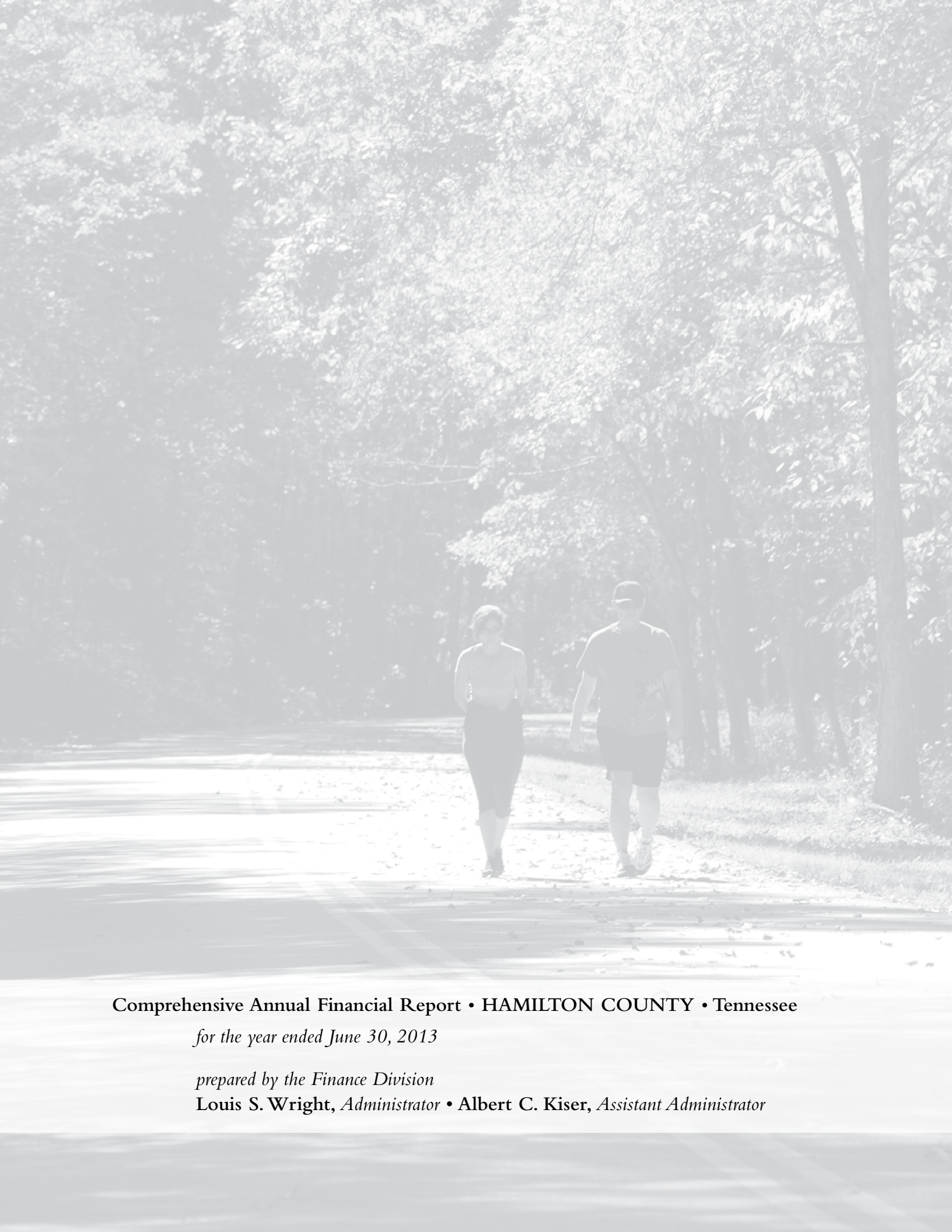


**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Hamilton County Tennessee

for year ended June 30, 2013





Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee
for the year ended June 30, 2013

prepared by the Finance Division

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



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

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

January 21, 2014

As Hamilton County's Mayor, I and my financial team have continued our philosophy of fiscally conservative government. We have successfully maintained our AAA bond rating from Standard and Poor's, Moody's and Fitch's rating services. Hamilton County is the only Tennessee County with a AAA rating from three rating agencies. The importance of these ratings cannot be underestimated. Because of our superb bond rating we are able to borrow money at lower interest rates, which benefits you the taxpayer, since it allows us to do additional initiatives with your tax dollars.

I say "your tax dollars" because they are. I like to remind people that government has no money, it is the people's money. This belief has produced additional money for schools, a financial direction that brings in tens of millions of dollars in economic development and continues services that make Hamilton County one of the best places in the nation to live, work and play.

Our economic development efforts to bring prosperity to Hamilton County are paying off. Our job numbers continue to grow. From the time I became mayor through December 2013, we added 7,015 jobs to our workforce. This has produced an economic development investment of nearly \$382.9 million over the last three years as businesses continue to look at Hamilton County as a place in which to invest or expand.

Our success stories continue to multiply. Our heritage businesses like McKee Foods, Chattanooga Bakery, Komatsu, LJT Steel and Chattem, for example, continue to expand, bringing additional revenue and jobs into Hamilton County, paying good family wages, as they have for decades. Companies like these along with the hundreds of small business in Hamilton County provide the financial backbone of our success.

Our Business Development Center is one of the great stories of Hamilton County, creating economic opportunity for entrepreneurs who have business ideas that can be nurtured into financially successful companies. More than 70 businesses employing over 400 people are currently in the BDC and recently the BDC celebrated its 500th business graduate, as it left the BDC to enter the mainstream business world. More than 90 percent of the businesses that begin in the BDC are in business five years later.

We have had great success with some of the newer companies that have come to Hamilton County like Volkswagen and Amazon, combined the two companies employ nearly 5,000 people. We continue to work every day to find other companies, large and small, who will bring good paying, skilled jobs to Hamilton County.

We continued our commitment to our children's future economic success with two new schools that opened at the start of the school year. Our new Ooltewah Elementary School and Red Bank Middle School are schools designed for the 21st century. We have received bids for the East Brainerd Elementary School and construction will begin in 2014. We have finalized property purchase for a school project in Middle Valley and also purchased property for an additional roadway entry into Daisy Elementary School. That's an approximate \$83 million commitment in capital projects to advance our children's education.



Jim Coppinger
County Mayor

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

- continued from page one

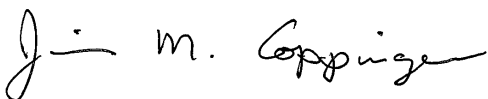
We have continued our endorsement of advanced education with support for the STEM school and have strongly supported the “Pathways to Prosperity” initiative which prepares our students for technical jobs which require critical thinking by evolving our educational system for those technological jobs which are the pathway to success in this new century.

We have made this commitment to further our children’s education without a tax increase, that’s one of the benefits to you of our solid financial planning.

We continue to move forward with initiatives designed to improve the quality of all our citizens’ lives such as the Read 20 program which has given away 402,000 books since its 2006 inception. Our Hamilton County Discount Prescription Card Program has saved our citizens \$11.2 million since it began in February 2007.

I have promised you in the past to work every day to make Hamilton County a better place to live. I repeat that pledge to you for 2014. We are committed to creating the opportunity for every citizen to succeed and prosper. My promise to you for the upcoming year, just as it has been in previous years, is to continue to work to make Hamilton County the benchmark for other communities to examine and emulate. I wake up every day with this thought in mind, and I will continue to work to improve economic growth and educational excellence on behalf of all Hamilton County taxpayers.

Sincerely,

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

Jim M. Coppinger
County Mayor

Visit our website at www.hamiltontn.gov



BDC

Incubator



New Courthouse 1913 - General County Commission Room

Today's
Hamilton County Courthouse



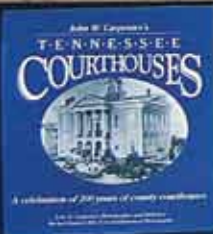
1912

Courtesy of the STOKES FAMILY COLLECTION

The Hamilton County Courthouse was designed by William R.H. Hunt, one of the most popular architects of the period. Hunt proposed a grandly neoclassical building, set well back on the lot, to create a sense of distance from the city below. Through several other preliminary plans, his commission. Hunt's design was recognized by virtually the grandest building erected at the time.

Construction began in 1911 and was completed in 1912. The cost for the building was \$1,500,000.

The north wing was added in 1927 and the South Wing added in 1930. The south wing has undergone major renovations in the 1980's.



...the building was designed by William R.H. Hunt, one of the most popular architects of the period. Hunt proposed a grandly neoclassical building, set well back on the lot, to create a sense of distance from the city below. Through several other preliminary plans, his commission. Hunt's design was recognized by virtually the grandest building erected at the time.



HAMILTON COUNTY

Formed: October 28, 1795
 Preceded by: Greene County
 Name: Hamilton County, Tennessee
 Seat: Chattanooga, Tennessee
 County Government: Hamilton County Courthouse, 100 North Main Street, Chattanooga, Tennessee 37402

Hamilton County, Tennessee, was one of the original counties of the state. It was formed on October 28, 1795, from parts of Greene and Morgan counties. The county seat is Chattanooga. The county is named for James Hamilton, a prominent Revolutionary War general and statesman. The county has a rich history and is known for its scenic beauty and cultural heritage.



HAMILTON COUNTY COURT HOUSE
 PLANS ADOPTED 1911
 JOE V. WILLIAMS
 COUNTY JUDGE

BUILDING ERECTED 1912
 WILLIAM CUMMINGS
 COUNTY JUDGE

BUILDING COMMITTEE
 M. M. ALLISON CHAIRMAN

J. C. HOWELL
 C. M. PRESTON
 Z. W. WHELAND
 JOHN TINKER
 GEO. W. EDWARDS

COMMITTEE ON FURNISHINGS

CHAS. WATSON CHAIRMAN
 J. B. RAGON
 HORACE HUMPHREYS
 SLATER J. CONNER
 DOCK STREET

R. H. HUNT
 ARCHITECT

GEO. A. FULLER CO.
 BUILDER

FORMAL OPENING
 ...
 ...

Over 5,000 people attended the formal opening of the "new" Hamilton County Courthouse on Saturday, November 22, 1913.

BOARD OF COMMISSIONERS *for fiscal year ending June 30, 2013*



Fred Skillern
District 1
Chairman, Pro Tempore



James A. Fields
District 2
Commissioner



Marty Haynes
District 3
Commissioner



Warren Mackey
District 4
Commissioner



Gregory Beck
District 5
Commissioner



Joe Graham
District 6
Commissioner



Larry Henry
District 7
Chairman



Tim Boyd
District 8
Commissioner



Chester Bankston
District 9
Commissioner





HAMILTON COUNTY, TENNESSEE

LOUIS S. WRIGHT

Administrator of Finance

January 21, 2014

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, 2013. 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, 2013, are fairly presented in conformity with GAAP and thus rendered an unqualified opinion. The report of independent accountants is presented in the financial section of this report.

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

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

PROFILE OF HAMILTON COUNTY, TENNESSEE

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

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

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

Even though the Hamilton County Department of Education is a separate entity from Hamilton County, it constitutes a major portion of the funding requirement for the County. With a school system of 6,274 employees and a student population of 42,525, the Department of Education's operating budget for fiscal year 2013 was \$405,884,568. Hamilton County financed 48.34%, or \$196,220,354 of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$192,323,230, charges for services provided \$12,259,668, investments provided \$259,650 and miscellaneous items provided \$4,821,666.

The Board of Commissioners adopted the 2013 annual budget for the County in June 2012. 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.





