BALANCE

The County has consistently maintained a reserve in the General Fund equivalent to at least three month's 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
2001	\$ 57,536	7,286*	2,725
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

\* Fiscal year does not include Children's Service and Economic Crimes



*In June 2010, Volkswagen opened its \$40 million training center. The 163,000-square-foot center, with its 19 classrooms, will prepare employees for work, host an advanced vocational program and provide meeting facilities for outside groups.*

# 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 13 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 \$294 million.

## 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 were used for design and construction with plans for future extension.

## ENTERPRISE SOUTH INDUSTRIAL PARK

In July 2008, Volkswagen Group of America selected Enterprise South Industrial Park as its newest manufacturing site, committing to invest \$1 billion in a state-of-the-art automotive manufacturing facility for production of a car specially designed for the North American market. This project will bring 2,000 new direct jobs as well as an estimated 10,000 supplier-related jobs to the region.

Certified by the Tennessee Valley Authority in 2005 as Tennessee’s first automotive megasite, Enterprise South’s status as the region’s premier industrial park was affirmed by the Volkswagen decision. Site improvements valued at nearly \$200 million are in progress, and construction of the 1.9 million square foot manufacturing facility is nearing completion. Volkswagen will occupy 1,350 acres at the site and plans to produce 150,000 vehicles annually beginning in 2011. Long-range plans for the company include a potential expansion involving an additional 1,200 acres at Enterprise South.

Multimodal transportation access is a key asset for Enterprise South. The park is served by two interstate highway interchanges, has dual rail capacity provided by CSX and Norfolk Southern, and is located less than five miles from

Chattanooga Metropolitan Airport. Its industrial-grade water, sewer, natural gas, and electrical infrastructure have minimized the need for major upgrades.

Another draw was its environmental assets. A significant amenity and natural buffer for the industrial park is Enterprise South Nature Park, comprised of 2,800 acres deeded to the County and City through the Federal Lands to Parks Program. Grant funds are aiding development of a visitor’s center and network of walking, hiking, biking, and horseback riding trails throughout the park.

In “The Road to Chattanooga,” the Volkswagen Group of America website notes that “like many other cities with an industrial past, changing times once threatened to leave Chattanooga in rust and decline. But unlike some other cities facing the same fate, Chattanooga’s leadership and citizens chose to restore, reinvest and reinvent.” Enterprise South Industrial Park is the result of just this sort of visionary community investment.

## CAPITAL OUTLAY

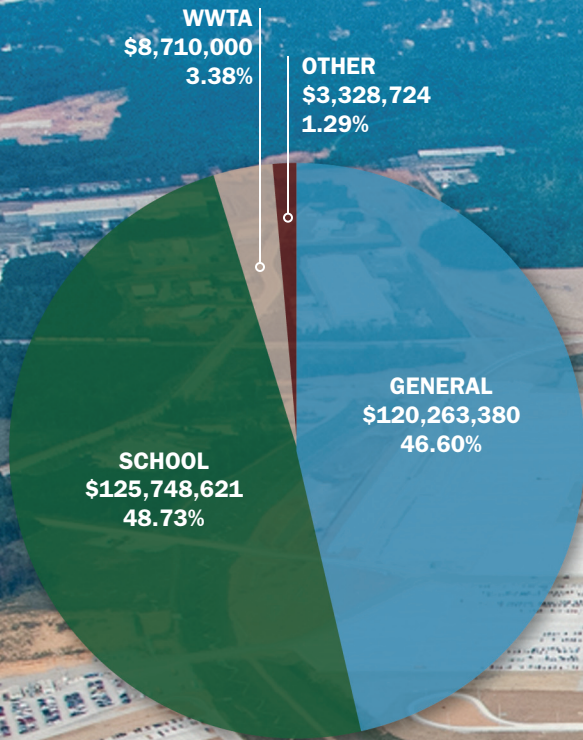
Expenditures for items such as computers, vehicles, minor renovations and furniture are funded each year in the County’s annual operating budget. This allows minor capital expenditures to be funded from current available funds instead of bond issues.

### Ratio of General Bonded Debt Outstanding

Fiscal Year Ended June 30	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2001	\$ 173,680,000	1.15%	\$ 564
2002	154,960,000	0.88%	502
2003	139,070,000	0.78%	450
2004	162,040,000	0.89%	524
2005	143,380,000	0.77%	463
2006	125,510,000	0.57%	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

PHOTO CREDIT: *Aerial Innovations of Tennessee, Inc.*

**HAMILTON COUNTY  
TOTAL DEBT AS OF JUNE 30, 2010  
\$258,050,725**



*In August 2010, officials gathered to open Volkswagen Drive, the interchange and associated 1.16 mile long road which provides access to Enterprise South from I-75. It includes two roundabouts, 9,359 tons of asphalt paving and 13,020 sq.yds. of concrete roadway.*



*Located on Main Street in the city's burgeoning arts district, Area 61 is a retail space for local artists and craftsmen to showcase and sell their work. It features handcrafted furniture, blown glass, paintings, photography, folk art, pottery and home décor.*



# 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 2010 annual budget for the County in September 2009. 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 2010, 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 0.21% to 0.85% and yielded \$864,264 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.

Enterprise South Industrial Park continues to be developed. Per agreement with Volkswagen Group of America, site improvements estimated at over \$305 million are to be made at no cost to Volkswagen. The County is responsible for approximately \$30 million of the site improvements. The remaining costs are paid for by the County and the City of Chattanooga and are reimbursed by various funding sources. The outflow of cash for the improvement projects, along with declining interest rates, has resulted in a decrease in investment earnings in fiscal year 2010. However, cash requirements continue to be met with the issuance of Series 2010A, 2010B and 2010C general obligation bonds in the amounts of \$7,475,000, \$16,115,000 and \$4,980,000, respectively.

## 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 BlueCross BlueShield of Tennessee (BCBST): 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 by BCBST 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 2010 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 BCBST.

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.

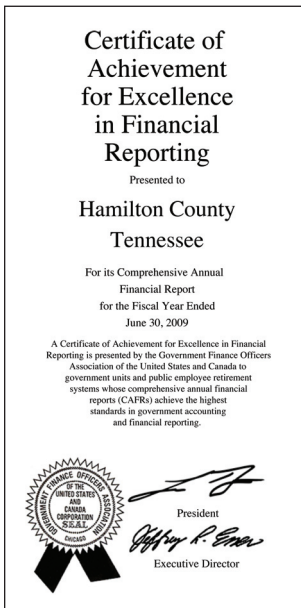


*AEC Culture Fest, held at the First Tennessee Pavilion in partnership with the Chattanooga Market, is a celebration of the area's rich cultural diversity. People of all ages enjoyed the performances, booths, activities, demonstrations and food.*

# 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, 2009. Hamilton County has received this award for 29 consecutive years.



In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

GFOA also presented a Distinguished Budget Presentation Award to the County for its Comprehensive Annual Budget Report (CABR) for the fiscal year beginning July 1, 2009. This is the eighth 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, 2010 continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.

## ACKNOWLEDGEMENTS

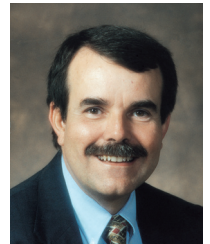
I would like to thank the entire staff of the Finance Division, the County Auditor's Office and the independent auditors for their cooperation and dedication in the preparation of this report. I would also like to express my gratitude for the support we have received from the County Mayor and the County 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*



**LOUIS S. WRIGHT**  
*Administrator of Finance*



**ALBERT C. KISER**  
*Assistant Administrator of Finance*



# HAMILTON COUNTY

## GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2010)

Claude T. Ramsey, *County Mayor*  
Jeannine Alday, *Chief of Staff*  
Rebecca R. Hunter, *Director of Human Resources*  
Dan Saieed, *Director of Development*

### Board of Commissioners

Curtis D. Adams, *retired as of May 13, 2010*  
Gregory Beck  
John Brooks  
Richard Casavant, *Chairman, Pro Tempore*  
Jim Coppinger  
Larry L. Henry  
Bill Hullander  
Warren Mackey  
Fred Skillern, *Chairman*

### Legislative

Lila Mack, *Administrator*

### Constitutional Officers

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

### Division & Department Heads

#### AUDITING

Bill W. McGriff, *County Auditor*

#### FINANCE

Louis S. Wright, *Administrator*  
Albert C. Kiser, *Assistant Administrator of Finance*  
T. Kenneth Blankenship, *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*  
Pat Payne, *Director of Building Inspection*

# CITIZENS

**COUNTY BOARD OF COMMISSIONERS**  
209-7200

**LEGISLATIVE STAFF**  
209-7200

**MEDICAL EXAMINER**  
493-5175

**APPOINTED BOARDS**

**AUDITING**  
209-6200

**LEGAL**  
209-6150

**COUNTY MAYOR**  
209-6100

**MAYORAL STAFF**  
209-6100

**CHIEF OF STAFF**  
209-6180

**HUMAN RESOURCES**  
209-6120

**EQUAL EMPLOYMENT OPPORTUNITY**  
209-6144

**DEVELOPMENT**  
209-6810

**HEALTH SERVICES DIVISION**  
209-8000

**ENVIRONMENTAL HEALTH**  
209-8110

**CLINICAL SERVICES**  
209-8218

**ADMINISTRATIVE SERVICES**  
209-8010

**CASE MANAGEMENT SERVICES**  
209-8155

**COMMUNITY HEALTH SERVICES**  
209-8088

**HUMAN SERVICES DIVISION**  
209-6800

**EMERGENCY MANAGEMENT**  
209-6900

**RECREATION**  
842-0177

**MAINTENANCE**  
209-7700

**CORRECTIONS**  
209-6880

**SOCIAL SERVICES**  
209-6833

**FINANCE DIVISION**  
209-6330

**ACCOUNTING**  
209-6330

**PURCHASING**  
209-6350

**FINANCIAL MANAGEMENT**  
209-6370

**INFORMATION TECHNOLOGY SERVICES**  
209-6250

**GEOGRAPHIC INFO SYSTEMS**  
209-7760

**PUBLIC WORKS DIVISION**  
209-7800

**HIGHWAY**  
855-6100

**ENGINEERING**  
209-7810

**BUILDING INSPECTION**  
209-7860

## CONSTITUTIONAL OFFICES

**ASSESSOR — 209-7300**

**CHANCERY COURT CHANCELLORS — 209-7380**

**CLERK AND MASTER — 209-6600**

**CIRCUIT COURT JUDGES — 209-6700**

**CIRCUIT COURT CLERK — 209-6700**

**COUNTY CLERK — 209-6500**

**CRIMINAL COURT JUDGES — 209-7500**

**CRIMINAL COURT CLERK — 209-7500**

**DISTRICT ATTORNEY — 209-7400**

**ELECTION COMMISSION — 493-5100**

**JUVENILE COURT JUDGE — 209-5100**

**JUVENILE COURT CLERK — 209-5250**

**PUBLIC DEFENDER — 634-6374**

**REGISTER — 209-6560**

**SESSIONS COURT JUDGES — 209-7660**

**SHERIFF — 209-7000**

**TRUSTEE — 209-7270**



The Jim Hall Family quilt was entered into the Tennessee Valley Fair in 1889. The quilt, with its entry tag still attached, was found in a cedar chest on the family property, which had been given to an ancestor by a land grant for his service in the War of 1812.

**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, 2010, 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, 2010, 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 and 4 percent, respectively, 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 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.