Emily Bramble
1st Grade



Taylor Lee
2nd Grade



Olivia
1st grade



Isabel
1st grade



We Give a
"Hoot"
about School S



Marcia Patterson
1st Grade



LOCAL ECONOMIC OUTLOOK

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

ENTERPRISE SOUTH INDUSTRIAL PARK

Enterprise South Industrial Park is currently comprised of two major employers: Volkswagen Group of America and Amazon.com, Inc. Volkswagen recently revealed plans to add 800 additional jobs as part of “ramping up” Passat production due to brisk sales. Volkswagen came to Enterprise South with the commitment to hire 2,000 people and is proud to grow their team to more than 3,300. Amazon.com currently employs 2,500 people – 1,800 full-time and 700 part-time.

American Tire Distributors, Inc., started up in November 2012 in their 125,000 square foot distribution warehouse on 8.9 acres in Enterprise South. They currently have 27 employees and anticipate creating a total of 40 new jobs within three years of completing the project at an annual average wage of \$50,000.

THE RIVERWALK

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

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

FUND BALANCE

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

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

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

	General Fund	Special Revenue Funds	Debt Service Fund
2004	\$ 52,619	\$ 8,338	\$ 1,277
2005	49,714	6,709	1,343
2006	55,363	8,440	1,421
2007	58,334	8,542	1,653
2008	77,102	8,638	240
2009	84,070	7,626	227
2010	87,920	6,936	298
2011	95,967	6,024	237
2012	104,431	5,363	387
2013	111,169	6,034	358



amazon
fulfillment

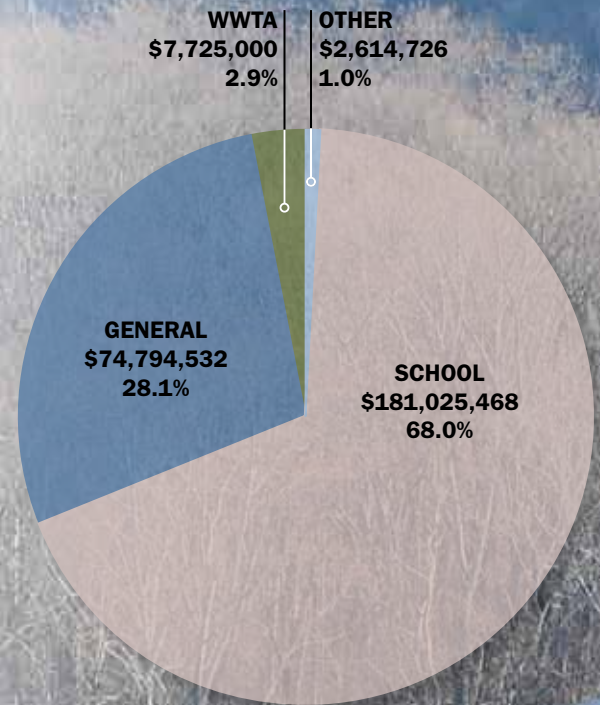
LONG-TERM FINANCIAL PLANNING

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

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

The County's long-term capital needs are financed with a combination of short-term commercial paper coupled with fifteen-year general obligation debt. The commercial paper program enables the County to start its long-term capital projects sooner and its rapid, fifteen-year debt amortization consistently keeps the County's total debt load very low. This rapid amortization results in principal retirement of approximately fifty percent (50%) in five years and eighty-three percent (83%) within ten years.

HAMILTON COUNTY TOTAL DEBT AS OF JUNE 30, 2013 \$266,159,726



Ratio of General Bonded Debt Outstanding

Fiscal Year Ended June 30	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2004	\$ 162,040,000	0.88%	\$ 524
2005	143,380,000	0.65%	463
2006	125,510,000	0.55%	404
2007	107,730,000	0.46%	344
2008	188,260,000	0.78%	570
2009	200,110,000	0.71%	601
2010	206,960,000	0.73%	614
2011	185,550,000	0.65%	551
2012	223,705,000	0.80%	656
2013	263,545,000	0.93%	763

RELEVANT FINANCIAL POLICIES

Hamilton County consistently maintains a low debt burden. This has been accomplished through sound, conservative debt management practices. In 2012, the County revised its debt policy in order to establish and codify its objectives and practices. The policy's goal is to assist all concerned parties in understanding the County's debt management approach and to promote transparency for our citizens, investors and all other interested parties.

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

The image shows the exterior of Oolteawah Elementary School. The building is constructed of red brick with a dark blue roof. The name "OOLTEWAH ELEMENTARY SCHOOL" is mounted on the brick wall in large, white, sans-serif capital letters. Below the main roofline, there is a covered walkway supported by several grey columns. The background consists of a hillside covered in bare trees, suggesting a late autumn or winter setting.

OOLTEWAH ELEMENTARY SCHOOL

MAJOR INITIATIVES

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

PLANNED GROWTH STRATEGIES

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

ECONOMIC DEVELOPMENT

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

- **Enterprise South Industrial Park** – Volkswagen's amazing success has generated many more jobs than the 2,000 initially promised. In May 2012, Passat number 100,000 rolled off the line at the Hamilton County manufacturing facility. Due to the Passat's success, VW officials are planning to expand production at the Enterprise South facility.
- **Amazon.com, Inc.** – Amazon.com established a fulfillment center at Enterprise South Industrial Park along with an additional facility in neighboring Bradley County. Amazon.com invested a total of \$139 million to construct the two new facilities providing 1,800 full-time and 700 part-time jobs.
- **Business Development Center** – The Hamilton County Business Development Center (BDC) is a 125,000 square-foot former manufacturing facility that has been renovated into a highly successful business incubator. The BDC offers start-up businesses office or manufacturing space at highly competitive lease rates. It has achieved national recognition for its success and is among the top six percent of the nation's business incubators.

PUBLIC EDUCATION IMPROVEMENT

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

QUALITY OF LIFE ISSUES

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

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

AWARDS AND ACKNOWLEDGEMENTS

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hamilton County, Tennessee for its Comprehensive Annual Financial Report for the year ended June 30, 2012. Hamilton County has received this award for 32 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, 2012. This is the eleventh 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, 2013 continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.



LOUIS S. WRIGHT
Administrator of Finance



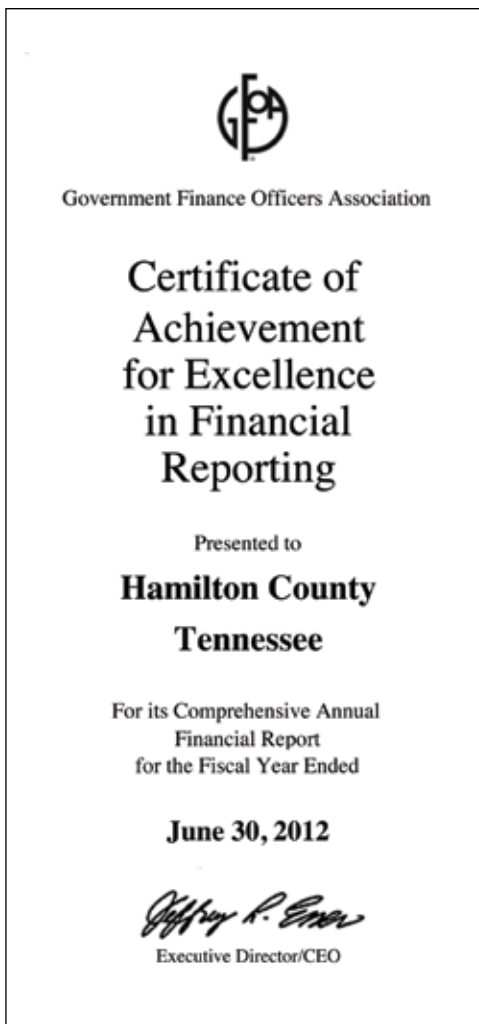
ALBERT C. KISER
Assistant Administrator of Finance

ACKNOWLEDGEMENTS

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

Respectfully submitted,

Louis S. Wright
Administrator of Finance



HAMILTON COUNTY GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2013)

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

Board of Commissioners

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

Legislative

Chris Hixson, *Administrator*

Constitutional Officers

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

Division & Department Heads

AUDITING

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

FINANCE

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

HEALTH SERVICES

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

HUMAN SERVICES

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

LEGAL

Rheubin M. Taylor, *County Attorney*

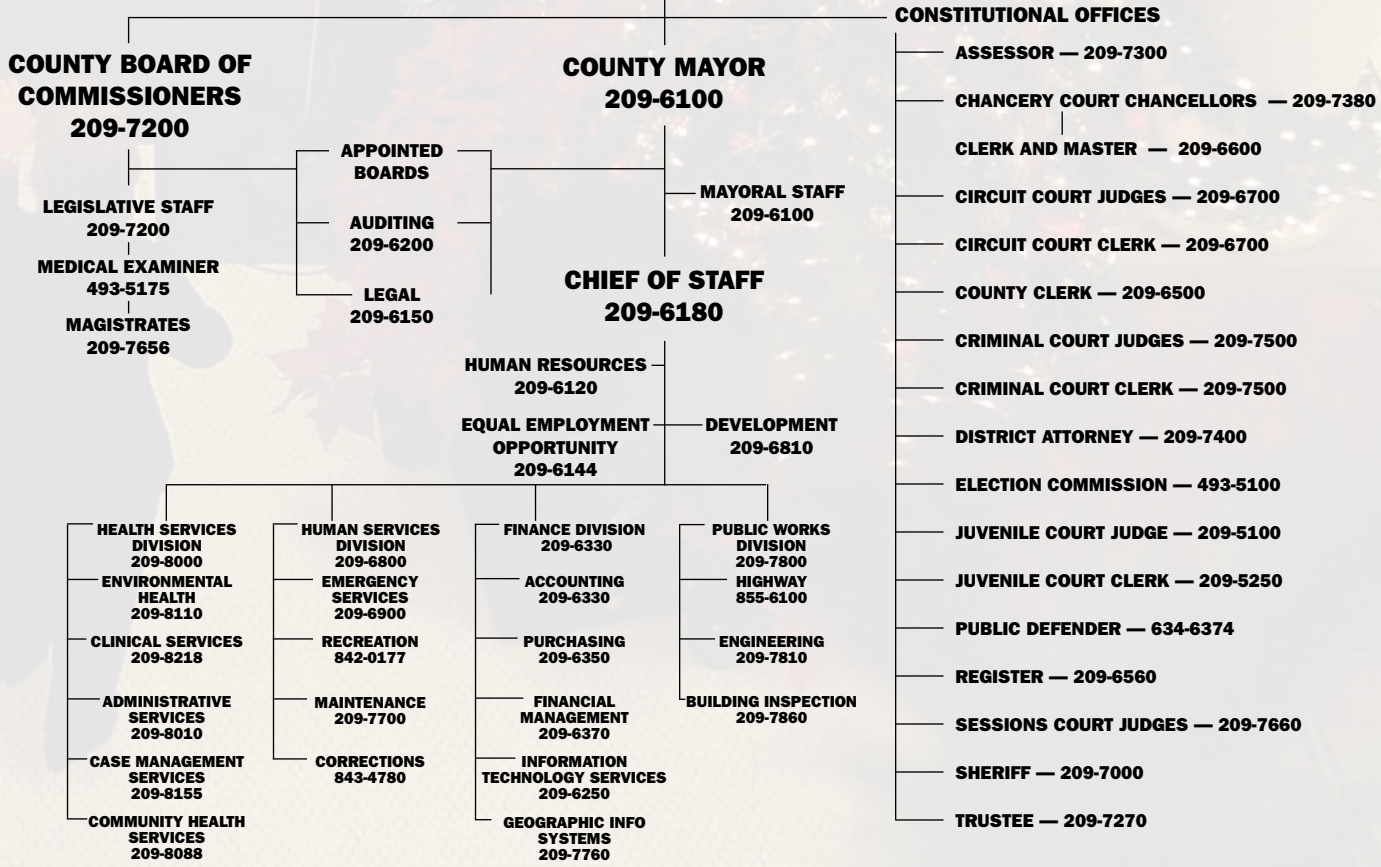
PUBLIC WORKS

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





CITIZENS





INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, 4 percent, and 3 percent, respectively, of the assets, net position, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A(2), the County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, *Reporting Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for the year ended June 30, 2013. The County early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has an effective date of June 30, 2014.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages G-1 through G-6 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 also not a required part of the basic financial statements.

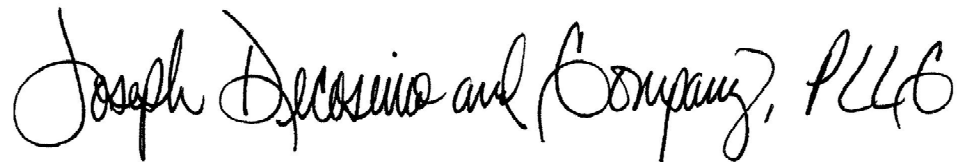
The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund (presented on pages C-1 through C-19), combining and individual fund financial statements of the Board of Education (a discretely presented component unit) (pages D-1 through D-9), the financial schedules (pages E-1 through E-12) and the schedules of expenditures of federal awards (pages G-1 through G-6) were derived from and relate directly to the underlying accounting and other records

used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund, combining and individual fund financial statements of the Board of Education (a discretely presented component unit), financial schedules and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section (pages 1 through 17) and statistical tables (pages F-1 through F-26) have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Chattanooga, Tennessee
January 21, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. 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 2013 were \$619,573,497.
- Revenues for governmental funds increased \$88,611, or 0.04% from last year.
- Expenditures for governmental funds increased \$20,990,091, or 8.07% from last year.
- Capital project expenditures were \$48,327,364, with \$16,297,224 spent for general government projects.
- Total bonded debt at June 30, 2013, for the County was \$263,545,000, of which \$181,025,468 was for the Hamilton County Department of Education for capital improvements.
- The County issued \$60.6 million in general obligation bonds and \$45 million in general obligation refunding bonds.

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 Position and Statement of Activities provide the reader with a broad overview of the County's financial position.

The Statement of Net Position 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 2013. Program revenues, which directly offset costs of specific functions, are allocated to those functions, resulting in the net expenses for governmental activities. General revenues, such as taxes, fines and interest earnings, offset the remaining costs resulting in the annual increase or decrease in net assets. This statement is intended to summarize the user's analysis of the net cost of various governmental services that are supported by general revenues.

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

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

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents required and other supplementary information. Required supplementary information includes the funding progress and employer contributions for the Public Employee Retirement Systems. Other supplementary information includes detailed budgetary information for the General Fund, combining statements for the nonmajor governmental funds, combining statement of changes in assets and liabilities for the Constitutional Officers Agency Funds, combining statements for the Hamilton County Department of Education and various financial and statistical tables. Combining and individual fund schedules can be found on pages C-6 to D-9; the various financial and statistical tables can be found on pages E-1 to F-26.



GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAMILTON COUNTY, TENNESSEE NET POSITION

	Governmental Activities	
	2013	2012
ASSETS		
Current and Other Assets	\$ 320,233,137	\$ 313,185,384
Capital Assets	299,340,360	269,646,911
TOTAL ASSETS	619,573,497	582,832,295
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	3,760,532	66,973
LIABILITIES		
Long-term Liabilities	301,870,662	256,641,877
Other Liabilities	34,382,287	56,588,301
TOTAL LIABILITIES	336,252,949	313,230,178
DEFERRED INFLOWS OF RESOURCES		
Unearned property tax revenue	107,364,122	106,526,286
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	282,129,410	241,279,539
Restricted	541,385	607,360
Unrestricted	(102,953,837)	(78,744,095)
TOTAL NET POSITION	\$ 179,716,958	\$ 163,142,804

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 \$179,716,958 at the close of the fiscal year ended June 30, 2013.

Net assets are comprised of three elements:

- (1) Investment in capital assets (e.g., land, buildings, infrastructures and equipment), less any related outstanding debt;
- (2) Restricted assets held for restrictions as prescribed by law; and
- (3) Unrestricted assets. The long-term liabilities of \$301,870,662 include \$181,025,468 of debt for assets contributed to the Hamilton County Department of Education, a component unit, which results in negative unrestricted net assets.

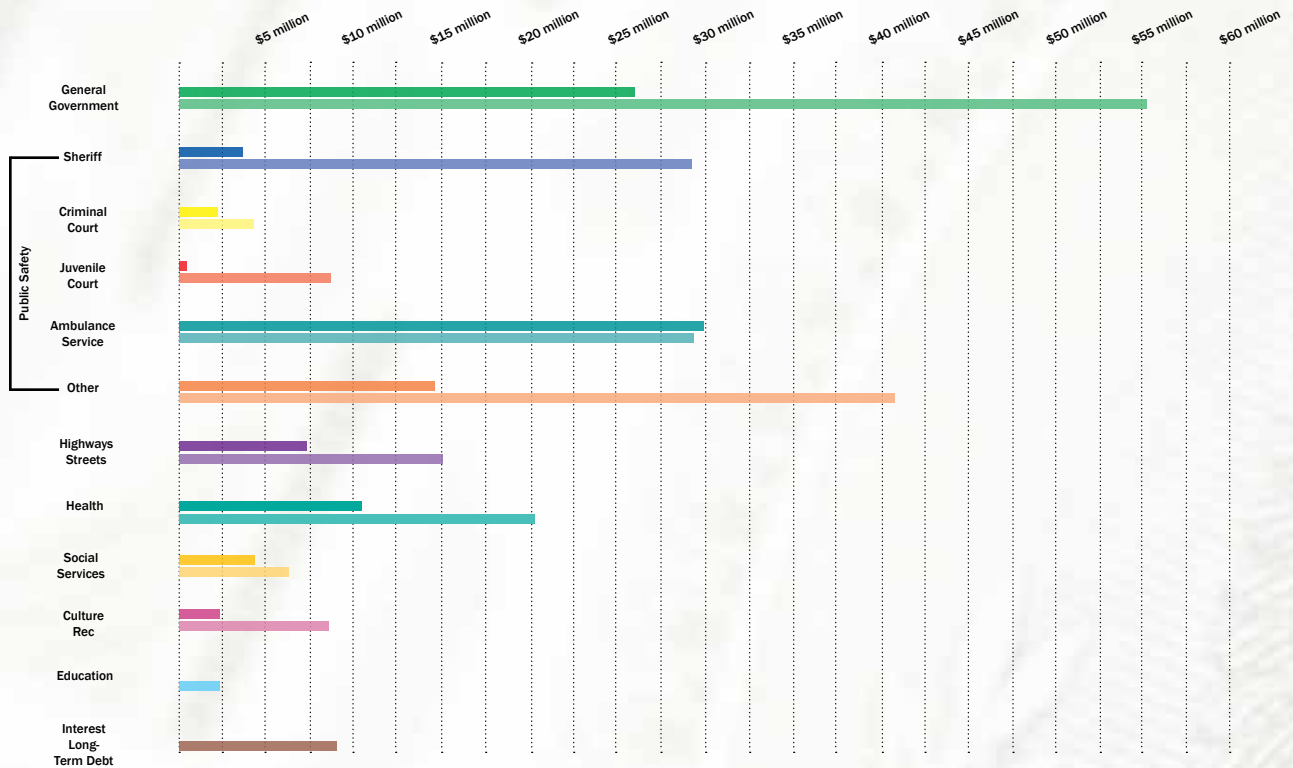
HAMILTON COUNTY, TENNESSEE CHANGES IN NET POSITION

	Governmental Activities	
	2013	2012
REVENUES		
Program Revenues		
Charges for Services	\$ 72,171,476	\$ 60,678,100
Operating Grants and Contributions	25,125,782	27,124,454
Capital Grants and Contributions	3,506,316	11,819,153
Total Program Revenues	<u>100,803,574</u>	<u>99,621,707</u>
General Revenues		
Property Taxes	127,585,203	128,640,070
Other Taxes	15,694,465	14,932,218
Other	593,559	623,836
Total General Revenues	<u>143,873,227</u>	<u>144,196,124</u>
TOTAL REVENUES	<u>244,676,801</u>	<u>243,817,831</u>
EXPENSES		
General Government	55,107,145	58,143,030
Public Safety	111,741,566	99,615,900
Highways and Streets	14,995,362	15,369,248
Health	20,031,449	20,231,080
Social Services	7,145,934	6,199,607
Culture and Recreation	8,069,498	9,079,005
Education	2,452,772	4,097,398
Interest on Long-Term Debt	8,558,921	8,863,280
TOTAL EXPENSES	<u>228,102,647</u>	<u>221,598,548</u>
Increase (Decrease) in Net Position before Special Item	16,574,154	22,219,283
Special Item – Loss on donation of property	–	(366,650)
Prior Period Adjustment	–	39,897,256
INCREASE (DECREASE) IN NET POSITION	<u>\$ 16,574,154</u>	<u>\$ 61,749,889</u>

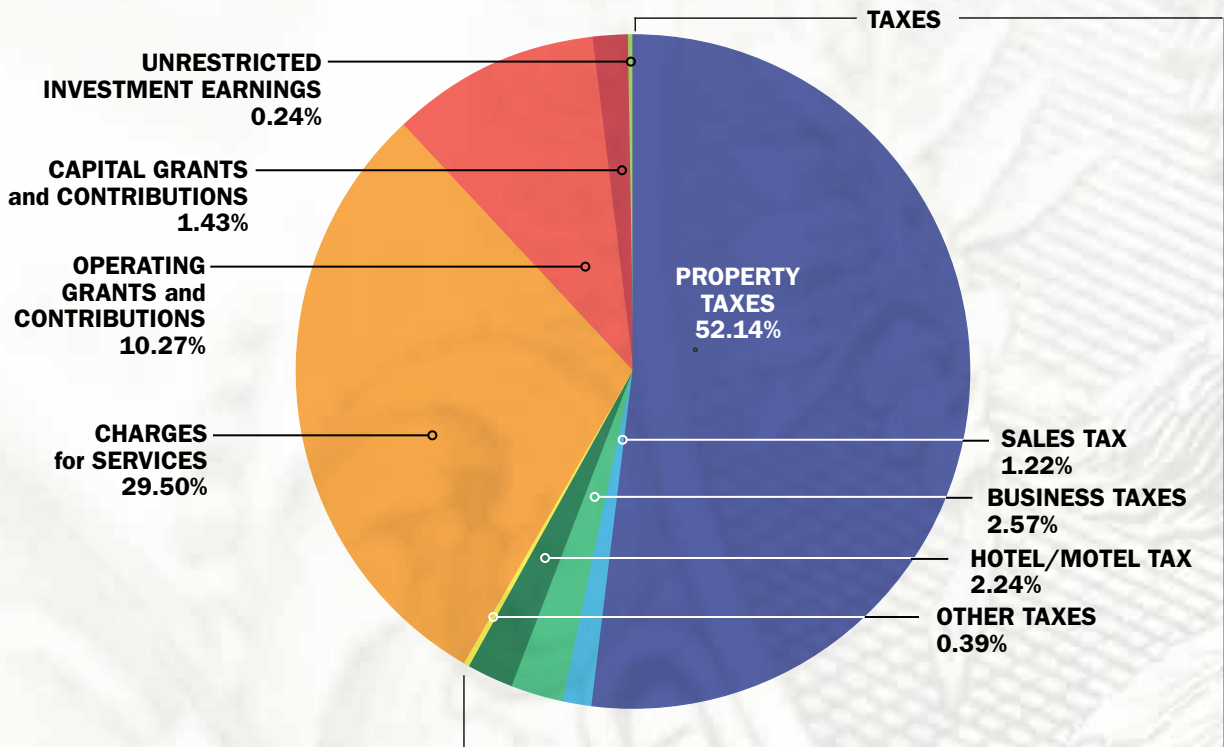
The change in the County's net assets was an increase of \$16,574,154 during the current fiscal year. Key factors that resulted in the net increase include:

- Capital grants and contributions decreased by \$8,312,837 primarily due to the near completion of the rails at Enterprise South Industrial Park.
- General government expenses decreased by \$3,035,885 due to decreased funding to some supported agencies within the City.
- The County issued general obligation bonds (Series 2013A Bonds) in the amount of \$60,610,000 and general obligation refunding bonds (Series 2013B Bonds) in the amount of \$45,080,000. The Series 2013A Bonds were issued to retire \$41,556,000 of Commercial Paper debt and \$20,054,000 for new projects. The present value of savings to Hamilton County is \$3,573,353.
- Charges for current services increased by \$11,493,376 due to the completion of an audit by Medicare.