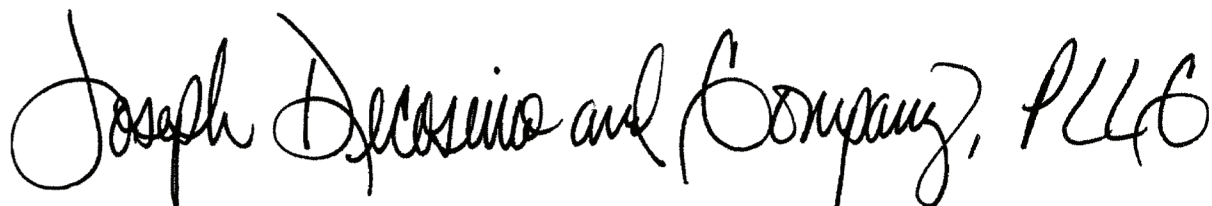
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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-3 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-16) 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-22) are presented for purposes of additional analysis and are not a required part of the financial statements of the County. Such additional information has 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 large, handwritten signature in black ink that reads "Joseph DeCascio and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
December 27, 2010



# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010. 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 2010 were \$518,053,209.
- Revenues for governmental funds decreased \$50,249,839 or 17.4% from last year.
- Expenditures for governmental funds decreased \$86,498,128 or 23.86% from last year.
- Capital project expenditures were \$44,513,363 with \$22,615,867 spent for general government projects.
- Total debt at June 30, 2010 for the County was \$258,050,725, of which \$125,748,621 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 2010. 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.



*Eighty-nine professional and amateur 22-man rowing teams participated in the fourth annual Dragon Boat Festival to raise money for T.C. Thompson Children's Hospital. This was the first time Chattanooga was host to the national competition.*

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-49 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-24.



*In October, replicas of the Niña and Pinta traveled up the Tennessee River and docked near the River Pier for three weeks before heading to Knoxville.*



# GOVERNMENT-WIDE FINANCIAL ANALYSIS


## HAMILTON COUNTY, TENNESSEE NET ASSETS

	Governmental Activities	
	2010	2009
<b>ASSETS</b>		
Current and Other Assets	\$ 301,112,047	\$ 303,602,765
Capital Assets	216,941,162	308,645,272
<b>TOTAL ASSETS</b>	<b>518,053,209</b>	<b>612,248,037</b>
<b>LIABILITIES</b>		
Long-term Liabilities	237,272,605	232,874,221
Other Liabilities	178,912,426	173,483,339
<b>TOTAL LIABILITIES</b>	<b>416,185,031</b>	<b>406,357,560</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	143,726,882	250,836,816
Restricted	25,363,259	26,820,351
Unrestricted	(67,221,963)	(71,766,690)
<b>TOTAL NET ASSETS</b>	<b>\$ 101,868,178</b>	<b>\$ 205,890,477</b>

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 \$101,868,178 at the close of the fiscal year ended June 30, 2010.

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 future capital improvements, debt repayment and other restrictions as prescribed by law; and
- (3) Unrestricted assets. The long-term liabilities of \$237,272,605 include \$125,748,621 of debt for assets contributed to the Hamilton County Department of Education, a component unit, which results in negative unrestricted net assets.



*In early 2011, the Volkswagen plant at Enterprise South — a \$1 billion energy-saving facility with an annual capacity of 150,000 vehicles — will begin production of a new mid-size sedan designed for the United States.*

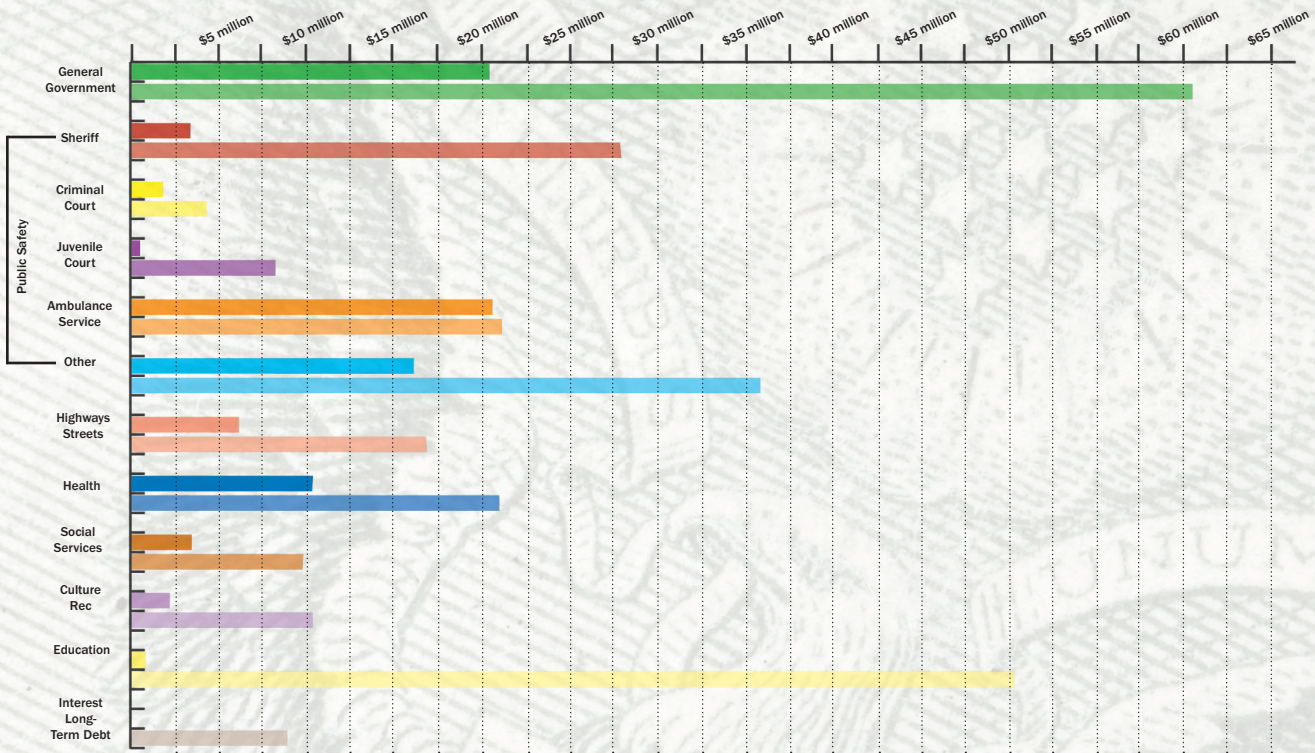
**HAMILTON COUNTY, TENNESSEE  
CHANGES IN NET ASSETS**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>		
Program Revenues		
Charges for Services	\$ 60,866,198	\$ 54,780,616
Operating Grants and Contributions	24,716,541	27,141,888
Capital Grants and Contributions	4,088,921	68,688,249
<b>Total Program Revenues</b>	<b>89,671,660</b>	<b>150,610,753</b>
General Revenues		
Property Taxes	124,907,475	122,782,141
Other Taxes	23,374,080	22,984,720
Other	1,361,192	1,841,224
<b>Total General Revenues</b>	<b>149,642,747</b>	<b>147,608,085</b>
<b>TOTAL REVENUES</b>	<b>239,314,407</b>	<b>298,218,838</b>
<b>EXPENSES</b>		
General Government	60,945,951	50,151,407
Public Safety	98,509,342	98,819,979
Highways and Streets	16,709,116	18,635,187
Health	22,289,607	22,234,163
Social Services	9,922,024	9,048,831
Culture and Recreation	10,867,943	10,953,584
Education	51,348,798	94,734,470
Interest on Long-Term Debt	8,938,643	8,127,516
<b>TOTAL EXPENSES</b>	<b>279,531,424</b>	<b>312,705,137</b>
Increase (Decrease) in Net Assets before Special Item	(40,217,017)	(14,486,299)
Special Item – Loss on donation of land improvements	(69,755,282)	(6,042,632)
Special Item – Donation of land and building	5,950,000	–
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (104,022,299)</b>	<b>\$ (20,528,931)</b>

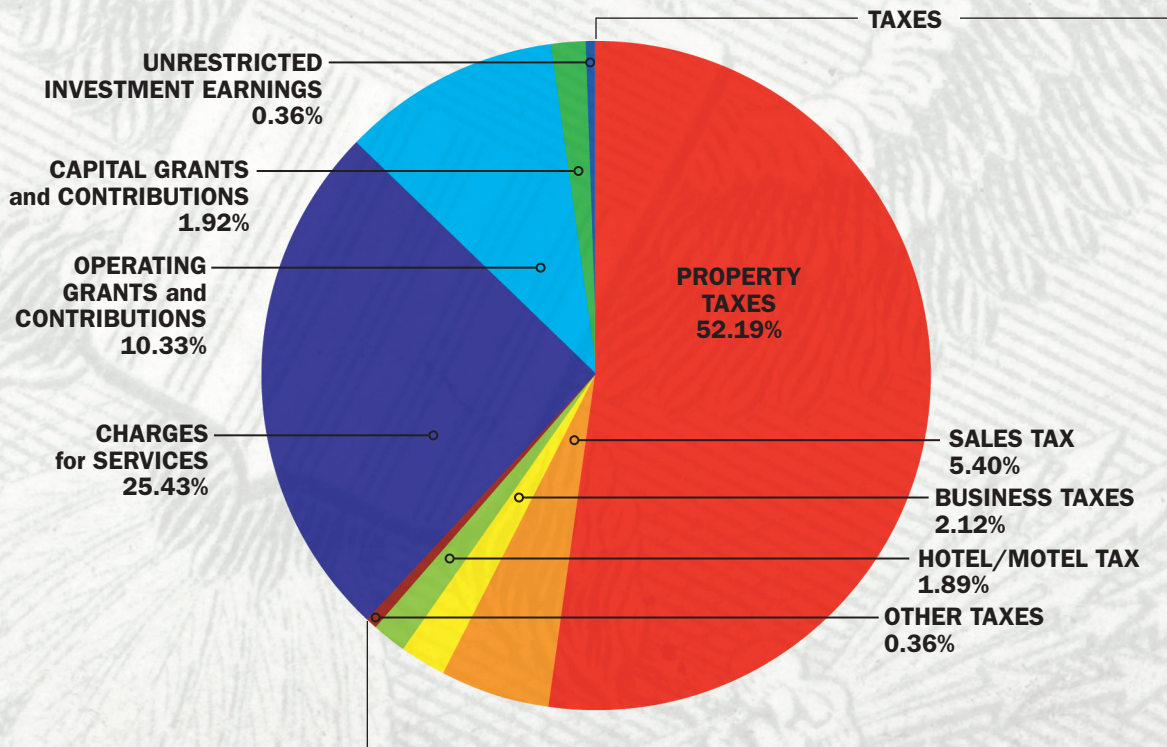
The change in the County's net assets was a decrease of \$104,022,299 during the current fiscal year. Key factors that resulted in this net decrease include:

- Capital grants and contributions decreased \$64,599,328 as site improvements to the Enterprise South Industrial Park made largely for the Volkswagen Group of America's manufacturing facility near completion. The facility is on track to begin production in January 2011. Expenses relating to this increase in program revenues are capitalized in the Statement of Net Assets.
- Land improvements valued at \$69,755,282 were donated to the Volkswagen Group of America and the Industrial Development Board and are reported as a special item.
- Assets valued at \$51,334,828 were transferred to the Department of Education.