EXPENSES AND PROGRAM REVENUES



REVENUES BY SOURCE



EXPENSES AND PROGRAM REVENUES

for fiscal year ending June 30, 2013

	REVENUES	EXPENSES
General Government	\$ 26,058,037	\$ 55,107,145
Public Safety		
Sheriff	3,431,259	28,915,718
Criminal Court	2,463,580	4,185,439
Juvenile Court	420,352	8,022,995
Ambulance Services	29,900,324	28,986,494
Other	14,506,123	41,630,920
Highways and Streets	7,159,407	14,995,362
Health	10,222,869	20,031,449
Social Services	4,376,763	7,145,934
Culture and Recreation	2,264,860	8,069,498
Education	—	2,452,772
Interest on long-term debt	—	8,558,921
TOTAL	\$ 100,803,574	\$ 228,102,647

REVENUES BY SOURCE

for fiscal year ending June 30, 2013

	2013	PERCENTAGE	2012	PERCENTAGE
Taxes				
Property Taxes	\$ 127,585,203	52.14%	\$ 128,640,070	52.76%
Sales Tax	2,992,738	1.22%	2,691,376	1.10%
Business Taxes	6,284,366	2.57%	5,728,456	2.35%
Hotel/Motel Tax	5,469,608	2.24%	5,571,577	2.29%
Other taxes	947,753	0.39%	940,809	0.39%
Charges for Services	72,171,476	29.50%	60,678,100	24.89%
Operating Grants and Contributions	25,125,782	10.27%	27,124,454	11.12%
Capital Grants and Contributions	3,506,316	1.43%	11,819,153	4.85%
Unrestricted Investment Earnings	593,559	0.24%	623,836	0.25%
TOTAL	\$ 244,676,801	100.00%	\$ 243,817,831	100.00%

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

GOVERNMENTAL FUNDS

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

As of the end of fiscal year 2013, the County's governmental funds reported combined ending fund balances of \$141,990,885, an increase of \$29,346,399. The assigned portion of fund balance was \$5,926,438. The unassigned portion of fund balance was \$121,186,151. The remainder of fund balance is committed to indicate that it is not available for new spending because it has already been committed:

- 1) To liquidate contracts and purchase orders of \$12,509,279;
- 2) For inventories, prepaid items and notes advances \$1,827,632; and
- 3) To cover other legal requirements \$541,385.

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 2013, assigned fund balance of the General Fund was \$3,691,467, unassigned fund balance of the General Fund was \$105,650,072, while the total fund

balance was \$111,169,171. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 68.2% of the total General Fund expenditures, while total fund balance represents 71.8% of that same amount.

The unassigned fund balance of the County's General Fund increased by \$6,635,063 during the current fiscal year. The major reason for that change is largely attributed to general government revenues increasing by \$6,779,079 in part due to the increase in revenue for charges for current services.

The Debt Service fund has a total fund balance of \$358,400, a decrease of \$28,683 or 7.41%. Funds are transferred to the Debt Service fund as needed. Therefore, as debt payments decreased, transfers into the fund also decreased.

Capital Projects has a total fund balance of \$24,429,226. The increase in total fund balance is a result of the issuance of long-term debt to replace our short-term financing of commercial paper issuance. The fund balance represents \$9,106,712 or 37.3% from the issuance of bonds, \$1,451,744 or 5.9% from interest earnings and \$13,870,770, or 56.8% from other sources.

We have commitments of \$5,616,526 or 67.7% for school construction, \$294,207 or 3.5% for economic development, \$814,480 or 9.8% for recreation projects, \$809,146 or 9.7% for health improvements and \$769,411 or 9.3% for other general government improvements. Commitments for school construction decreased \$27,309,456 this year



due to near completion of Red Bank Middle School and Ooltewah Elementary School. Both schools opened for the new school year beginning August 2013. Commitments will be increasing next year for school construction as a new elementary school is planned for East Brainerd; also commitments for recreation projects will increase as the Riverwalk construction continues.

The Sheriff's fund balance of \$1,907,623 increased \$375,583 from the prior year. This change of 25% is attributed to an increase in revenues of \$1,030,000, or 4.3%. This increase in revenues is due to an increase in intergovernmental revenues. While fund balance increased, expenditures remained relatively flat, increasing only 1%.

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 position for the Proprietary Fund at the end of the fiscal year amounted to \$15,816,426.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$7,089,681 and can be summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$3,549,115 of the increase.
- New grants from various state and federal agencies accounted for \$2,659,994 of the increase.
- Adjustments to operating budgets or new appropriations accounted for \$880,572 of the increase.

Actual revenues were less than budgeted revenues by \$3.6 million. This difference is largely due to a shortfall of intergovernmental revenues of \$1.2 million and a shortfall of taxes of \$1.9 million. Investment earnings also fell short of budget due to lower interest rates.

Expenditures were less than budget estimates by \$8.7 million. A large part of this variance is due to conservative spending by the General Government, Health Department and reduced capital outlay expenditures. With the favorable variance of actual expenditures to budget, \$7 million was added to fund balance.



CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2013, amounts to \$299,340,360 (net of accumulated depreciation of \$234,110,386). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangibles and construction in progress. The County transferred \$2,452,772 in assets to the Department of Education. For the year, the County's investment in capital assets increased by \$29,693,449 or 11.0%. Additional information on the County's capital assets can be found in the Notes to the Basic Financial Statements – Note J.

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

- Infrastructure construction at Enterprise South Industrial Park
- School construction and renovations

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2013

NET OF DEPRECIATION

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 64,120,263	\$ 2,977,755	\$ (994,777)	\$ 66,103,241
Construction in progress	26,337,109	35,975,095	(3,658,137)	58,654,067
Buildings	135,988,829	1,867,854	(400,210)	137,456,473
Improvements other than buildings	25,169,161	103,095	–	25,272,256
Machinery and equipment	38,917,737	3,259,456	(2,485,293)	39,691,900
Infrastructure	200,767,56	4,319,839	(3,465,187)	201,622,220
Intangibles	5,340,020	425,552	(1,114,983)	4,650,589
Depreciation	(226,993,776)	(12,262,114)	5,145,504	(226,993,766)
	<u>\$ 269,646,911</u>	<u>\$ 36,666,532</u>	<u>\$ (6,973,083)</u>	<u>\$ 299,340,360</u>



RED BANK MIDDLE SCHOOL

LONG-TERM DEBT

At the end of fiscal year 2013, the County had general obligation bonds outstanding of \$263,545,000, and notes payable and other debt of \$2,614,726. Of the bonded debt, \$181,025,468 was issued for Hamilton County Department of Education capital improvements program.

Additional information on the County's debt can be found in the Notes to Basic Financial Statements – Note N.

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

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

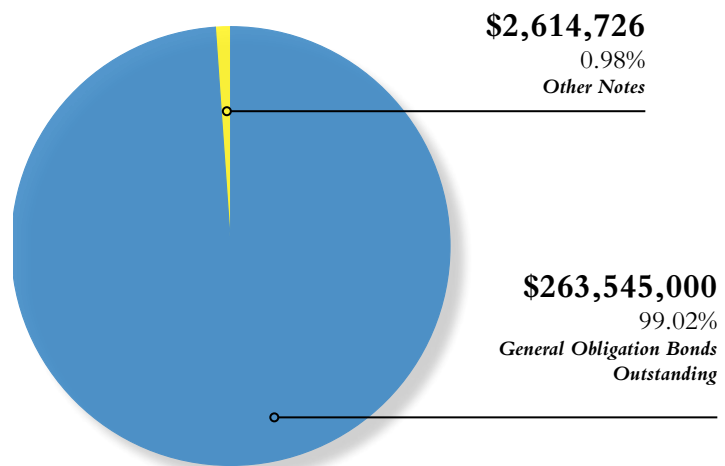
ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in preparing the County's budget for fiscal year 2014:

- It is estimated that overall fund balance for FY 2014 will decrease by \$5,524,748, of which the General Fund is to decrease \$3,586,047, while Sheriff and Department of Education are estimated to use fund balance of \$765,034 and \$1,200,000 respectively.
- The County has not increased the property tax rate since FY 2008; however, the four-year cyclical reappraisal was completed in FY 2013, which is conservatively estimated

General Long-Term Debt

<i>General Obligation Bonds Outstanding</i>	\$ 263,545,000	99.02%
<i>Other Notes</i>	<u>2,614,726</u>	0.98%
	266,159,726	
<i>Less: Unreserved Debt Service Fund Balance</i>	<u>(358,400)</u>	
<i>Net General Long-Term Debt</i>	<u>\$ 265,801,326</u>	



to increase 2.64%. Property tax growth projections are based on current information provided by the Assessor of Property. In FY 2013, the Assessor's office implemented a new Windows based system, which maintains an up-to-date list of property values on the tax rolls. This system allows for continuing updates and stores multiple years to provide for more accurate trending of property tax values. The software's ability to hold past and future property values will save a considerable amount of duplication of manpower in each four year reappraisal cycle. The Assessor's office also performs onsite evaluations of completed construction not currently on property rolls and enters it into the software.

- Intergovernmental revenue increased over the last fiscal year, and is primarily due to increases in State Education Funding, and was further enhanced by Federal Project Funding in the Department of Education.
- Interfund transfers increased from the prior year, resulting from an increase in the debt service appropriation for a new bond issue and a refunding of commercial paper. The Sheriff's Fund and Juvenile Court Clerk's Fund transfers increased due to the county-wide increase in insurance benefits.

- The FY 2014 expenditure budget includes two significant issues. The first is an increase in the debt service appropriation, due to a new bond issue which provided funding for new school construction and the refunding of all of the County's outstanding commercial paper. Second, medical insurance funding is projected to increase \$3.7 million due to higher than expected claims during fiscal years 2013 and 2014. To help mitigate this rising health insurance cost trend, the County eliminated one of its medical plans and moved those employees to a more efficient coinsurance plan. We are also studying other avenues in order to continue providing excellent health care to our employees and still control our cost.

In FY 2013, the County issued \$60.6 million in general obligation bonds and \$45 million in general obligation refunding bonds.

- The Department of Education (DOE), a discretely presented component unit of Hamilton County with an approved budget of \$393.3 million, represents 59% of the total County budget when you include the debt service obligation attributed to the DOE appropriated in the General Fund. The increase of \$8.7 million for education includes \$1.2 million use of fund balance which represents

\$3.5 million under last year's use of fund balance. The Department of Education's combined budget growth is estimated at about 2.3% for fiscal year 2014. Basic Education Program funding increased by over 3.1% and is calculated by the State based on multiple parameters; however, one of the main components is student enrollment. In FY 2014, the school district is projecting an increase of over 400 students.

- The largest decrease in expenditures can be attributed to the bidding and renegotiation of the custodial contract. Increases in the expenditure budgets were attributable primarily to school-based personnel. These included the salary increase mandated by the State Department of Education. Salary step increases are calculated annually based on years of service in accordance with the contract with the educational association.
- To balance the Education budget certain challenges had to be addressed, not the least of which was staffing. Instructional staff increased due to projected growth in student enrollment. With over 80% of School District funds being spent on personnel, the District closely aligns its staffing levels with the State's Basic Education Program.



REQUESTS FOR INFORMATION

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

Additional financial information can be found on our web site www.hamiltontn.gov.

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

STATEMENT OF ACTIVITIES

HAMILTON COUNTY, TENNESSEE

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Government activities:			
General government	\$ 55,107,145	\$ 19,360,899	\$ 3,190,822
Public safety:			
Sheriff	28,915,718	1,045,569	2,385,690
Criminal Court	4,185,439	2,463,580	-
Juvenile Court	8,022,995	420,352	-
Ambulance Services	28,986,494	29,900,324	-
Other	41,630,920	9,455,129	5,050,994
Highways and streets	14,995,362	2,789,369	4,370,038
Health	20,031,449	1,825,028	8,397,841
Social services	7,145,934	4,310,818	65,945
Culture and recreation	8,069,498	600,408	1,664,452
Education	2,452,772	-	-
Interest on long-term debt	8,558,921	-	-
TOTAL PRIMARY GOVERNMENT	\$ 228,102,647	\$ 72,171,476	\$ 25,125,782
COMPONENT UNITS			
Department of Education	\$ 407,705,919	\$ 22,637,556	\$ 56,703,321
"911" Emergency communications	11,114,929	3,490,223	1,966,401
Water and wastewater treatment authority	12,754,648	12,661,675	-
Railroad authority	201,779	125,673	75,158
TOTAL COMPONENT UNITS	\$ 431,777,275	\$ 38,915,127	\$ 58,744,880
General revenues:			
Property taxes			
Sales taxes			
Business taxes			
Hotel/Motel taxes			
Other taxes			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Total general revenues			
Change in net position			
Net position, beginning			
Net position, ending			

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position	
	Primary Government Governmental Activities	Components Units
\$ 3,506,316	\$ (29,049,108)	
-	(25,484,459)	
-	(1,721,859)	
-	(7,602,643)	
-	913,830	
-	(27,124,797)	
-	(7,835,955)	
-	(9,808,580)	
-	(2,769,171)	
-	(5,804,638)	
-	(2,452,772)	
-	(8,558,921)	
<u>\$ 3,506,316</u>	<u>(127,299,073)</u>	
\$ 2,618,379		\$ (325,746,663)
6,201,698		543,393
3,211,380		3,118,407
-		(948)
<u>\$ 12,031,457</u>		<u>(322,085,811)</u>
	127,585,203	130,254,574
	2,992,738	61,771,083
	6,284,366	-
	5,469,608	-
	947,753	-
	-	132,058,638
	<u>593,559</u>	<u>311,497</u>
	<u>143,873,227</u>	<u>324,395,792</u>
	16,574,154	2,309,981
	<u>163,142,804</u>	<u>430,928,779</u>
	<u>\$ 179,716,958</u>	<u>\$ 433,238,760</u>

**BALANCE SHEET
GOVERNMENTAL FUNDS**

HAMILTON COUNTY, TENNESSEE

June 30, 2013

	General	Sheriff	Debt Service
ASSETS:			
Cash and cash equivalents	\$ 5,542,658	\$ 122,255	\$ 591
Investments	94,509,728	2,913,936	352,156
Receivables, net of allowance for uncollectible	136,973,934	306,956	47,054
Due from other funds	2,538,728	74,769	776
Due from component units	1,347,043	-	-
Inventories	1,666,822	-	-
Prepaid items	160,810	-	-
Advance to Component Units	-	-	6,500,000
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 242,739,723</u>	<u>\$ 3,417,916</u>	<u>\$ 6,900,577</u>
LIABILITIES:			
Accounts payable	\$ 3,800,317	\$ 75,229	\$ 42,177
Accrued items and other	8,082,580	989,082	-
Intergovernmental payables	373,311	-	-
Due to other funds	2,588,063	439,799	-
Due to component units	1,053,021	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>15,897,292</u>	<u>1,504,110</u>	<u>42,177</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred property taxes	115,024,032	-	-
Other deferred revenues	649,228	6,183	6,500,000
	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>115,673,260</u>	<u>6,183</u>	<u>6,500,000</u>
FUND BALANCES:			
Nonspendable for inventories	1,666,822	-	-
Nonspendable for prepaid items	160,810	-	-
Restricted for automation	-	-	-
Restricted for public safety programs	-	522,337	-
Committed for public safety	-	98,092	-
Committed for capital projects	-	-	-
Committed for constitutional officers	-	-	-
Assigned for general government	1,980,872	-	-
Assigned for public safety	1,522,791	1,287,194	-
Assigned for debt service	-	-	358,400
Assigned for highways and streets	1,930	-	-
Assigned for health	129,942	-	-
Assigned for culture and recreation	55,932	-	-
Assigned for capital projects	-	-	-
Unassigned	105,650,072	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>111,169,171</u>	<u>1,907,623</u>	<u>358,400</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 242,739,723</u>	<u>\$ 3,417,916</u>	<u>\$ 6,900,577</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,120,243	\$ 4,900,764	\$ 11,686,511
32,645,417	713,870	131,135,107
4,166,746	864,666	142,359,356
-	1,800	2,616,073
-	-	1,347,043
-	-	1,666,822
-	-	160,810
-	-	6,500,000
<u>\$ 37,932,406</u>	<u>\$ 6,481,100</u>	<u>\$ 297,471,722</u>
\$ 10,955,960	\$ -	\$ 14,873,683
-	2,322,989	11,394,651
10,361	-	383,672
2,536,859	31,646	5,596,367
-	-	1,053,021
<u>13,503,180</u>	<u>2,354,635</u>	<u>33,301,394</u>
-	-	115,024,032
-	-	7,155,411
-	-	122,179,443
-	-	1,666,822
-	-	160,810
-	19,048	19,048
-	-	522,337
-	175,875	273,967
8,303,770	-	8,303,770
-	3,931,542	3,931,542
-	-	1,980,872
-	-	2,809,985
-	-	358,400
-	-	1,930
-	-	129,942
-	-	55,932
16,125,456	-	16,125,456
-	-	105,650,072
<u>24,429,226</u>	<u>4,126,465</u>	<u>141,990,885</u>
<u>\$ 37,932,406</u>	<u>\$ 6,481,100</u>	<u>\$ 297,471,722</u>



RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

HAMILTON COUNTY, TENNESSEE

June 30, 2013

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

Fund balances - total governmental funds	\$ 141,990,885
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	299,340,360
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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.	14,815,321
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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.	15,816,426
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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.	1,037,462
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The County OPEB trust fund has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	377,551
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Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable.	8,366,380
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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 position. This item consists of the following:

General obligation bonds	\$ 263,545,000	
Add: original issue premiums	20,111,397	
Notes payable & other debt	2,614,727	
Deferred loss on refunding	(3,760,532)	
Landfill post closure costs	190,000	
Compensated absences	15,409,538	
Accrued interest payable	<u>3,917,297</u>	
		<u>(302,027,427)</u>

Net position of governmental activities	<u>\$ 179,716,958</u>
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**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2013**

	General	Sheriff	Debt Service
REVENUES			
Taxes	\$ 137,649,274	\$ -	\$ -
Licenses and permits	793,667	-	-
Intergovernmental	22,439,199	2,385,690	698,737
Charges for services	42,659,890	22,846	554,437
Fines, forfeitures and penalties	939,675	512,999	-
Investment earnings	354,705	12,214	2,278
Miscellaneous	3,600,356	509,724	73,402
	<u>208,436,766</u>	<u>3,443,473</u>	<u>1,328,854</u>
EXPENDITURES			
Current:			
General government	37,824,377	-	-
Public safety:			
Sheriff	-	27,896,776	-
Criminal Court	1,487,508	-	-
Juvenile Court	6,610,007	-	-
Ambulance Services	28,412,229	-	-
Other	34,362,360	-	-
Highways and streets	12,569,217	-	-
Health	20,020,045	-	-
Social services	2,566,704	-	-
Culture and recreation	7,348,349	-	-
Debt service:			
Principal	-	-	22,149,648
Interest and fiscal charges	-	-	9,687,025
Capital outlay:			
General government	3,646,918	-	-
Education	-	-	-
	<u>154,847,714</u>	<u>27,896,776</u>	<u>31,836,673</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53,589,052</u>	<u>(24,453,303)</u>	<u>(30,507,819)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	10,537,630	24,828,886	30,479,136
Transfers out	(57,450,882)	-	-
Sale of capital assets	62,498	-	-
Bond escrow agent	-	-	-
Issuance of notes	-	-	-
Premium from bonds	-	-	-
	<u>(46,850,754)</u>	<u>24,828,886</u>	<u>30,479,136</u>
Net change in fund balances	6,738,298	375,583	(28,683)
Fund balances, beginning	<u>104,430,873</u>	<u>1,532,040</u>	<u>387,083</u>
Fund balances, ending	<u>\$ 111,169,171</u>	<u>\$ 1,907,623</u>	<u>\$ 358,400</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 5,482,899	\$ 143,132,173
-	-	793,667
3,506,316	-	29,029,942
215,109	21,364,434	64,816,716
-	24,197	1,476,871
122,051	29,861	521,109
<u>588,997</u>	<u>96,920</u>	<u>4,869,399</u>
<u>4,432,473</u>	<u>26,998,311</u>	<u>244,639,877</u>
-	9,839,501	47,663,878
-	-	27,896,776
-	2,635,403	4,122,911
-	1,292,049	7,902,056
-	-	28,412,229
-	7,730	34,370,090
-	-	12,569,217
-	-	20,020,045
-	4,533,524	7,100,228
-	-	7,348,349
-	-	22,149,648
-	-	9,687,025
16,297,224	-	19,944,142
<u>32,030,140</u>	<u>-</u>	<u>32,030,140</u>
<u>48,327,364</u>	<u>18,308,207</u>	<u>281,216,734</u>
<u>(43,894,891)</u>	<u>8,690,104</u>	<u>(36,576,857)</u>
-	2,142,860	67,988,512
-	(10,537,630)	(67,988,512)
182,010	-	244,508
(51,163,429)	-	(51,163,429)
105,690,000	-	105,690,000
<u>11,152,177</u>	<u>-</u>	<u>11,152,177</u>
<u>65,860,758</u>	<u>(8,394,770)</u>	<u>65,923,256</u>
21,965,867	295,334	29,346,399
<u>2,463,359</u>	<u>3,831,131</u>	<u>112,644,486</u>
<u>\$ 24,429,226</u>	<u>\$ 4,126,465</u>	<u>\$ 141,990,885</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, 2013