# EXPENSES AND PROGRAM REVENUES



# REVENUES BY SOURCE



## EXPENSES AND PROGRAM REVENUES

*for fiscal year ending June 30, 2010*

	<u>REVENUES</u>	<u>EXPENSES</u>
General Government	\$ 20,944,801	\$ 60,945,951
Public Safety		
Sheriff	3,570,153	28,205,975
Criminal Court	2,365,764	4,199,909
Juvenile Court	387,503	7,804,678
Ambulance Services	21,513,200	22,613,585
Other	15,814,093	35,685,195
Highways and Streets	7,385,370	16,709,116
Health	10,190,612	22,289,607
Social Services	4,442,979	9,922,024
Culture and Recreation	2,063,882	10,867,943
Education	993,303	51,348,798
Interest on long-term debt	—	8,938,643
	<hr/>	<hr/>
TOTAL	<u>\$ 89,671,660</u>	<u>\$ 279,531,424</u>

## REVENUES BY SOURCE

*for fiscal year ending June 30, 2010*

	<u>2010</u>	<u>PERCENTAGE</u>	<u>2009</u>	<u>PERCENTAGE</u>
Taxes				
Property Taxes	\$ 124,907,475	52.19%	\$ 122,782,141	41.17%
Sales Tax	12,931,526	5.40%	12,940,031	4.34%
Business Taxes	5,066,223	2.12%	4,992,580	1.68%
Hotel/Motel Tax	4,523,689	1.89%	4,235,794	1.42%
Other taxes	852,642	0.36%	816,315	0.27%
Charges for Services	60,866,198	25.43%	54,780,616	18.37%
Operating Grants and Contributions	24,716,541	10.33%	27,141,888	9.10%
Capital Grants and Contributions	4,585,849	1.92%	68,688,249	23.03%
Unrestricted Investment Earnings	864,264	0.36%	1,841,224	0.62%
	<hr/>		<hr/>	
TOTAL	<u>\$ 239,314,407</u>	100.00%	<u>\$ 298,218,838</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, unreserved 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 2010, the County's governmental funds reported combined ending fund balances of \$79,955,475 a decrease of \$7,571,483. The unreserved portion of fund balance was \$61,092,216. The remainder of fund balance is reserved 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 \$16,398,421;
- 2) for inventories, prepaid items and notes advances \$1,392,677; and
- 3) to cover other legal requirements \$1,072,161.

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 2010, unreserved fund balance of the General Fund was \$85,718,733, while the total fund balance was \$87,920,158. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance

and total fund balance to total fund expenditures. Unreserved fund balance represents 55.8% of the total General Fund expenditures, while total fund balance represents 57.2% of that same amount.

The unreserved fund balance of the County's General Fund increased by \$3,889,025 during the current fiscal year. The major reason for that change is largely attributed to property taxes. Property taxes increased by \$2,421,934 or 2% due to growth in the tax base and new development.

The Debt Service fund has a total fund balance of \$297,560, an increase of \$70,535 or 31.1%. It is expected that the change in debt service fund balance will remain relatively flat as the remaining intergovernmental revenues and charges for services grew only 1%. In addition, funds are transferred to the Debt Service fund as needed. Therefore, as debt payments increased, transfers into the fund also increased. However, growth was experienced in fund balance this year due to the receipt of the bond anticipation notes premium from Capital Projects.

Capital Projects has a fund balance deficit of \$15,198,085. This decrease 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.



Food, fun and something for the entire family is found at these Hamilton County venues – the Hamilton County Fair, a Lookouts game and MainX24 (an annual 24-hour festival held in December on Main Street).



Commitments for school construction remained constant due to the completion of one new school building, as another commenced. Economic development commitments have decreased slightly due to the site improvements and infrastructure related to Enterprise South Industrial Park and the Volkswagen Group of America manufacturing facility nearing completion.

The Sheriff's fund balance of \$2,650,803 increased \$46,402 from the prior year. While this growth of 1.8% is relatively flat, revenues were down 11.5%. This decrease is largely attributed to a decline in intergovernmental revenues. A decrease in expenditures of 0.50% and a budgeted increase in appropriations from the General Fund of \$648,278 or 2.8% helped to offset the loss in 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 \$19,445,232.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$9,191,833 and can be summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$4,861,621 of the increase.
- New grants from various state and federal agencies accounted for \$3,444,808 of the increase.
- Adjustments to operating budgets or new appropriations accounted for a \$885,404 increase.

Actual revenues were less than budgeted revenues by \$1.4 million. This difference is largely due to a shortfall of intergovernmental revenues of \$2.1 million and a shortfall of charges for services of \$1.4 million, offset by taxes that exceeded the budget by \$2.7 million. 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 \$16.5 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, \$3.7 million was added to fund balance while the General Fund was originally budgeted to use \$6.8 million.



# CAPITAL ASSETS AND DEBT ADMINISTRATION

## CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2010 amounts to \$216,941,162 (net of accumulated depreciation of \$205,632,159). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangibles and construction in progress. The County donated \$69,755,282 in land improvements to Volkswagen Group of America and the Industrial Development Board as noted as a special item and transferred \$51,334,828 in assets to the Department of Education. Consequently, the County's investment in capital assets decreased \$84,220,057 or 16.6%. 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
- School construction and renovations
- Intangibles were recorded in response to GASB Statement No. 51



## CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2010

### NET OF DEPRECIATION

	Beginning Balance <sup>1</sup>	Additions	Retirements/ Depreciation	Ending Balance
Land	\$ 61,006,773	\$ 988,610	\$ (154,539)	\$ 61,840,844
Construction in Progress	120,518,099	29,532,246	(126,166,684)	23,883,661
Buildings	63,330,333	6,567,123	(1,692,387)	68,205,069
Improvements other than buildings	14,287,291	1,509,061	(1,137,192)	14,659,160
Machinery and equipment	7,036,901	3,467,726	(2,990,460)	7,514,167
Infrastructure	40,820,440	2,581,671	(3,649,260)	39,752,851
Intangibles	1,645,435	63,520	(623,545)	1,085,410
	<u>\$ 308,645,272</u>	<u>\$ 44,709,957</u>	<u>\$ (136,414,067)</u>	<u>\$ 216,941,162</u>

<sup>1</sup>Beginning balances were adjusted to reflect Intangible assets recorded as a result of GASB Statement No. 51.



*The sprawling campus of Signal Mountain Middle/High School, located on Sam Powell Drive just off Shackleford Ridge Road, has an enrollment of more than 1,000. It is one of the County's two new campuses which opened in the fall of 2008.*

# LONG-TERM DEBT

At the end of fiscal year 2010, the County had general obligation bonds outstanding of \$206,960,000, notes payable and other debt of \$8,030,725 and short-term obligations of \$43,060,000. Of this debt, \$125,748,621 was issued for Hamilton County Department of Education capital improvements program.

The short-term obligations is comprised solely of the Commercial Paper program. The County issued general obligation bonds, Series 2010A, 2010B and 2010C in the current fiscal year. The amounts of these bonds are \$7,475,000, \$16,115,000 and \$4,980,000, respectively. Additional information on the County's debt can be found in the Notes to Basic Financial Statements – Note N.

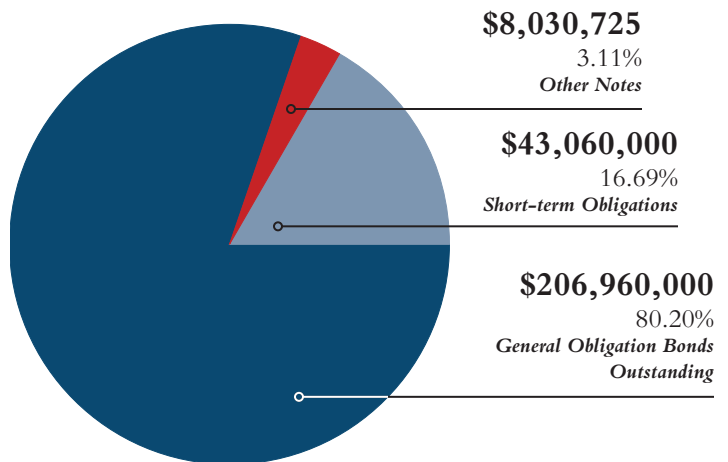
## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in preparing the County's budget for fiscal year 2011:

- The estimated use of fund balance for FY2011 is projected to total \$3.6 million, of which 61% is budgeted in the General Fund reflecting the cyclical impact of our debt service obligations on fund balance. Hamilton County conservatively maintains a strong fund balance in the General Fund which is projected to remain at approximately 38% of planned operating expenses.
- Total budgeted property taxes increased slightly over the prior year's budget with an estimated growth of just over 3%. 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. This is reflected in the disproportionate growth of revenue for education over County General. 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.

## General Long-Term Debt

<i>General Obligation Bonds Outstanding</i>	\$ 206,960,000	80.20%
<i>Other Notes</i>	8,030,725	3.11%
<i>Short-term obligations</i>	43,060,000	16.69%
	<u>258,050,725</u>	100%
<i>Less: Unreserved Debt Service Fund Balance</i>	(297,560)	
	<u><u>\$ 257,753,165</u></u>	



- The Tennessee Consolidated Retirement System adjusted the County General's contribution from 15.01% to 14.41%.
- For the fourth budget year, an appropriation of \$1,600,000 has been allocated to fund the estimated annual required contribution for Hamilton County General Government's other post employment benefits.
- The Department of Education, a discretely presented component unit of Hamilton County with an approved budget of \$371,908,041 represents 58.3% of the total County budget. The total increase of \$12,912,796 includes \$1,084,238 of fund balance. Property tax is estimated, by the Department of Education for budget year 2011, to be approximately 3.8% over the prior budget year. Local Sales Tax is estimated to decrease by 4.5%.



# EAST HAMILTON SCHOOL

- 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. The Tennessee Consolidated Retirement System introduced a rate increase in the certificated teachers' rate from 6.42% to 9.05%, resulting in an annual increase of \$4.3 million. 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.
- Health care cost is projected to increase by approximately 5%, which is lower than the 13% increase in FY2010. The Department of Education hopes to realize savings of approximately \$4.0 million by switching the HMO medical plan to self-insured.
- 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.

*Located on Ooltewah Ringgold Road at the edge of the East Brainerd community, East Hamilton School opened its doors on August 12, 2009. The school has an enrollment of more than 1,500.*

## 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.



*Rail Wave, wood and steel sculpture, by Christopher Fennell, Washington, D.C., is one of the many pieces of public art that dots the city landscape. Walk on the rails and you'll notice that the wooden ties transform into boards that represent the trees they came from.*

**STATEMENT OF NET ASSETS**  
**HAMILTON COUNTY, TENNESSEE**  
**June 30, 2010**

	Primary Government Governmental Activities	Component Units
ASSETS	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 6,916,921	\$ 17,754,398
Certificates of deposit	-	8,470,004
Investments	135,577,173	40,893,407
Receivables, net of allowance for uncollectibles	138,959,648	146,750,636
Receivables, restricted	-	103,517
Due from component units	885,296	-
Inventories	1,279,441	888,901
Restricted cash	-	4,704,643
Prepaid items	235,612	2,474,742
Advance to component units	15,995,621	-
Net pension asset	1,262,335	-
Land and other nondepreciable assets	85,724,505	21,261,866
Other capital assets, net of accumulated depreciation	<u>131,216,657</u>	<u>380,034,715</u>
Total assets	<u>518,053,209</u>	<u>623,336,829</u>
LIABILITIES		
Accounts payable and accrued expenses	31,737,043	33,627,598
Due to primary government	-	885,296
Unearned revenue	104,115,383	120,886,670
Short term obligations	43,060,000	-
Long-term liabilities:		
Due within one year	26,074,523	9,611,683
Due in more than one year	211,198,082	27,813,669
Advance from primary government	<u>-</u>	<u>15,995,621</u>
Total liabilities	<u>416,185,031</u>	<u>208,820,537</u>
NET ASSETS		
Invested in capital assets, net of related debt	143,726,882	368,440,055
Restricted for:		
Capital projects	15,490,198	-
Litigants and beneficiaries	246,356	-
State statutes	825,805	326,943
Extracurricular activities	-	3,011,097
Debt service	6,500,000	-
Other purposes	2,300,900	1,972,546
Unrestricted	<u>(67,221,963)</u>	<u>40,765,651</u>
Total net assets	<u>\$ 101,868,178</u>	<u>\$ 414,516,292</u>