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	\$ 29,346,399
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.	51,974,282
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(12,262,114)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums and deferred amount on refunding when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment on long-term debt and related items.	(45,388,427)
The net revenues of internal service funds are reported with governmental activities.	(779,878)
The net effect of various transactions involving capital assets is to decrease net position.	(7,569,634)
The net effect of capital asset transactions involving the Hamilton County Department of Education is to decrease net position.	(2,452,772)
The net effect of the change in the net OPEB obligation is included in the governmental activities in the statement of activities.	109,077
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities.	(70,150)
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.	6,564
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds.	<u>3,660,807</u>
Change in net position of governmental activities	<u>\$ 16,574,154</u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive Negative
REVENUES				
Taxes	\$ 139,551,942	\$ 139,551,942	\$ 137,649,274	\$ (1,902,668)
Licenses and permits	658,600	658,600	793,667	135,067
Intergovernmental revenues	21,273,854	23,653,072	22,439,199	(1,213,873)
Charges for services	15,828,207	16,074,333	15,602,060	(472,273)
Fines, forfeitures and penalties	1,171,065	1,171,065	939,675	(231,390)
Investment earnings	427,635	427,635	354,705	(72,930)
Miscellaneous	3,506,022	3,506,022	3,600,356	94,334
Total revenues	<u>182,417,325</u>	<u>185,042,669</u>	<u>181,378,936</u>	<u>(3,663,733)</u>
EXPENDITURES				
Current:				
General government	38,861,722	40,244,444	37,815,381	2,429,063
Public safety	43,450,209	44,978,346	43,851,509	1,126,837
Highways and streets	13,535,555	13,538,251	12,562,449	975,802
Health	21,440,654	21,533,843	20,083,898	1,449,945
Social services	2,714,131	3,274,210	2,566,704	707,506
Culture and recreation	7,502,221	7,504,097	7,379,608	124,489
Capital outlay	3,772,073	5,132,275	3,178,952	1,953,323
Total expenditures	<u>131,276,565</u>	<u>136,205,466</u>	<u>127,438,501</u>	<u>8,766,965</u>
Excess of revenues over expenditures	<u>51,140,760</u>	<u>48,837,203</u>	<u>53,940,435</u>	<u>5,103,232</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,114,589	10,149,238	10,537,630	388,392
Transfers out	(58,001,197)	(58,193,391)	(57,450,882)	742,509
Sale of capital assets	-	62,498	62,498	-
Total other financing sources (uses)	<u>(47,886,608)</u>	<u>(47,981,655)</u>	<u>(46,850,754)</u>	<u>1,130,901</u>
Net change in fund balance	3,254,152	855,548	7,089,681	6,234,133
Fund balance allocation	<u>(3,254,152)</u>	<u>(855,548)</u>	<u>-</u>	<u>855,548</u>
	<u>\$ -</u>	<u>\$ -</u>	7,089,681	<u>\$ 7,089,681</u>
Add encumbrances at end of year			401,999	
Less encumbrances at beginning of year			<u>(753,382)</u>	
Net change in fund balance--(GAAP Modified Accrual Basis)			6,738,298	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			<u>104,430,873</u>	
Fund balance at end of year--(GAAP Modified Accrual Basis)			<u>\$ 111,169,171</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, 2013**

	Original Budget	Final Budget	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 1,991,341	\$ 2,258,048	\$ 2,385,690	\$ 127,642
Charges for current services	16,300	16,300	22,846	6,546
Fines, forfeitures and penalties	565,097	565,097	512,999	(52,098)
Investment earnings	14,700	14,700	12,204	(2,496)
Miscellaneous	612,350	612,350	506,196	(106,154)
Total revenues	<u>3,199,788</u>	<u>3,466,495</u>	<u>3,439,935</u>	<u>(26,560)</u>
EXPENDITURES				
Current:				
Public safety:				
Administration	1,906,602	1,914,782	1,885,854	28,928
Patrol	8,795,611	8,797,882	8,664,159	133,723
Jail	10,648,073	10,703,460	10,518,368	185,092
Process and court servers	869,557	869,557	871,276	(1,719)
Communications	669,369	669,369	616,037	53,332
Major crimes	2,211,901	2,211,901	1,859,437	352,464
Fugitive warrant	1,119,417	1,119,417	1,129,994	(10,577)
Civil process	693,460	693,460	613,470	79,990
Special operations	869,261	869,261	808,110	61,151
Inmate commissary	235,000	235,000	290,285	(55,285)
Governor's highway safety grant	-	218,227	155,967	62,260
DOJ bulletproof vest grant	-	4,181	8,364	(4,183)
Information system	245,691	245,691	251,812	(6,121)
IV-D civil process	201,819	194,840	189,796	5,044
Total budgetary expenditures	<u>28,465,761</u>	<u>28,747,028</u>	<u>27,862,929</u>	<u>884,099</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	<u>(25,265,973)</u>	<u>(25,280,533)</u>	<u>(24,422,994)</u>	<u>857,539</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	24,828,886	24,828,886	24,828,886	-
Total Other Financing Sources (Uses)	<u>24,828,886</u>	<u>24,828,886</u>	<u>24,828,886</u>	<u>-</u>
Net change in fund balance	(437,087)	(451,647)	405,892	857,539
Fund balance allocation	437,087	451,647	-	(451,647)
	<u>\$ -</u>	<u>\$ -</u>	405,892	<u>\$ 405,892</u>
Add encumbrances at end of year			98,092	
Less encumbrances at beginning of year			(128,723)	
Excess of nonbudgeted revenues and other financing sources over nonbudgeted expenditures and other financing uses (Sheriff Special Projects)			<u>322</u>	
Net change in fund balance--(GAAP)			375,583	
Fund balance at beginning of year--(GAAP)			<u>1,532,040</u>	
Fund balance at end of year--(GAAP)			<u>\$ 1,907,623</u>	

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

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
June 30, 2013**

	Governmental Activities - Internal Service Fund
CURRENT ASSETS	
Cash	\$ 101,063
Investments	14,781,664
Receivable	57,142
Due from other funds	2,980,294
Inventory	482,000
Prepaid insurance	130,277
Prepaid items	<u>43,947</u>
Total current assets	<u>18,576,387</u>
LIABILITIES	
Current Liabilities	
Accounts payable	11,071
Accrued claims	<u>2,342,720</u>
Total current liabilities	<u>2,353,791</u>
Noncurrent Liabilities	
Accrued claims	<u>406,170</u>
NET POSITION	
Unrestricted	<u>\$ 15,816,426</u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2013**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Charges for services	\$ 27,994,040
Other	<u>794,244</u>
Total operating revenues	<u>28,788,284</u>
OPERATING EXPENSES	
Unemployment compensation	49,702
Claims and premiums	25,353,486
Pharmacy	3,553,351
Administration	<u>684,073</u>
Total operating expenses	<u>29,640,612</u>
Operating income (loss)	(852,328)
NONOPERATING REVENUES	
Investment earnings	<u>72,450</u>
Change in net position	(779,878)
Net position, beginning	<u>16,596,304</u>
Net position, ending	<u><u>\$ 15,816,426</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, 2013**

	Governmental Activities - Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from insurance premiums	\$ 21,550,421
Cash received from unemployment compensation	574,778
Cash paid for claims and premiums	(25,605,898)
Cash paid for administration	(685,973)
Cash received for pharmacy	<u>83,673</u>
Net cash used in operating activities	<u>(4,082,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(14,781,664)
Proceeds from sale of investments	18,755,691
Interest on investments	<u>72,450</u>
Net cash provided by investing activities	<u>4,046,477</u>
Net change in cash and cash equivalents	(36,522)
Beginning cash and cash equivalents	<u>137,585</u>
Ending cash and cash equivalents	<u>\$ 101,063</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	<u>\$ (852,328)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES	
Change in receivable	(50,219)
Change in inventory	(3,428)
Change in accounts payable	(255,624)
Change in accrued claims	119,608
Change in prepaid insurance	(53,198)
Change in due from other funds	<u>(2,987,810)</u>
Total adjustments	<u>(3,230,671)</u>
Net cash used in operating activities	<u>\$ (4,082,999)</u>

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

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

**HAMILTON COUNTY, TENNESSEE
June 30, 2013**

	OPEB Trust Fund	Pension Trust Funds	Constitutional Officers Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 1,012	\$ 179,260	\$ 6,281,877
Certificates of deposit	-	11,372	8,493,964
Investments	-	-	93,947
Investments, at fair value:			
US Gov. Securities	358,272	116,287	-
Municipal Bonds	240,401	113,127	-
Mutual Funds	5,127,750	1,173,738	-
Domestic Equity Securities	3,687,261	399,920	-
Domestic Corporate Bonds	880,803	337,255	-
Foreign Bonds / Notes	155,558	52,001	-
Foreign Equity Securities	400,956	43,766	-
Total investments	<u>10,851,001</u>	<u>2,236,094</u>	<u>-</u>
Receivables:			
Interest	27,881	8,710	-
Accounts	<u>-</u>	<u>69,030</u>	<u>92,712</u>
Total assets	<u>10,879,894</u>	<u>2,504,466</u>	<u>14,962,500</u>
LIABILITIES			
Accrued items and other	-	1,562	11,408,798
Intergovernmental payables	<u>-</u>	<u>-</u>	<u>3,553,702</u>
Total liabilities	<u>-</u>	<u>1,562</u>	<u>14,962,500</u>
NET POSITION			
Assets held in trust for benefits	<u>\$ 10,879,894</u>	<u>\$ 2,502,904</u>	<u>\$ -</u>

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

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

**HAMILTON COUNTY, TENNESSEE
Year Ended June 30, 2013**

	<u>OPEB Trust Fund</u>	<u>Pension Trust Funds</u>
ADDITIONS		
Contributions:		
Employer	\$ 1,600,000	\$ 67,418
Other	<u>-</u>	<u>6,450</u>
Total contributions	<u>1,600,000</u>	<u>73,868</u>
Investment earnings:		
Net change in fair value of investments	670,491	84,890
Interest	<u>237,676</u>	<u>68,209</u>
Net investment income	<u>908,167</u>	<u>153,099</u>
Total additions	<u>2,508,167</u>	<u>226,967</u>
DEDUCTIONS		
Benefits	-	173,985
Misc expense	2,705	2,918
Administrative expense	<u>57,923</u>	<u>11,977</u>
Total deductions	<u>60,628</u>	<u>188,880</u>
Change in net position	2,447,539	38,087
Net position, beginning	<u>8,432,355</u>	<u>2,464,817</u>
Net position, ending	<u>\$ 10,879,894</u>	<u>\$ 2,502,904</u>

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



**STATEMENT OF NET POSITION
COMPONENT UNITS**

HAMILTON COUNTY, TENNESSEE

June 30, 2013

	Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority (WWTA)	Railroad Authority	Total
ASSETS					
Cash and cash equivalents	\$ 20,708,419	\$ 1,599,027	\$ 2,612,560	\$ 49,299	\$ 24,969,305
Certificates of deposit	382,028	9,239,200	-	-	9,621,228
Investments	63,351,927	2,692,404	-	-	66,044,331
Receivables, net of allowance for uncollectible	156,934,975	947,643	1,295,405	13,355	159,191,378
Receivables, restricted	-	-	292,309	-	292,309
Due from primary government	1,053,021	-	-	-	1,053,021
Inventories	692,612	-	15,353	-	707,965
Restricted cash	3,495,708	-	4,460,226	-	7,955,934
Prepaid items	123,117	-	438,295	-	561,412
Land and other nondepreciable assets	20,400,877	100,042	8,273,107	-	28,774,026
Capital assets, net of accumulated depreciation	<u>278,124,033</u>	<u>4,084,127</u>	<u>88,452,729</u>	<u>2,200</u>	<u>370,663,089</u>
Total assets	<u>545,266,717</u>	<u>18,662,443</u>	<u>105,839,984</u>	<u>64,854</u>	<u>669,833,998</u>
LIABILITIES					
Accounts payable and other current liabilities	41,163,199	1,023,167	1,796,950	13,355	43,996,671
Due to primary government	22,534	910,224	414,285	-	1,347,043
Noncurrent liabilities:					
Due within one year	9,776,552	-	846,308	-	10,622,860
Due in more than one year	19,025,523	-	18,671,067	-	37,696,590
Advance from Primary Government	<u>418,748</u>	<u>-</u>	<u>14,447,632</u>	<u>-</u>	<u>14,866,380</u>
Total liabilities	<u>70,406,556</u>	<u>1,933,391</u>	<u>36,176,242</u>	<u>13,355</u>	<u>108,529,544</u>
DEFERRED INFLOWS OF RESOURCES					
Unearned property tax revenue	<u>128,065,694</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,065,694</u>
NET POSITION					
Net investment in capital assets	298,524,910	4,184,169	62,760,829	2,200	365,472,108
Restricted for:					
State statute	15,944	-	-	-	15,944
Centralized cafeteria	999,702	-	-	-	999,702
School activities funds	3,495,708	-	-	-	3,495,708
WWTA PSLP program	-	-	5,138,796	-	5,138,796
Unrestricted	<u>43,758,203</u>	<u>12,544,883</u>	<u>1,764,117</u>	<u>49,299</u>	<u>58,116,502</u>
Total net position	<u>\$346,794,467</u>	<u>\$16,729,052</u>	<u>\$ 69,663,742</u>	<u>\$ 51,499</u>	<u>\$ 433,238,760</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, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
HAMILTON COUNTY DEPARTMENT OF EDUCATION				
Regular instruction	\$ 189,319,517	\$ 975,432	\$ 13,019,683	\$ 992,341
Exceptional instruction	40,736,303	596,641	7,263,774	207,277
Vocational instruction	8,954,509	-	524,903	45,658
Support services:				
Pupil services	13,657,084	-	2,513,059	69,782
Instructional staff	25,449,022	-	13,307,618	128,243
Board of education	5,884,615	-	-	30,374
Administration	24,783,662	-	496,651	128,212
Business and fiscal services	2,650,340	-	3,051	13,428
Human resources	1,121,005	-	-	5,668
Plant operation and maintenance	39,080,387	-	1,610,010	776,346
Pupil transportation	15,663,600	-	1,053,415	80,582
Central and other	2,149,171	-	74	10,907
Operation of noninstructional services:				
Community services	2,900,039	2,942,177	430,780	14,903
Early childhood education	3,085,371	-	3,133,345	15,643
Extracurricular	12,931,299	12,513,346	-	-
Child Nutrition	19,339,995	5,609,960	13,346,958	99,015
TOTAL DEPARTMENT OF EDUCATION	407,705,919	22,637,556	56,703,321	2,618,379
"911" EMERGENCY COMMUNICATIONS				
Emergency communications operations	11,114,929	3,490,223	1,966,401	6,201,698
WATER & WASTEWATER TREATMENT AUTHORITY				
Water and wastewater treatment operations	12,754,648	12,661,675	-	3,211,380
RAILROAD AUTHORITY				
Railroad authority operations	201,779	125,673	75,158	-
TOTAL COMPONENT UNITS	\$ 431,777,275	\$ 38,915,127	\$ 58,744,880	\$ 12,031,457

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

Total general revenues
Change in net position
Net position, beginning

Net position, ending

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

Net (Expenses) Revenues and
Changes in Net Position

Hamilton County Department of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Railroad Authority	Total
\$ (174,332,061)				\$ (174,332,061)
(32,668,611)				(32,668,611)
(8,383,948)				(8,383,948)
(11,074,243)				(11,074,243)
(12,013,161)				(12,013,161)
(5,854,241)				(5,854,241)
(24,158,799)				(24,158,799)
(2,633,861)				(2,633,861)
(1,115,337)				(1,115,337)
(36,694,031)				(36,694,031)
(14,529,603)				(14,529,603)
(2,138,190)				(2,138,190)
487,821				487,821
63,617				63,617
(417,953)				(417,953)
(284,062)				(284,062)
<u>(325,746,663)</u>				
	\$ 543,393			543,393
		\$ 3,118,407		3,118,407
			\$ (948)	(948)
				<u>(322,085,811)</u>
130,254,574	-	-	-	130,254,574
61,771,083	-	-	-	61,771,083
132,058,638	-	-	-	132,058,638
259,527	51,970	-	-	311,497
<u>324,343,822</u>	<u>51,970</u>	<u>-</u>	<u>-</u>	<u>324,395,792</u>
(1,402,841)	595,363	3,118,407	(948)	2,309,981
<u>348,197,308</u>	<u>16,133,689</u>	<u>66,545,335</u>	<u>52,447</u>	<u>430,928,779</u>
<u>\$ 346,794,467</u>	<u>\$ 16,729,052</u>	<u>\$ 69,663,742</u>	<u>\$ 51,499</u>	<u>\$ 433,238,760</u>



NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE

June 30, 2013

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NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE
JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the County have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

(1) REPORTING ENTITY

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

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The component units of the primary government (the County) are all discretely presented.

Discretely Presented Component Units

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

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

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

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

(2) **ACCOUNTING PRONOUNCEMENTS**

The County adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, required for fiscal periods beginning after December 15, 2011, in fiscal year 2013. This Statement establishes accounting and financial reporting requirements for service concession arrangements. The standard establishes criteria for determining whether a service concession arrangement (SCA) exists, how to account for SCAs, and requires certain disclosures associated with a SCA.

The County adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*, required for fiscal periods beginning after June 15, 2012, in fiscal year 2013. This Statement amends certain reporting entity issues related to component units and equity interests in joint ventures to ensure that the reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units. The County adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB And AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011, in fiscal year 2013. This Statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

The County adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, required for fiscal periods beginning after December 15, 2011, in fiscal year 2013. This Statement provides financial reporting guidance for deferred outflows and deferred inflows of resources that were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, and identifies net position as the residual of all other elements presented in a statement of financial position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassifies, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or resources or inflows or resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 is required for fiscal periods beginning after December 12, 2013. The County early-adopted GASB Statement No. 65.

GASB Statement No. 66 resolves conflicting guidance by removing the provision that limits fund based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. Under Statement No. 66 decisions about fund type classifications are based on the nature of the activity to be reported as required by GASB Statements No. 54 and No. 34. This statement will be effective for fiscal year ending June 30, 2014.

GASB Statement No. 67 replaces the requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. This statement uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement also enhances note disclosures and required supplementary information for both defined benefit and defined contribution plans and requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. This statement will be effective for fiscal year ending June 30, 2014.

GASB Statement No. 68 replaces the requirements of GASB statements No. 27 and 50 related to pension plans that are administered through trusts or similar arrangements requiring governments to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also requires revised and new note disclosures and required supplementary information. This statement will be effective for fiscal year ending June 30, 2015.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term "government combinations", includes a variety of transactions referred to as mergers, acquisitions and transfers of operations. The statement is effective for government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis.

(3) **JOINT VENTURES**

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

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

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

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

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

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

(4) BASIC FINANCIAL STATEMENTS

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, 2013, the County has no business-type activities in the primary government. In the government-wide Statement of Net Position, the governmental activities (a) is 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 and deferred resources of inflows and outflows.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, highways and streets, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. Program revenues include revenues from fines and forfeitures, licenses and permits fees, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

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

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

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

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

finance activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The focus of the government-wide financial statements is on the County as a whole. 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 comprises its assets, deferred resources of outflows, liabilities, deferred resources of inflows, net position, revenues and expenditures/expenses. The County reports the following major funds and other fund types:

a) Major Funds

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

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

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

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

b) Other Fund Types

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

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

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

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

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

(6) BASIS OF ACCOUNTING

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

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

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

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

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

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

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

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

(7) BUDGET POLICY AND BUDGETARY DATA

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

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

Public hearings are conducted which allow for taxpayer comments.

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

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

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

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

Encumbrances against budgeted appropriations are recorded during the year upon execution of purchase orders, contracts, or other appropriate documents. Amounts shown as encumbrances at June 30, 2013, reflect material expenditures for goods and services that had not been received or completed at that date. These items are recorded as commitments of fund balances and provide authority for the carryover of appropriations to the subsequent year in order to complete these transactions. Encumbrances are utilized in the General Fund, certain special revenue funds, the Capital Projects Fund, and the General Purpose School Fund, a component unit.

	<u>General</u>	<u>Sheriff</u>	<u>Capital Projects</u>	<u>Total</u>
Primary Government				
Committed for public safety	\$ -	\$ 98,092	\$ -	\$ 98,092
Committed for capital projects	-	-	8,303,770	8,303,770
Assigned for general government	191,671	-	-	191,671
Assigned for public safety	22,524	-	-	22,524
Assigned for highways and streets	1,930	-	-	1,930
Assigned for health	129,942	-	-	129,942
Assigned for culture and recreation	55,932	-	-	55,932
Assigned for capital projects	-	-	589,377	589,377
	<u>\$ 401,999</u>	<u>\$ 98,092</u>	<u>\$ 8,893,147</u>	<u>\$ 9,393,238</u>
	<u>General Purpose School</u>	<u>Centralized Cafeteria</u>	<u>Education Capital Projects</u>	<u>Total Board of Education</u>
Component Units				
Committed for education	\$ 868,551	\$ -	\$ -	\$ 868,551
Committed for centralized cafeteria	-	130,964	-	130,964
Committed for capital projects	-	-	2,188,218	2,188,218
	<u>\$ 868,551</u>	<u>\$ 130,964</u>	<u>\$ 2,188,218</u>	<u>\$ 3,187,733</u>

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

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Non-GAAP Basis)</u>	<u>Variance with Final Budget Positive/(Negative)</u>
General Fund				
Constitutional Offices	\$ 51,116,172	\$ 51,739,972	\$ 50,365,337	\$ 1,374,635
Supported Agencies	3,821,618	3,896,618	3,892,451	4,167
Unassigned	50,642,979	52,980,563	49,141,993	3,838,570
Finance	6,804,335	7,217,766	6,880,756	337,010
Public Works	17,749,194	17,751,890	16,822,253	929,637
Human Services	39,391,358	40,966,753	39,391,243	1,575,510
Health	<u>19,752,106</u>	<u>19,845,295</u>	<u>18,395,350</u>	<u>1,449,945</u>
	<u>189,277,762</u>	<u>194,398,857</u>	<u>184,889,383</u>	<u>9,509,474</u>
Debt Service	<u>32,524,874</u>	<u>32,524,874</u>	<u>31,836,673</u>	<u>688,201</u>
Sheriff	<u>28,465,761</u>	<u>28,747,028</u>	<u>27,862,929</u>	<u>884,099</u>
Juvenile Court Clerk	<u>2,326,666</u>	<u>2,326,666</u>	<u>2,240,864</u>	<u>85,802</u>
Hotel Motel	<u>6,100,000</u>	<u>6,100,000</u>	<u>5,481,484</u>	<u>618,516</u>
Primary Government	<u>\$258,695,063</u>	<u>\$264,097,425</u>	<u>\$252,311,333</u>	<u>\$11,786,092</u>

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

(8) ASSETS, LIABILITIES, DEFERRED Outflows/Inflows of Resources and Net Position/Fund Balance

a) Cash and Cash Equivalents

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

b) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Investments in the State Treasurer's Local Government Investment Pool (LGIP) are classified as investments and are valued at cost. The LGIP is not registered with the SEC as an investment company. However, the LGIP has a policy that it will-and does-operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940. Rule 2a-7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net position to compute share prices if certain conditions are met. State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the pool is the same as the fair value of the pool shares. Any change in the value of investments recorded at fair value is included in investment earnings. At June 30, 2013, total investments in the LGIP were \$2,708,846.

The County also has investments in the First Tennessee Bank Bizessentials Savings Account. As required by law, these investments are secured by the State Collateral Pool Board. At June 30, 2013, total investments in the Bizessentials Savings Account was \$209,268,744.