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

# STATEMENT OF ACTIVITIES

## HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT</b>			
Government activities:			
General government	\$ 60,945,951	\$ 16,003,648	\$ 2,432,300
Public safety:			
Sheriff	28,205,975	1,252,013	2,318,140
Criminal Court	4,199,909	2,365,764	-
Juvenile Court	7,804,678	387,503	-
Ambulance Services	22,613,585	21,513,200	-
Other	35,685,195	9,413,644	6,400,449
Highways and streets	16,709,116	2,554,986	4,243,619
Health	22,289,607	2,375,089	7,815,523
Social services	9,922,024	4,394,572	48,407
Culture and recreation	10,867,943	605,779	1,458,103
Education	51,348,798	-	-
Interest on long-term debt	8,938,643	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 279,531,424</b>	<b>\$ 60,866,198</b>	<b>\$ 24,716,541</b>
Component units:			
Department of Education	\$ 378,879,623	\$ 22,887,755	\$ 52,179,055
"911" Emergency communications	12,635,690	3,777,416	1,260,308
Water and wastewater treatment authority	9,636,314	10,519,923	-
Railroad authority	142,799	134,812	13,703
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 401,294,426</b>	<b>\$ 37,319,906</b>	<b>\$ 53,453,066</b>
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 - donation of land and building			
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 Governmental Activities	Components Units
\$ 2,508,853	\$ (40,001,150)	
-	(24,635,822)	
-	(1,834,145)	
-	(7,417,175)	
-	(1,100,385)	
-	(19,871,102)	
586,765	(9,323,746)	
-	(12,098,995)	
-	(5,479,045)	
-	(8,804,061)	
993,303	(50,355,495)	
-	(8,938,643)	
<u>\$ 4,088,921</u>	<u>(189,859,764)</u>	
\$ 51,205,004		\$ (252,607,809)
5,409,614		(2,188,352)
1,344,432		2,228,041
-		<u>5,716</u>
<u>\$ 57,959,050</u>		<u>(252,562,404)</u>
	124,907,475	120,778,435
	12,931,526	54,953,340
	5,066,223	-
	4,523,689	-
	852,642	-
	496,928	120,774,914
	864,264	297,148
	5,950,000	-
	<u>(69,755,282)</u>	<u>-</u>
	<u>85,837,465</u>	<u>296,803,837</u>
	(104,022,299)	44,241,433
	<u>205,890,477</u>	<u>370,274,859</u>
	<u>\$ 101,868,178</u>	<u>\$ 414,516,292</u>

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**HAMILTON COUNTY, TENNESSEE**

**June 30, 2010**

	<u>General</u>	<u>Sheriff</u>	<u>Debt Service</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 496,094	\$ 70,623	\$ 75,970
Investments	73,110,672	3,305,684	200,403
Receivables, net of allowance for uncollectibles	131,226,144	398,587	50,714
Due from other funds	7,630,349	-	-
Due from component units	832,873	52,423	-
Inventories	1,279,441	-	-
Prepaid items	113,236	-	-
Advance to Component Units	-	-	6,500,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 214,688,809</u>	<u>\$ 3,827,317</u>	<u>\$ 6,827,087</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 2,696,756	\$ 137,429	\$ 29,527
Accrued items and other	11,529,224	1,013,598	-
Intergovernmental payables	567,684	-	-
Due to other funds	53,083	25,487	-
Short term obligations	-	-	-
Unearned revenues:			
Uncollected property taxes	111,451,123	-	-
Other	470,781	-	6,500,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>126,768,651</u>	<u>1,176,514</u>	<u>6,529,527</u>
Fund balances:			
Reserved for:			
Encumbrances	808,748	99,475	-
Inventories	1,279,441	-	-
Prepaid items	113,236	-	-
Litigants and beneficiaries	-	-	-
Restricted activities	-	714,266	-
Unreserved, reported in:			
General fund	85,718,733	-	-
Sheriff	-	1,837,062	-
Debt service	-	-	297,560
Capital projects fund	-	-	-
Special revenue funds	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>87,920,158</u>	<u>2,650,803</u>	<u>297,560</u>
Total liabilities and fund balances	<u>\$ 214,688,809</u>	<u>\$ 3,827,317</u>	<u>\$ 6,827,087</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 488,217	\$ 5,714,013	\$ 6,844,917
35,669,139	1,189,796	113,475,694
6,309,712	974,491	138,959,648
-	53,083	7,683,432
-	-	885,296
-	-	1,279,441
-	-	113,236
-	-	6,500,000
<u>\$ 42,467,068</u>	<u>\$ 7,931,383</u>	<u>\$ 275,741,664</u>
\$ 3,457,481	\$ -	\$ 6,321,193
-	3,174,684	15,717,506
3,934,441	-	4,502,125
7,133,202	471,660	7,683,432
43,060,000	-	43,060,000
-	-	111,451,123
80,029	-	7,050,810
<u>57,665,153</u>	<u>3,646,344</u>	<u>195,786,189</u>
15,490,198	-	16,398,421
-	-	1,279,441
-	-	113,236
-	246,356	246,356
-	111,539	825,805
-	-	85,718,733
-	-	1,837,062
-	-	297,560
(30,688,283)	-	(30,688,283)
-	3,927,144	3,927,144
<u>(15,198,085)</u>	<u>4,285,039</u>	<u>79,955,475</u>
<u>\$ 42,467,068</u>	<u>\$ 7,931,383</u>	<u>\$ 275,741,664</u>



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

**HAMILTON COUNTY, TENNESSEE**

**June 30, 2010**

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

Fund balances - total governmental funds	\$ 79,955,475
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.	216,941,162
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	14,386,550
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.	19,445,232
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.	1,262,335
Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable	9,495,621
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	\$206,960,000
Add: original issue premiums	6,478,763
Notes payable & other debt	8,030,725
Landfill post closure costs	220,000
Compensated absences	15,583,117
Accrued interest payable	<u>2,345,592</u>
	<u>(239,618,197)</u>
Net assets of governmental activities	\$ <u>101,868,178</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, 2010**

	<u>General</u>	<u>Sheriff</u>	<u>Debt Service</u>
<b>REVENUES</b>			
Taxes	\$ 143,571,785	\$ -	\$ -
Licenses and permits	570,241	-	-
Intergovernmental	22,985,166	2,318,140	1,012,650
Charges for services	34,642,196	21,981	561,243
Fines, forfeitures and penalties	1,004,265	600,350	-
Investment earnings	427,690	18,662	78,566
Miscellaneous	<u>3,229,555</u>	<u>629,682</u>	<u>23,868</u>
Total revenues	<u>206,430,898</u>	<u>3,588,815</u>	<u>1,676,327</u>
<b>EXPENDITURES</b>			
Current:			
General government	35,428,455	-	-
Public safety:			
Sheriff	-	27,098,751	-
Criminal Court	1,212,955	-	-
Juvenile Court	6,322,472	-	-
Ambulance Services	22,072,669	-	-
Other	34,823,753	-	-
Highways and streets	11,906,366	-	-
Health	22,318,932	-	-
Social services	5,473,040	-	-
Culture and recreation	9,382,528	-	-
Debt service:			
Principal	-	-	24,079,238
Interest and fiscal charges	-	-	9,547,473
Capital outlay:			
General government	4,663,906	-	-
Education	-	-	-
Total expenditures	<u>153,605,076</u>	<u>27,098,751</u>	<u>33,626,711</u>
Excess (deficiency) of revenues over (under) expenditures	<u>52,825,822</u>	<u>(23,509,936)</u>	<u>(31,950,384)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	8,618,232	23,564,159	32,029,957
Transfers out	(57,648,483)	(23,371)	(9,038)
Sale of capital assets	54,832	15,550	-
Issuance of bonds	-	-	-
Premium from bonds	-	-	-
Total other financing sources and uses	<u>(48,975,419)</u>	<u>23,556,338</u>	<u>32,020,919</u>
Net change in fund balances	3,850,403	46,402	70,535
Fund balances, beginning	<u>84,069,755</u>	<u>2,604,401</u>	<u>227,025</u>
Fund balances, ending	<u>\$ 87,920,158</u>	<u>\$ 2,650,803</u>	<u>\$ 297,560</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,539,918	\$ 148,111,703
-	-	570,241
2,090,071	-	28,406,027
251,813	18,340,832	53,818,065
-	40,998	1,645,613
162,438	34,234	721,590
<u>1,309,126</u>	<u>39,483</u>	<u>5,231,714</u>
<u>3,813,448</u>	<u>22,995,465</u>	<u>238,504,953</u>
-	8,776,185	44,204,640
-	-	27,098,751
-	2,653,734	3,866,689
-	1,311,675	7,634,147
-	-	22,072,669
-	13,079	34,836,832
-	-	11,906,366
-	-	22,318,932
-	4,370,539	9,843,579
-	-	9,382,528
-	-	24,079,238
-	-	9,547,473
22,615,867	-	27,279,773
<u>21,897,496</u>	<u>-</u>	<u>21,897,496</u>
<u>44,513,363</u>	<u>17,125,212</u>	<u>275,969,113</u>
<u>(40,699,915)</u>	<u>5,870,253</u>	<u>(37,464,160)</u>
75,038	1,988,367	66,275,753
-	(8,594,861)	(66,275,753)
1,036,053	-	1,106,435
28,570,000	-	28,570,000
<u>216,242</u>	<u>-</u>	<u>216,242</u>
<u>29,897,333</u>	<u>(6,606,494)</u>	<u>29,892,677</u>
(10,802,582)	(736,241)	(7,571,483)
<u>(4,395,503)</u>	<u>5,021,280</u>	<u>87,526,958</u>
<u>\$ (15,198,085)</u>	<u>\$ 4,285,039</u>	<u>\$ 79,955,475</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, 2010**

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	\$ (7,571,483)
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	49,177,269
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities	(8,793,804)
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.	(4,141,516)
The net revenues of internal service funds are reported with governmental activities	(240,769)
The net effect of various transactions involving capital assets is to decrease net assets	(16,947,467)
The net effect of capital asset transactions involving the Hamilton County Department of Education is to decrease net assets.	(51,334,828)
The net effect of the transaction involving capital assets related to the special item-gain on donation of land and building from the Life Care Center of America	5,950,000
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	(69,755,282)
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities	(76,814)
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	(457,457)
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds	<u>169,852</u>
Change in net assets of governmental activities	<u>\$ (104,022,299)</u>

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

**HAMILTON COUNTY, TENNESSEE**

**Year ended June 30, 2010**

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 140,903,676	\$ 140,903,676	\$ 143,571,785	\$ 2,668,109
Licenses and permits	548,500	548,500	570,241	21,741
Intergovernmental revenues	20,693,218	25,129,752	22,985,166	(2,144,586)
Charges for services	15,049,059	15,049,059	13,697,949	(1,351,110)
Fines, forfeitures and penalties	1,113,800	1,113,800	1,004,265	(109,535)
Investment earnings	1,000,250	1,000,250	427,690	(572,560)
Miscellaneous	3,007,716	3,100,716	3,229,556	128,840
Total revenues	<u>182,316,219</u>	<u>186,845,753</u>	<u>185,486,652</u>	<u>(1,359,101)</u>
<b>EXPENDITURES</b>				
Current:				
General government	37,864,294	39,005,134	35,290,396	3,714,738
Public safety	42,146,045	45,599,824	43,533,516	2,066,308
Highways and streets	13,799,874	13,803,270	11,915,708	1,887,562
Health	23,820,878	25,589,482	22,324,674	3,264,808
Social services	6,154,893	6,498,139	5,457,529	1,040,610
Culture and recreation	9,836,534	9,889,658	9,360,999	528,659
Capital outlay	4,568,896	6,553,280	4,897,122	1,656,158
Total expenditures	<u>138,191,414</u>	<u>146,938,787</u>	<u>132,779,944</u>	<u>14,158,843</u>
Excess of revenues over expenditures	<u>44,124,805</u>	<u>39,906,966</u>	<u>52,706,708</u>	<u>12,799,742</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	9,005,022	9,406,853	8,996,692	(410,161)
Transfers out	(59,894,355)	(60,338,815)	(58,026,943)	2,311,872
Sale of capital assets	-	-	54,832	54,832
Total other financing sources (uses)	<u>(50,889,333)</u>	<u>(50,931,962)</u>	<u>(48,975,419)</u>	<u>1,956,543</u>
Net change in fund balance	(6,764,528)	(11,024,996)	3,731,289	14,756,285
Fund balance allocation	<u>6,764,528</u>	<u>11,024,996</u>	-	<u>(11,024,996)</u>
	<u>\$ -</u>	<u>\$ -</u>	3,731,289	<u>\$ 3,731,289</u>
Add encumbrances at end of year			808,748	
Less encumbrances at beginning of year			(689,634)	
Net change in fund balance--(GAAP Modified Accrual Basis)			3,850,403	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			<u>84,069,755</u>	
Fund balance at end of year--(GAAP Modified Accrual Basis)			<u>\$ 87,920,158</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, 2010**

	Budget Original	Budget Final	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 2,187,477	\$ 2,641,959	\$ 2,318,140	\$ (323,819)
Charges for current services	80,450	80,450	21,981	(58,469)
Fines, forfeitures and penalties	583,200	583,200	600,350	17,150
Investment earnings	121,740	121,740	18,662	(103,078)
Miscellaneous	414,775	414,775	629,682	214,907
Total revenues	<u>3,387,642</u>	<u>3,842,124</u>	<u>3,588,815</u>	<u>(253,309)</u>
<b>EXPENDITURES</b>				
Current:				
Public safety:				
Administration	2,506,191	2,491,155	2,423,834	67,321
Patrol	8,000,505	7,995,505	8,054,191	(58,686)
Jail	10,483,311	10,483,311	10,267,652	215,659
Process and court servers	734,485	734,485	755,527	(21,042)
Communications	625,491	625,685	707,223	(81,538)
Major crimes	1,289,561	1,669,733	1,724,080	(54,347)
Fugitive warrant	1,914,069	1,914,264	1,742,677	171,587
Special operations	922,089	922,089	908,192	13,897
Inmate commissary	300,000	300,000	279,808	20,192
Governor's hwy safety grant	-	224,738	60,322	164,416
BOJ Bulletproof vest grant	-	51,779	25,021	26,758
IV-D civil process	150,653	199,200	193,276	5,924
Total budgetary expenditures	<u>26,926,355</u>	<u>27,611,944</u>	<u>27,141,803</u>	<u>470,141</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	<u>(23,538,713)</u>	<u>(23,769,820)</u>	<u>(23,552,988)</u>	<u>216,832</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	23,607,953	23,607,953	23,564,159	(43,794)
Transfers out	-	(23,371)	(23,371)	-
Sale of capital assets	-	-	15,550	15,550
Total Other Financing Sources (Uses)	<u>23,607,953</u>	<u>23,584,582</u>	<u>23,556,338</u>	<u>(28,244)</u>
Net change in fund balance	69,240	(185,238)	3,350	188,588
Fund balance allocation	<u>(69,240)</u>	<u>185,238</u>	<u>-</u>	<u>(185,238)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>3,350</u>	<u>\$ 3,350</u>
Add encumbrances at end of year			99,475	
Less encumbrances at beginning of year			<u>(56,423)</u>	
Net change in fund balance--(GAAP)			46,402	
Fund balance at beginning of year--(GAAP)			<u>2,604,401</u>	
Fund balance at end of year--(GAAP)			<u>\$ 2,650,803</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, 2010**

	<u>Governmental Activities - Internal Service Fund</u>
<b>CURRENT ASSETS</b>	
Cash	\$ 72,004
Investments	22,101,479
Prepaid Insurance	<u>122,376</u>
Total current assets	<u>22,295,859</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable	30,340
Accrued claims	<u>2,820,287</u>
Total current liabilities	<u>2,850,627</u>
<b>NET ASSETS</b>	
Unrestricted	<u><u>\$ 19,445,232</u></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, 2010**

	Governmental Activities - Internal Service Fund
	<u>                    </u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 20,372,092
Other	<u>650,204</u>
Total operating revenues	<u>21,022,296</u>
<b>OPERATING EXPENSES</b>	
Unemployment compensation	103,400
Claims and premiums	20,352,229
Administration	<u>950,110</u>
Total operating expenses	<u>21,405,739</u>
Operating income (loss)	(383,443)
<b>NONOPERATING REVENUES</b>	
Investment earnings	<u>142,674</u>
Change in net assets	(240,769)
Net assets, beginning	<u>19,686,001</u>
Net assets, ending	<u><u>\$ 19,445,232</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, 2010**

	Governmental Activities - Internal Service Fund
	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from (paid for) insurance premiums	\$ 21,772,854
Cash paid for unemployment compensation	(92,829)
Cash paid for claims and premiums	(20,205,491)
Cash paid for administration	<u>(977,880)</u>
Net cash provided by operating activities	<u>496,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(22,101,479)
Proceeds from sale of investments	21,435,000
Interest on investments	<u>142,674</u>
Net cash used in investing activities	<u>(523,805)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(27,151)
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>99,155</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u><u>\$ 72,004</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ <u>(383,443)</u>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in receivable	735,891
Change in accounts payable	24,588
Change in accrued claims	29,673
Change in prepaid insurance	<u>89,945</u>
Total adjustments	<u>880,097</u>
Net cash provided by operating activities	<u><u>\$ 496,654</u></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, 2010**

	Pension Trust Funds	Constitutional Officers Agency Funds
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Cash	\$ 53,367	\$ 6,000,831
Certificates of deposit	40,742	9,842,693
Investments, at fair value:		
Mutual funds	1,263,193	16,077
Domestic equity securities	975,270	-
Foreign securities	<u>66,390</u>	<u>-</u>
Total investments	<u>2,304,853</u>	<u>16,077</u>
Receivables:		
Interest	1,325	-
Accounts	<u>1,050</u>	<u>38,575</u>
Total assets	<u>2,401,337</u>	<u>15,898,176</u>
<b>LIABILITIES</b>		
Accrued items and other	924	12,126,956
Intergovernmental payables	<u>-</u>	<u>3,771,220</u>
Total liabilities	<u>924</u>	<u>15,898,176</u>
<b>NET ASSETS</b>		
Assets held in trust for pension benefits	<u>\$ 2,400,413</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, 2010**

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Other	\$ 13,200
Plan members	<u>75,258</u>
Total contributions	<u>88,458</u>
Investment earnings:	
Net change in fair value of investments	187,482
Interest	<u>20,642</u>
Net investment income	<u>208,124</u>
Total additions	<u>296,582</u>
DEDUCTIONS	
Benefits	199,217
Administrative expense	<u>22,456</u>
Total deductions	<u>221,673</u>
Change in net assets	74,909
Net assets, beginning	<u>2,325,504</u>
Net assets, ending	<u>\$ 2,400,413</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, 2010**

	Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Railroad Authority	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 14,253,395	\$ 250,638	\$ 3,199,124	\$ 51,241	\$ 17,754,398
Certificates of deposit	330,063	8,139,941	-	-	8,470,004
Investments	36,219,917	4,673,490	-	-	40,893,407
Receivables, net of allowance for uncollectible	144,911,356	581,514	1,255,258	2,508	146,750,636
Receivables, restricted	-	-	103,517	-	103,517
Inventories	665,111	-	223,790	-	888,901
Restricted cash	3,011,097	-	1,693,546	-	4,704,643
Prepaid items	2,322,234	-	152,508	-	2,474,742
Land and other nondepreciable assets	17,271,414	-	3,990,452	-	21,261,866
Capital assets, net of accumulated depreciation	<u>286,608,857</u>	<u>4,214,390</u>	<u>89,207,618</u>	<u>3,850</u>	<u>380,034,715</u>
<b>Total assets</b>	<u>505,593,444</u>	<u>17,859,973</u>	<u>99,825,813</u>	<u>57,599</u>	<u>623,336,829</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	31,328,061	1,204,666	1,092,163	2,708	33,627,598
Due to primary government	342,877	297,283	245,136	-	885,296
Unearned revenue	120,886,670	-	-	-	120,886,670
Noncurrent liabilities:					
Due within one year	2,097,917	-	7,513,766	-	9,611,683
Due in more than one year	17,753,629	-	10,060,040	-	27,813,669
Advance from Primary Government	<u>712,901</u>	<u>-</u>	<u>15,282,720</u>	<u>-</u>	<u>15,995,621</u>
<b>Total liabilities</b>	<u>173,122,055</u>	<u>1,501,949</u>	<u>34,193,825</u>	<u>2,708</u>	<u>208,820,537</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	303,880,271	4,214,390	60,341,544	3,850	368,440,055
Restricted for:					
State statute	326,943	-	-	-	326,943
Extracurricular activities	3,011,097	-	-	-	3,011,097
Other purposes	-	-	1,972,546	-	1,972,546
Unrestricted	<u>25,253,078</u>	<u>12,143,634</u>	<u>3,317,898</u>	<u>51,041</u>	<u>40,765,651</u>
<b>Total net assets</b>	<u>\$ 332,471,389</u>	<u>\$ 16,358,024</u>	<u>\$ 65,631,988</u>	<u>\$ 54,891</u>	<u>\$ 414,516,292</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, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>HAMILTON COUNTY DEPARTMENT OF EDUCATION</b>				
Regular instruction	\$ 176,774,197	\$ 949,046	\$ 16,141,490	\$ 27,486,681
Exceptional instruction	39,305,019	-	7,660,364	6,062,458
Vocational instruction	9,000,456	-	286,436	1,392,042
Support services:				
Pupil services	12,887,244	-	2,423,698	2,179,663
Instructional staff	21,489,743	425,979	8,771,259	-
Board of education	5,679,767	-	-	-
Administration	22,295,117	-	477,710	3,696,504
Business and fiscal services	2,462,485	-	-	-
Human resources	916,080	-	-	-
Plant operation and maintenance	34,205,121	-	904,289	5,083,446
Pupil transportation	13,943,411	-	550,194	2,161,861
Central and other	2,256,581	-	227	-
Operation of noninstructional services:				
Community services	2,862,134	2,748,092	154,202	441,415
Early childhood education	3,687,281	-	3,600,217	-
Extracurricular	13,659,529	13,169,773	-	-
Child Nutrition	17,455,458	5,594,865	11,208,969	2,700,934
<b>TOTAL DEPARTMENT OF EDUCATION</b>	<b>378,879,623</b>	<b>22,887,755</b>	<b>52,179,055</b>	<b>51,205,004</b>
<b>"911" EMERGENCY COMMUNICATIONS</b>				
Emergency communications operations	12,635,690	3,777,416	1,260,308	5,409,614
<b>WATER &amp; WASTEWATER TREATMENT AUTHORITY</b>				
Water and wastewater treatment operations	9,636,314	10,519,923	-	1,344,432
<b>RAILROAD AUTHORITY</b>				
Railroad authority operations	142,799	134,812	13,703	-
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 401,294,426</b>	<b>\$ 37,319,906</b>	<b>\$ 53,453,066</b>	<b>\$ 57,959,050</b>

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
\$ (132,196,980)				\$ (132,196,980)
(25,582,197)				(25,582,197)
(7,321,978)				(7,321,978)
(8,283,883)				(8,283,883)
(12,292,505)				(12,292,505)
(5,679,767)				(5,679,767)
(18,120,903)				(18,120,903)
(2,462,485)				(2,462,485)
(916,080)				(916,080)
(28,217,386)				(28,217,386)
(11,231,356)				(11,231,356)
(2,256,354)				(2,256,354)
481,575				481,575
(87,064)				(87,064)
(489,756)				(489,756)
2,049,310				2,049,310
<u>(252,607,809)</u>				
	\$ (2,188,352)			(2,188,352)
		\$ 2,228,041		2,228,041
			\$ 5,716	5,716
				<u>(252,562,404)</u>
120,778,435	-	-	-	120,778,435
54,953,340	-	-	-	54,953,340
120,774,914	-	-	-	120,774,914
211,699	72,298	13,151	-	297,148
<u>296,718,388</u>	<u>72,298</u>	<u>13,151</u>	<u>-</u>	<u>296,803,837</u>
44,110,579	(2,116,054)	2,241,192	5,716	44,241,433
<u>288,360,810</u>	<u>18,474,078</u>	<u>63,390,796</u>	<u>49,175</u>	<u>370,274,859</u>
<u>\$ 332,471,389</u>	<u>\$ 16,358,024</u>	<u>\$ 65,631,988</u>	<u>\$ 54,891</u>	<u>\$ 414,516,292</u>



## NOTES TO BASIC FINANCIAL STATEMENTS

### HAMILTON COUNTY, TENNESSEE

June 30, 2010

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## NOTES TO BASIC FINANCIAL STATEMENTS

### HAMILTON COUNTY, TENNESSEE JUNE 30, 2010

#### 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, 2402 Amnicola 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 the provisions of the GASB Codification Section 1000.101, *The Hierarchy of Generally Accepted Accounting Principles*. This Statement established accounting and financial reporting standards which constitute GAAP for all state and local governmental entities. All references to pre-Codification Statements have either been removed or updated to reflect the new Codification reference. The adoption of this Statement did not have a significant impact on the County’s financial statements.

The County adopted Section P40.101, *Pollution Remediation Obligations*, required for fiscal periods beginning after December 15, 2007 in the current fiscal year. This statement sets uniform standards requiring more timely and complete reporting of pollution remediation obligations. The adoption of this Statement did not have a significant impact on the County’s financial statements.

The County adopted Section 1400, *Reporting Capital Assets*, paragraphs .120-.135, *Intangible Assets*, which requires intangible assets subject to the provisions of paragraphs .123-.135 should be classified as capital assets. The adoption of this Statement did not have a significant impact on the County’s financial statements.

The County adopted Section 150.106, *Investments*, which requires endowments to report their land and other real estate investments at fair value, creating consistency in reporting similar entities that exist to invest resources for the purpose of generating income. The County has no such assets; therefore, the adoption of this Statement had no effect on the County’s financial statements.

The County plans to adopt GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, required for fiscal periods beginning after June 15, 2010. The Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. Because of its effective date, the Statement has not been integrated into the Codification.

(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, 2010, 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. 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 (pension 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.

**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, 2008, 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.

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).

**(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 and investments in the state investment pool, which is a 2a7-like pool. The fair value of the County's position in the state investment pool is the same as the value of the pool shares. The state investment pool is managed by the Treasurer of the State of Tennessee under the oversight of the Tennessee Comptroller's Office.

Any change in the value of investments recorded at fair value is included in investment earnings. Fair value is based on quoted market prices. Investments held in the County's investment pool accrue interest on a daily basis. The interest is allocated daily to the participating funds on a percentage of equity basis.

**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**

Reserved fund balance indicates that portion of fund equity that has been legally segregated for specific purposes. Designated fund balance indicates that portion of fund equity for which the County has made tentative plans.

**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, 2009
Levy date	October 1, 2009
Tax bills mailed	October 1, 2009
Delinquency date	March 1, 2010
Tax sale – 2006 delinquent property taxes	June 2010

**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, 2010, the County has evaluated subsequent events for potential recognition and disclosure through December 27, 2010, the date of financial statement issuance.

**(10) NET ASSETS**

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment 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, DONATION OF LAND AND BUILDING**

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 donated \$69,755,282 of land improvements 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 \$69,755,282 special item loss on donation of land improvements to account for this transaction.

On November 4, 2009, the County accepted a gift of a facility and real property from Life Care Centers of America, Inc. The facility is an approximately 57,500 square foot building formerly utilized as a nursing home. This property will provide office space to various departments throughout County Government. The County has recorded \$5,950,000 to account for this gift.

**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, 2010, the County had no material excess of expenditures over appropriations in individual funds.

**Net Assets/Fund Balance Deficit**

At June 30, 2010, the County has a deficit of \$67,221,963 in unrestricted 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, 2010, the County conveyed \$51,334,828 in capital assets to the Department of Education. At June 30, 2010, the County's long-term liabilities include general obligation bonds of \$125,035,720 issued for the Department of Education capital projects.

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 unrestricted fund balance. At June 30, 2010, the County had a deficit of \$30,688,283 in unrestricted fund balance in the capital projects fund. The capital projects fund also had a total fund deficit of \$15,198,085 at the end of June 30, 2010.

**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, 2010, 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, 2010, investments of the primary government (except for Pension Trust Funds) and component units consist of the following:

	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>
<b>Primary Government – Governmental Activities:</b>		
U.S. Government agency securities	1.29	\$ 12,813,234
Investment in local investment pool	0.00	97,851,522
Investment in state investment pool	0.00	24,897,417
Cash balances classified as investments	0.00	<u>15,000</u>
Total	0.12	<u>\$ 135,577,173</u>
<b>Primary Government – Agency Funds:</b>		
U.S. Government agency securities	1.29	\$ 1,861
Investment in local investment pool	0.00	<u>14,216</u>
Total	0.15	<u>\$ 16,077</u>
<b>Component Units:</b>		
U.S. Government agency securities	1.29	\$ 4,184,905
Investment in local investment pool	0.00	31,959,091
Investment in state investment pool	0.00	4,681,897
Cash Balances classified as investments	0.00	<u>67,514</u>
Total	0.13	<u>\$ 40,893,407</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, 2010, 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** – The County’s Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and County policies allow the Pension Trust funds a broader range of investments than other County investments. The credit risk of investments of the Pension Trust funds is summarized as follows:

	<b>Moody's Rating</b>	<b>Fair Value</b>
Domestic equity securities	A-	\$ 77,972
Domestic equity securities	A	115,764
Domestic equity securities	A+	134,364
Domestic equity securities	B-	46,682
Domestic equity securities	B	228,058
Domestic equity securities	B+	302,243
Domestic equity securities	C	10,735
Domestic equity securities	Not rated	59,452
Mutual Funds	Not rated	1,263,193
Foreign equity securities	B-	24,976
Foreign equity securities	Not rated	<u>41,414</u>
		<u><b>\$2,304,853</b></u>

#### NOTE E – RECEIVABLES

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

<b>Funds</b>	<b>Property Taxes</b>	<b>Patients</b>	<b>Accounts</b>	<b>Inter-Governmental</b>	<b>Allowance for Uncollectibles</b>	<b>Net</b>
Primary Government:						
General	\$123,083,251	\$5,830,970	\$3,419,062	\$ 7,933,495	\$(9,040,634)	\$131,226,144
Sheriff	-	-	55,777	342,810	-	398,587
Debt service	-	-	50,714	-	-	50,714
Capital projects	-	-	2,935,189	3,374,523	-	6,309,712
Nonmajor	-	-	630,447	344,044	-	974,491
	<u>\$123,083,251</u>	<u>\$5,830,970</u>	<u>\$7,091,189</u>	<u>\$11,994,872</u>	<u>\$(9,040,634)</u>	<u>\$138,959,648</u>
Component Units:						
Governmental	\$132,738,383	\$ -	\$3,820,148	\$16,098,160	\$(6,816,978)	\$145,839,713
Proprietary	-	-	910,923	-	-	910,923
	<u>\$132,738,383</u>	<u>\$ -</u>	<u>\$4,731,071</u>	<u>\$16,098,160</u>	<u>\$(6,816,978)</u>	<u>\$146,750,636</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, 2010.

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 \$220,000 at June 30, 2010, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$220,000 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, 2010. 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, 2010. The total contractual commitments outstanding as of June 30, 2010, aggregated approximately \$15,089,327. 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, 2010, there were a total of 63 series outstanding (60 series of Industrial Revenue Bonds and 3 series of Mortgage Revenue Bonds). The aggregate principal amount payable for 6 Industrial Revenue Bond series issued after July 1, 1995, was \$3,000,000.

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, 2010, 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	\$ 826,760	\$ 268,875	\$ 12,812	\$ 1,108,447
Clerk and Master	570,336	178,641	-	748,977
County Clerk	1,359,461	345,008	71,763	1,776,232
Criminal Court Clerk	1,089,987	118,275	4,693	1,212,955
Juvenile Court Clerk	-	-	5,449	5,449
Register	359,451	60,615	-	420,066
Sheriff	-	-	914,681	914,681
Trustee	297,054	87,269	-	384,323
Election Commission	1,143,003	195,070	-	1,338,073
Assessor of Property	<u>3,009,699</u>	<u>205,723</u>	<u>35,960</u>	<u>3,251,382</u>
	<u>\$ 8,655,751</u>	<u>\$1,459,476</u>	<u>\$1,045,358</u>	<u>\$11,160,585</u>

**NOTE J – CAPITAL ASSETS**

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

**Primary Government**

	<b>Beginning Balance<sup>1</sup></b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 61,006,773	\$ 988,610	\$ (154,539)	\$ 61,840,844
Construction in progress	<u>120,518,009</u>	<u>29,532,246</u>	<u>(126,166,684)</u>	<u>23,883,661</u>
Total non-depreciable assets	<u>181,524,872</u>	<u>30,520,856</u>	<u>(126,321,223)</u>	<u>85,724,505</u>
<b>Depreciable Assets:</b>				
Buildings	116,665,927	6,567,123	(529,252)	122,703,798
Improvements other than buildings	22,955,377	1,509,061	-	24,464,438
Machinery and equipment	36,537,211	3,467,726	(2,079,539)	37,925,398
Infrastructure	144,679,577	2,581,671	-	147,261,248
Intangibles	<u>4,430,414</u>	<u>63,520</u>	<u>-</u>	<u>4,493,934</u>
Total depreciable assets	<u>325,268,506</u>	<u>14,189,101</u>	<u>(2,608,791)</u>	<u>336,848,816</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(53,335,594)	(1,214,864)	51,729	(54,498,729)
Improvements other than buildings	(8,668,086)	(1,137,192)	-	(9,805,278)
Machinery and equipment	(29,500,310)	(2,168,943)	1,258,022	(30,411,231)
Infrastructure	(103,859,137)	(3,649,260)	-	(107,508,397)
Intangibles	<u>(2,784,979)</u>	<u>(623,545)</u>	<u>-</u>	<u>(3,408,524)</u>
Total accumulated depreciation	<u>(198,148,106)</u>	<u>(8,793,804)</u>	<u>1,309,751</u>	<u>(205,632,159)</u>
Depreciable Assets, net	<u>127,120,400</u>	<u>5,395,297</u>	<u>(1,299,040)</u>	<u>131,216,657</u>
Governmental activities capital assets, net	<u>\$308,645,272</u>	<u>\$35,916,153</u>	<u>\$(127,620,263)</u>	<u>\$216,941,162</u>

<sup>1</sup>Some beginning balances were adjusted to reflect Intangibles, a newly reported capital asset category, as required by GASB Statement No. 51.

**Discretely Presented Component Units**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Non-Depreciable Assets:</b>				
Land	\$ 16,201,777	\$ 1,527,049	\$ (482,412)	\$ 17,246,414
Construction in progress	3,199,783	2,376,000	(1,585,331)	3,990,452
Other non-depreciable assets	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total non-depreciable assets	<u>19,401,560</u>	<u>3,928,049</u>	<u>(2,067,743)</u>	<u>21,261,866</u>
<b>Depreciable Assets:</b>				
Buildings	414,717,961	51,166,736	(6,769,920)	459,114,777
Improvements other than buildings	23,377,089	188,092	(1,024,762)	22,540,419
Machinery and equipment	29,987,019	1,916,054	(912,517)	30,990,556
Utility plant	<u>104,486,938</u>	<u>3,966,156</u>	<u>-</u>	<u>108,453,094</u>
Total depreciable assets	<u>572,569,007</u>	<u>57,237,038</u>	<u>(8,707,199)</u>	<u>621,098,846</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(181,609,832)	(8,990,587)	6,760,528	(183,839,891)
Improvements other than buildings	(17,566,842)	(471,007)	724,448	(17,313,401)
Machinery and equipment	(19,072,735)	(2,106,936)	998,515	(20,181,156)
Utility plant	<u>(16,858,716)</u>	<u>(2,870,967)</u>	<u>-</u>	<u>(19,729,683)</u>
Total accumulated depreciation	<u>(235,108,125)</u>	<u>(14,439,497)</u>	<u>8,483,491</u>	<u>(241,064,131)</u>
Depreciable Assets, net	<u>337,460,882</u>	<u>42,797,541</u>	<u>(223,708)</u>	<u>380,034,715</u>
Component units capital assets, net	<u>\$356,862,442</u>	<u>\$46,725,590</u>	<u>\$(2,291,451)</u>	<u>\$401,296,581</u>

Depreciation expense is charged to functions as follows:

**Primary Government – Governmental Activities:**

Ambulance	\$ 515,440
Criminal Court	310,307
General Government	1,599,493
Health	1,191,240
Highway	2,856,291
Juvenile Court	124,114
Public Safety	664,602
Recreation	1,175,070
Sheriff	332,693
Social Services	<u>24,554</u>
Total	\$ <u>8,793,804</u>

**Discretely Presented Component Units:**

Department of Education	\$ 10,467,398
Water & Wastewater Treatment Authority	2,967,116
"911" Emergency Communications	1,004,433
Railroad Authority	<u>550</u>
Total	\$ <u>14,439,497</u>

Hamilton County donated \$121,090,109 of the assets transferred from construction in progress. Of this amount, \$51,334,828 was a donated to the Department of Education and \$69,755,282 was donated to Volkswagen Group of America, Inc. and the City of Chattanooga for land improvements related to the Enterprise South Industrial Park as further discussed at 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.tn.gov/treasury/tcrs/PS/](http://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, 2010, was 15.01% 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, 2010, Hamilton County’s annual pension cost of \$14,938,598 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 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); (c) projected 3.5 percent annual increase in the social security wage base; and (d) projected post retirement increases of 3.0 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 five-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 ten 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
6/30/10	\$14,938,598	100.00%	\$ -
6/30/09	15,063,655	100.00%	-
6/30/08	14,475,166	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.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Tennessee Consolidated Retirement System

Actuarial Valuation Date (frozen initial liability)	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)
Political Subdivision Pension Plan (PSPP)						
07/01/09	\$ 290,589	\$ 352,880	\$ 62,291	82.35%	\$ 97,446	63.92%
07/01/07	275,318	316,473	41,155	87.00%	88,047	46.74%
07/01/05	237,545	247,301	9,756	96.06%	84,860	11.50%

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

**Plan Description:**

The Hamilton County Schools contribute to the 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.tn.gov/treasury/tcrs/Schools](http://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, 2010 was 6.42% 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, 2010, 2009, and 2008 were \$10,039,596, \$10,344,519, and \$9,702,404, respectively, equal to the required contribution for each year.



## **Hamilton County Administered Plans**

### **Significant Accounting Policies:**

#### **Basis of Accounting**

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

#### **Method Used to Value Investments**

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

#### **Actuarial Assumptions and Estimates**

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

### **Plan Description and Provisions:**

#### **(1) Employees' Pension Plan**

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

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

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

#### **(2) Commissioners' Pension Plan**

The County maintains a single-employer defined benefit plan for County Commissioners in which each Commissioner can elect to participate. Those who elect to participate are not required to contribute to the plan. Contributions previously made were refunded to plan participants. Credit for prior service can be purchased. There are no limits on the time at which a Commissioner (or former Commissioner with at least five years of service) can elect to purchase such credit. Each participant accrues a monthly benefit of 2.5% of five-year average pay per year of credit service, payable upon retirement at or after age 55. Accrued benefits are vested after five years of service. Benefit provisions are established and amended by the Private Acts of Tennessee.

**(3) Teachers' Pension Plan**

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

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Retirees and beneficiaries receiving benefits	30	12	8
Vested terminated employees	0	2	0
Active employees:			
Fully vested	0	5	0
Non vested	0	3	0
Actuarial valuation date	June 30, 2009	June 30, 2009	June 30, 2009

**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, 2010 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u>	<u>Commissioners'</u>	<u>Teachers'</u>
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	-	\$ 75,258	-
Other contributing entities	N/A	N/A	\$ 13,200
Date of last actuarial valuation	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial valuation date for current contributions	June 30, 2009	June 30, 2009	June 30, 2009
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, 2010, no employer contributions were made for the Employees' and Teachers' Pension Plans. Other contributions to the Commissioners' Pension Plan and Teachers' Pension Plan totaled \$88,458.

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)	(21,205)	(8,914)	(45,393)
Adjustment to annual required contribution	<u>41,189</u>	<u>20,186</u>	<u>117,571</u>
Annual pension cost	19,984	58,972	73,116
Contributions made	<u>-</u>	<u>(75,258)</u>	<u>-</u>
Increase in net pension obligation (asset)	19,984	(16,286)	73,116
Net pension obligation (asset) at beginning of year	<u>(282,727)</u>	<u>(148,569)</u>	<u>(907,853)</u>
Net pension obligation (asset) at end of year	\$ <u>(262,743)</u>	\$ <u>(164,855)</u>	\$ <u>(834,737)</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:	6/30/10	\$19,984	0.0%	\$ (262,743)
	6/30/09	21,506	0.0%	(282,727)
	6/30/08	23,141	0.0%	(304,233)
Commissioners' Plan:	6/30/10	58,972	127.6%	(164,855)
	6/30/09	62,754	119.9%	(148,569)
	6/30/08	61,727	121.9%	(136,065)
Teachers' Plan:	6/30/10	73,116	0.0%	(834,737)
	6/30/09	79,070	0.0%	(907,853)
	6/30/08	85,900	0.0%	(986,923)

## Schedule of Funding Progress

(Dollar amounts in thousands)

### Hamilton County Administered Plans

Actuarial Valuation Date (entry age normal)	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						
06/30/09	\$ 1,787	\$ 873	\$ (914) **	204.7%	\$ -	N/A
06/30/07	2,256	1,083	(1,173) **	208.4%	\$ -	N/A
06/30/05	2,380	1,249	(1,131) **	190.5%	\$ -	N/A
Commissioners' Retirement						
06/30/09	\$ 482	\$ 702	\$ 220	68.6%	\$ 196	112.3%
06/30/07	414	652	238	63.5%	192	124.2%
06/30/05	330	614	284	53.8%	166	170.5%
Teachers' Retirement						
06/30/09	\$ 57	\$ 64	\$ 7	88.5%	\$ -	N/A
06/30/07	95	100	5	95.2%	\$ -	N/A
06/30/05	151	151	-	100.0%	\$ -	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' <u>Pension</u>	Commissioners ' <u>Pension</u>	Teachers' <u>Pension</u>	Total Pension Trust <u>Funds</u>
<b>ASSETS</b>				
Cash	\$ (152,748)	\$ 205,974	\$ 40,883	\$ 94,109
Investments, at fair value				
Mutual Funds	957,315	305,878	-	1,263,193
Domestic Corporate Bonds	975,270	-	-	975,270
Foreign Securities	<u>66,390</u>	<u>-</u>	<u>-</u>	<u>66,390</u>
Total investments	<u>1,998,975</u>	<u>305,878</u>	<u>-</u>	<u>2,304,853</u>
Due from others	-	-	1,050	1,050
Interest receivable	<u>1,325</u>	<u>-</u>	<u>-</u>	<u>1,325</u>
Total Receivables	<u>1,325</u>	<u>-</u>	<u>1,050</u>	<u>2,375</u>
Total Assets	<u>1,847,552</u>	<u>511,852</u>	<u>41,933</u>	<u>2,401,337</u>
<b>LIABILITIES:</b>				
Accrued Items & Other	<u>-</u>	<u>-</u>	<u>924</u>	<u>924</u>
<b>NET ASSETS</b>				
Held in trust for pension benefits	<u>\$ 1,847,552</u>	<u>\$ 511,852</u>	<u>\$ 41,009</u>	<u>\$ 2,400,413</u>

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

	Employees' <u>Pension</u>	Commissioners' <u>Pension</u>	Teachers <u>Pension</u>	Total Pension Trust <u>Funds</u>
<b>ADDITIONS</b>				
Contributions				
Employer	\$ -	\$ 75,258	\$ -	\$ 75,258
Members	-	-	13,200	13,200
Total contributions	-	75,258	13,200	88,458
Investment earnings:				
Net increase (decrease) in fair value of investments	187,482	-	-	187,482
Interest	20,524	31	87	20,642
Net investment income (loss)	208,006	31	87	208,124
Total additions	208,006	75,289	13,287	296,582
<b>DEDUCTIONS</b>				
Benefits	129,801	43,016	26,400	199,217
Consulting Fees	2,269	2,270	2,269	6,808
Miscellaneous expense	-	-	500	500
Administrative expense	15,148	-	-	15,148
Total deductions	147,218	45,286	29,169	221,673
Change in net assets	60,788	30,003	(15,882)	74,909
Net assets, beginning	1,786,764	481,849	56,891	2,325,504
Net assets, ending	\$ 1,847,552	\$ 511,852	\$ 41,009	\$ 2,400,413

**NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Effective July 1, 2007, the County adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement addresses how governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits.

**(1) Plan Description:**

**Primary Government**

In addition to providing pension benefits, the County provides a portion of the health care benefits for certain retired employees under 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 until they become eligible for Medicare. A stand-alone financial report is not issued.

**Department of Education**

In addition to providing pension benefits, the Department provides a portion of the health care and dental benefits for certain retired employees under 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. A stand-alone financial report is not issued.

(2) **Funding Policy:**

**Primary Government**

The County is reimbursed by the retirees using a formula based on date of retirement, years of service, and the County's computed cost for active employees. During the fiscal year ended June 30, 2010, the County contributed \$1,657,186 for these health care benefits for 121 retirees. It is the County's intention to establish a trust for funding the annual required contribution as described below.

**Department of Education**

The Department is reimbursed by the retirees using a formula based on date of retirement, years of service, and the Department's computed cost for active employees. During the fiscal year ended June 30, 2010, the Department contributed \$7,037,350 for these health care benefits for 577 retirees. The Department of Education will make payments in amounts sufficient to cover benefits paid and administrative costs; however, the Department will not fund the remaining portion of the annual required contribution.

(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.

	<b>Primary Government</b>	<b>Department of Education</b>	<b>Total</b>
Annual required contribution	\$ 2,987,117	\$ 9,387,660	\$ 12,374,777
Interest on net OPEB obligation	252,462	279,802	532,264
Adjustment to annual required contribution	<u>(157,410)</u>	<u>(276,427)</u>	<u>(433,837)</u>
Annual OPEB cost (expense)	3,082,169	9,391,035	12,473,204
Contributions made	<u>(1,657,186)</u>	<u>(7,037,350)</u>	<u>(8,694,536)</u>
Increase (decrease) in net OPEB obligation	1,424,983	2,353,685	3,778,668
Net OPEB obligation beginning of year	<u>3,366,158</u>	<u>6,995,042</u>	<u>10,361,200</u>
Net OPEB obligation end of year	\$ <u>4,791,141</u>	\$ <u>9,348,727</u>	\$ <u>14,139,868</u>
Percentage of annual OPEB cost contributed	<u>53.77%</u>	<u>74.94%</u>	<u>69.71%</u>

(4) **Funded Status and Funding Progress**

**Primary Government**

As of June 30, 2009, the most recent actuarial valuation date, the County employees post retirement medical insurance benefits plan was 0% funded. The actuarial accrued liability for benefits was \$24,048,037, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,048,037. The covered payroll (annual payroll of active employees covered by the plan) was \$69,679,245, and the ratio of the UAAL to the covered payroll was 34.51%. The primary government is in the process of establishing a trust and will fund the annual required contribution. For the year ended June 30, 2010, a budgeted expenditure of \$1,600,000 was included in the General Fund.

**Department of Education**

As of June 30, 2009, 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 \$96,886,461, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability

(UAAL) of \$96,886,461. The covered payroll (annual payroll of active employees covered by the plan) was \$169,692,000, and the ratio of the UAAL to the covered payroll was 56.51%. The Department of Education will make payments in amounts sufficient to cover benefits paid and administrative costs; however, the Department will not fund the remaining portion of the annual required contribution.

**(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.

In the June 30, 2009 valuations for both Plans, the entry age actuarial cost method was used. The actuarial assumptions included a 0% rate of return because the County has not begun funding the Plans. The amortization method used is level percentage of covered payroll. Other key assumptions are as follows:

	<b>Primary Government</b>	<b>Department of Education</b>
Annual medical costs, first year	11%	11%
Future annual increases - medical	5% over a 12-year period	5% over a 12-year period
Dental	N/A	Capped at \$1,000/year
UAAL amortization period	30 years closed	30 years closed

**NOTE M – SHORT TERM OBLIGATIONS**

Hamilton County issued \$23,500,000 in General Obligation Bond Anticipation Notes (BAN's) on March 10, 2009. The proceeds of the BAN's are to be used for various capital projects associated with the development of the Enterprise South Industrial park for the new Volkswagen manufacturing plant. The BAN's were retired with the issuance of Series 2010A, 2010B and 2010C General Obligation Bonds on March 10, 2010.

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. Hamilton County issued \$43,060,000 in short-term financing in the form of Commercial Paper during the year ended June 30, 2010.

A summary of the short-term financing transactions for the year ended June 30, 2010 follows:

<u>Fund/Issue</u>	<u>Outstanding 7/1/09</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/10</u>
Capital Projects				
Bond Anticipation Notes	\$ 23,500,000	\$ -	\$ 23,500,000	\$ -
Commercial Paper	<u>23,060,000</u>	<u>20,000,000</u>	<u>-</u>	<u>43,060,000</u>
Total	<u>\$ 46,560,000</u>	<u>\$20,000,000</u>	<u>\$ 23,500,000</u>	<u>\$43,060,000</u>

**NOTE N – LONG-TERM LIABILITIES**

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

**General Obligation Bonds** – Hamilton County periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the County. These bonds are generally issued as 15- to 30- year serial bonds with the 15-year term being prevalent for the last few years. 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%	4,930,000	225,000
General Improvement, Series 2004 School, Series 2004	4.00 – 4.125%	11,400,000	1,266,667
Water & Wastewater Treatment Authority, Series 2004	4.00 – 4.125%	6,600,000	733,333
General Improvement, Series 2008-A	4.00 – 4.65%	8,710,000	220,000
School, Series 2008-A	3.5 – 5.00%	12,496,132	961,756
General Improvement, Series 2008-B	3.5 – 5.0%	71,568,868	5,508,244
School, Series 2008-B	3.25 – 5.00%	7,492,098	1,906,915
General Improvement, Series 2009	3.25 – 5.0%	25,667,902	6,533,085
School, Series 2009	3.00 – 4.375%	8,326,050	595,020
General Improvement, Series 2010-A	3.00 – 4.375%	21,198,950	1,514,980
General Improvement, Series 2010-B	3.00 – 4.00%	7,475,000	-
General Improvement, Series 2010-C	2.00 – 4.25%	16,115,000	1,615,000
Total payable from the Debt Service Fund	0.75 – 5.00%	<u>\$206,960,000</u>	<u>\$21,410,000</u>

In March 2010, the County issued general obligation bonds, Series 2010A, 2010B and 2010C in the amount of \$7,475,000, \$16,115,000 and \$4,980,000, respectively, for general government projects. The Series 2010A bonds are Recovery Zone Facility Bonds as established by the American Recovery Reinvestment Act (ARRA). They were issued at a premium of \$3,148 to be amortized over the bond life of fifteen years. The Series 2010B are federally taxable bonds issued at a premium of \$213,094 to be amortized over the bond life of ten years. The Series 2010C bonds are Recovery Zone Economic Development Bonds also established under ARRA; however, these bonds are federally taxable. The Series 2010C bonds have a life of fifteen years.

**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, 2010, the balance due per the Agreement was \$897,100 which is due within one year.

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, 2008, 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, 2010, the balance due per the Agreement was \$3,092,000, of which \$728,000 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, 2010, the County’s remaining obligations to the City of Chattanooga total \$2,445,000, of which \$362,500 is due within one year.

The County has a long-term Agreement with the Corrections Corporation of America (“CCA”) for the management of the Hamilton County Penal Farm. This Agreement requires the County to make annual payments through 2013. The County’s obligation under this Agreement is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. At June 30, 2010, the County’s remaining obligation for this Agreement was \$883,724, of which \$267,005 is due within one year.

The County entered into a Loan Agreement (the “Agreement”) with the Tennessee State School Bond Authority (the “Authority”), pursuant to TCA Sections 49-3-1202 et seq. as amended (the “Act”) December 20, 2003. This Agreement reserves funds for the County in the amount of \$1,365,000 (the Loan) from the proceeds of the Authority’s Qualified Zone Academy Bonds (the “Bonds”), Series 2003. The County is obligated under the Agreement to repay the Loan in installments consisting of principal and administrative expenses payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit and taxing power of the County are irrevocably pledged for its repayment. For the purpose of providing funds to finance the cost of the Projects, including the payment of legal and fiscal cost incident to the issuance and sale of the Bonds and the Loan Agreement and making and receiving the loan from the Authority, the Hamilton County Department of Education, on behalf of the County, shall make annual payments of principal in amounts equal to approximately level debt service payable in the years 2004 through 2018. The loan shall not bear interest. As of June 30, 2010, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2010, the County’s remaining obligation was \$712,901, 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:		
2011	21,410,000	8,407,757
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
2016-2020	66,920,000	17,912,523
2021-2025	40,810,000	5,070,085
2026-2030	2,200,000	819,445
2031-2034	<u>2,170,000</u>	<u>258,074</u>
	<u>\$ 206,960,000</u>	<u>\$ 57,985,484</u>

Notes Payable and Other Debt:

2011	2,345,338	111,923
2012	1,500,469	91,834
2013	1,548,239	70,670
2014	1,414,211	49,291
2015	518,233	29,377
2016-2018	<u>704,235</u>	<u>10,013</u>
	<u>\$ 8,030,725</u>	<u>\$ 363,108</u>

**Changes in Long-term Liabilities** – During the year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
<b>Primary Government-Governmental Activities</b>					
General obligation bonds	\$200,110,000	\$28,570,000	\$ 21,720,000	\$206,960,000	\$21,410,000
Notes payable and other debt	10,389,963	-	2,359,238	8,030,725	2,345,338
Landfill post closure costs	230,000	-	10,000	220,000	10,000
Compensated absences	<u>15,072,318</u>	<u>5,129,170</u>	<u>4,618,371</u>	<u>15,583,117</u>	<u>2,309,185</u>
	225,802,281	33,699,170	28,707,609	230,793,842	<u>\$26,074,523</u>
Net deferred premium	<u>6,996,505</u>	<u>216,242</u>	<u>733,984</u>	<u>6,478,763</u>	
	<u>\$232,798,786</u>	<u>\$ 33,915,412</u>	<u>\$ 29,441,593</u>	<u>\$237,272,605</u>	

**Component Units:**

Note payable and other debt	\$ 22,782,632	\$ 4,729,685	\$ 618,842	\$ 26,893,475	\$ 7,513,766
Compensated absences	<u>12,233,076</u>	<u>414,144</u>	<u>2,144,401</u>	<u>10,502,819</u>	<u>2,097,917</u>
	35,015,708	5,143,829	2,763,243	37,396,294	<u>\$ 9,611,683</u>
Net deferred premium	<u>111,155</u>	-	<u>82,097</u>	<u>29,058</u>	
	<u>\$ 35,126,863</u>	<u>\$5,143,829</u>	<u>\$2,845,340</u>	<u>\$ 37,425,352</u>	

Debt service requirements for general obligation bonds, notes payable and other debt are met by the General Fund, Hotel/Motel Fund, and intergovernmental funds received directly by the Debt Service Fund. 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 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 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, 2010, the amount of defeased debt outstanding amounted to \$33,330,000.

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

During the course of normal operations, the County has numerous transactions between funds. Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between

funds. Interfund receivables/payables are transactions reimbursing a fund for expenditures made for the benefit of another fund. Such transactions are recorded as expenditures and an interfund payable in the receiving fund. Such transactions are recorded as an interfund receivable in the disbursing fund. On the governmental funds balance sheet, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated on the statement of net assets.

<u>Receivable Primary Government</u>	<u>Payable Primary Government</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 7,133,202
General Fund	Nonmajor Governmental Funds	471,660
General Fund	Sheriff	25,487
Nonmajor Governmental Funds	General Fund	<u>53,083</u>
		<u>\$ 7,683,432</u>
<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
Sheriff	General Purpose School	52,423
General Fund	Water & Wastewater Authority	245,136
General Fund	"911" Emergency Communication	297,283
General Fund	General Purpose School	263,451
General Fund	Centralized Cafeteria	<u>27,003</u>
		<u>\$ 885,296</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	\$ 8,594,861
General Fund	Sheriff	23,371
Debt Service	General Fund	32,029,957
Sheriff	General Fund	23,564,159
Capital Projects	General Fund	66,000
Capital Projects	Debt Service	9,038
Nonmajor Governmental Funds	General Fund	<u>1,988,367</u>
		<u>\$66,275,753</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, 2010, is as follows:

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

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:**

Total operating revenues	\$ 3,063,809
Total operating expenses	<u>4,168,039</u>
Loss from operations	(1,104,230)
Non-operating revenues	817,750
Non-operating expenses	<u>8,321</u>
Net income	(294,801)
Net assets at July 1, 2009	<u>11,849,117</u>
Net assets at June 30, 2010	\$ <u>11,554,316</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, 2008	\$ 3,417,137	\$ 4,640,201
Incurred claims	18,973,108	28,273,211
Claims payments	<u>(19,599,631)</u>	<u>(29,719,731)</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	<u>\$ 2,820,287</u>	<u>\$ 2,773,013</u>

At June 30, 2010, the Hamilton County Internal Service Fund has net assets of \$19,445,232, and the Department of Education Internal Service Fund has net assets of \$13,386,589. These net assets balances are designated for future catastrophic losses.