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

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

f) Fund Balance

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

Nonspendable fund balance includes amounts that cannot be spent because they are (a) not in spendable form, or (b) legally or contractually required to be maintained intact (e.g., endowments). The fund balance considered “nonspendable” includes items not expected to be converted to cash (e.g., inventories and prepaid

items), as well as long-term receivables and the County's investment in its joint venture described in Note R. The County does not have any nonspendable fund balance that is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted for the following purposes noted in this paragraph. These amounts result from constraints placed on the use of resources (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. State statutes mandate that certain funds collected are restricted for their specific purposes. Purposes that are controlled by state statute are fees collected for automation, certain funds received for public safety, and certain funds received for the Department of Education centralized cafeteria and school activity funds that are intended for a special segment of the school population and not intended to benefit the student body as a whole. Other funds that are restricted are endowments received by the school activity funds and the fees collected from rate payers to finance the private service lateral program (PSLP) of the Water and Wastewater Treatment Authority

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

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

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

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

g) Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and therefore, will not be recognized as an outflow of resources (expense/expenditure) until then. The County only has one item that qualifies as a deferred outflow of resources relating to the refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The County reports deferred property taxes and various receivables for revenue which do not meet the availability criteria in governmental funds as deferred outflows of resources.

h) 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, 2012
Levy date	October 1, 2012
Tax bills mailed	October 1, 2012
Delinquency date	March 1, 2013
Tax sale – 2009 delinquent property taxes	June 7, 2013

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 Position.

e) Payments Between the County and Component Units

Resource flows (except those that affect the statement of net position/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions – that is, as revenues and expenses. Payments from component units consist of debt service payments from “911” Emergency Communication for equipment purchased by the County and from Water and Wastewater Treatment Authority for bonds issued in the County’s name.

f) Indirect Costs

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

g) Estimates

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

h) Compensated Absences

County employees earn compensation for absence by a prescribed formula based on their length of service. Compensation for absence is accumulated every pay period and has a cap of 1,680 hours for employees hired before January 1, 2013. Employees hired after that date may only accumulate up to 800 hours. During the year, the compensation earned may be used for either vacation or absence due to illness. At year end, the liability for compensation for absence earned but not paid to employees is accrued in the government-wide financial statements by function. Upon termination or retirement, employees are paid for the balance accrued in their compensated absence bank.

(10) NET POSITION

The government-wide financial statements utilize a net position presentation and is displayed in three components.

Net Investments in Capital Assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – consists of net position with third party (statutory, bond covenant or granting agency) limitations on their use. The County’s policy is generally to use restricted net position first, as appropriate opportunities arise.

Unrestricted Net Position – All other net position that does not meet the definition of restricted or net investment in capital assets.

NOTE B – REFINANCING

On April 24, 2013, the County issued general obligation bonds (Series 2013A Bonds) in the amount of \$60,610,000 and general obligation refunding bonds (Series 2013B Bonds) in the amount of \$45,080,000. The Series 2013A Bonds were issued to retire \$41,556,000 of Bond Anticipation Notes and \$20,054,000 for new projects. The bonds were issued at a premium of \$11,152,177. The 2013B Bonds were issued to retire \$45,255,000 in outstanding debt with call date of March 1, 2016. The present value of savings to Hamilton County is \$3,573,353. Proceeds in the amount of

\$51,163,429 were placed with an escrow agent. The proceeds of the 2013B Bonds will be used to purchase direct non-callable obligations, the principal of and interest on which are unconditionally guaranteed as to full and timely payments by the United States of America and obligations of any agency or instrumentality of the United States (the "Federal Securities"). The principal of and interest of the Federal Securities, together with the cash held in the Escrow fund will be sufficient to pay, when due, the principal of, and the redemption premium and interest on the Refunded Bonds through March 1, 2016, the redemption date.

With the refunding of the 2013B Bonds, the government-wide statements realized a deferred loss on refunding of \$3,766,915 which will be amortized until March 1, 2023. At June 30, 2013, \$73,357 was amortized with a remaining balance of \$3,760,352.

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, 2013, the County had no material excess of expenditures over appropriations in individual funds.

Net Position/Fund Balance Deficit

At June 30, 2013, the County has a deficit of \$102,953,837 in unassigned net position in the government-wide statement of net position for governmental activities. 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, 2013, the County conveyed \$2,452,772 in capital assets to the Department of Education. At June 30, 2013, the County's long-term liabilities include general obligation bonds of \$181,025,468 issued for the Department of Education capital projects and notes payable of \$418,748 for capital expenditures.

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, 2013, 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 three months or less from the date of acquisition.

Investments

At June 30, 2013, investments of the primary government (except for Pension Trust Funds and OPEB Trust Fund) and component units consist of the following:

	Weighted Average <u>Maturity (Years)</u>	<u>Fair Value</u>
Primary Government – Governmental Activities:		
Investment in local investment pool	N/A	\$145,885,329
Investment in state investment pool	N/A	16,442
Cash balances classified as investments	N/A	<u>15,000</u>
Total		<u>\$145,916,771</u>
Primary Government – Agency Funds:		
Investment in local investment pool	N/A	<u>\$ 93,947</u>
Total		<u>\$ 93,947</u>
Component Units:		
Investment in local investment pool	N/A	\$ 63,289,468
Investment in state investment pool	N/A	2,692,404
Cash balances classified as investments	N/A	<u>62,459</u>
Total		<u>\$ 66,044,331</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 investments longer than two years and all investments to be secured by either the State Collateral Pool Board or the participating bank. At June 30, 2013, the County held investments in U.S. Government agency securities. The County also invests in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated.

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

Pension Trust Funds:

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Treasury Note	Aaa	\$ 54,375
Agency Securities – FHLMC	Aaa	32,977
Agency Securities – FNMA	Aaa	28,935
Municipal Bonds	A2	33,497
Municipal Bonds	Aa2	14,885
Municipal Bonds	Aa3	40,129
Municipal Bonds	Aaa	24,616
Domestic Corporate Bonds	A1	15,055
Domestic Corporate Bonds	A2	39,233
Domestic Corporate Bonds	A3	95,847
Domestic Corporate Bonds	Baa1	89,494
Domestic Corporate Bonds	Baa2	86,961
Domestic Corporate Bonds	Baa3	10,665
Foreign Bonds / Notes	A3	30,130
Foreign Bonds / Notes	Aa1	11,097
Foreign Bonds / Notes	Baa2	10,774
Mutual Funds	Not rated	1,173,738
Domestic Equity Securities	Not rated	399,920
Foreign Equity Securities	Not rated	43,766
		<u>\$ 2,236,094</u>

OPEB Trust Fund:

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Treasury Note	Aaa	\$ 200,308
Agency Securities – FHLMC	Aaa	76,947
Agency Securities – FNMA	Aaa	81,017
Municipal Bonds	A2	47,853
Municipal Bonds	Aa1	34,571
Municipal Bonds	Aa2	24,808
Municipal Bonds	Aa3	60,376
Municipal Bonds	Aaa	44,307
Municipal Bonds	Not rated	28,486
Domestic Corporate Bonds	A1	30,110
Domestic Corporate Bonds	A2	101,024
Domestic Corporate Bonds	A3	238,498
Domestic Corporate Bonds	Baa1	254,564
Domestic Corporate Bonds	Baa2	229,946
Domestic Corporate Bonds	Baa3	26,661
Foreign Bonds / Notes	A3	89,944
Foreign Bonds / Notes	Aa1	33,291
Foreign Bonds / Notes	Baa2	32,323
Mutual Funds	Not rated	5,127,750
Domestic Equity Securities	Not rated	3,687,261
Foreign Equity Securities	Not rated	400,956
		<u>\$10,851,001</u>

NOTE E – RECEIVABLES

Receivables at June 30, 2013, consist of the following:

<u>Funds</u>	<u>Property Taxes</u>	<u>Patients</u>	<u>Accounts</u>	<u>Inter-Governmental</u>	<u>Allowance for Uncollectibles</u>	<u>Net</u>
Primary Government:						
General	\$128,393,397	\$18,526,495	\$1,984,140	\$ 6,818,293	\$(18,748,391)	\$136,973,934
Sheriff	-	-	24,384	282,572	-	306,956
Debt service	-	-	47,054	-	-	47,054
Capital projects	-	-	16,805	4,149,941	-	4,166,746
Nonmajor	-	-	735,818	128,848	-	864,666
Proprietary	-	-	57,142	-	-	57,142
	<u>\$128,393,397</u>	<u>\$18,526,495</u>	<u>\$2,865,343</u>	<u>\$11,379,654</u>	<u>\$(18,748,391)</u>	<u>\$142,416,498</u>
Component Units:						
Governmental	\$141,778,446	\$ -	\$3,742,022	\$19,300,230	\$ (7,126,574)	\$157,694,124
Proprietary	-	-	1,789,563	-	-	1,789,563
	<u>\$141,778,446</u>	<u>\$ -</u>	<u>\$5,531,585</u>	<u>\$19,300,230</u>	<u>\$ (7,126,574)</u>	<u>\$159,483,687</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, 2013.

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 \$190,000 at June 30, 2013, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$190,000 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, 2013. 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, and other facilities related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2013. The total contractual commitments outstanding as of June 30, 2013, aggregated approximately \$8,303,770. These commitments are reported in the governmental-wide statements. The County has sufficient funds available to cover these commitments.

The County is in negotiations with an overlapping municipality regarding mixed drink taxes collected by the municipality in prior years that the County believes is owed to the Department of Education and other issues dealing with certain fees charged to the County by the municipality. Management is unable to estimate the gain or loss, if any, that may result from these negotiations.

Hamilton County Water and Wastewater Treatment Authority (the Authority), a component unit of Hamilton County, Tennessee, is currently defending a court case that seeks to declare the \$8 monthly fee charged for the Private Service Lateral Program (PSLP) funding as unlawful. Further, the case seeks to certify a class action suit on behalf of all customers of the Authority. The Authority is contesting the lawsuit vigorously, but no outcome is certain. Should the courts rule against the Authority, the Authority may be required to refund approximately \$8 million in fees. In addition, if the Authority receives an unfavorable ruling, the Authority will require an increase in the variable rate in order to fund the PSLP as the program is necessary to comply with the Clean Water Act.

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, 2013, there is one Industrial Revenue Bond outstanding. The aggregate principal amount payable for the Industrial Revenue Bond series issued at June 30, 2013, is \$20,224,955.

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, 2013, which are budgeted and included within the General Fund, are summarized as follows:

	Compensation and Fringe Benefits	Purchased Services	Capital Outlay	Total
Circuit Court Clerk	\$ 855,743	\$ 466,224	\$ 9,428	\$ 1,331,395
Clerk and Master	605,522	137,564	-	743,086
County Clerk	1,238,585	427,986	7,275	1,673,846
Criminal Court Clerk	1,224,200	170,293	12,915	1,407,408
Juvenile Court Clerk	-	-	-	-
Register	405,188	49,965	605	455,758
Sheriff	-	-	580,906	580,906
Trustee	318,535	342,759	-	661,294
Election Commission	1,360,456	398,876	-	1,759,332
Assessor of Property	<u>3,403,201</u>	<u>484,999</u>	<u>18,500</u>	<u>3,906,700</u>
	<u>\$ 9,411,430</u>	<u>\$2,478,666</u>	<u>\$ 629,629</u>	<u>\$12,519,725</u>

NOTE J – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, is as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Current Year Additions</u>	<u>Current Year Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 64,120,263	\$ 2,977,755	\$ (994,777)	\$ 66,103,241
Construction in progress	<u>26,337,109</u>	<u>35,975,095</u>	<u>(3,658,137)</u>	<u>58,654,067</u>
Total non-depreciable assets	<u>90,457,372</u>	<u>38,952,850</u>	<u>(4,652,914)</u>	<u>124,757,308</u>
Depreciable Assets:				
Buildings	135,988,829	1,867,854	(400,210)	137,456,473
Improvements other than buildings	25,169,161	103,095	-	25,272,256
Machinery and equipment	38,917,737	3,259,456	(2,485,293)	39,691,900
Infrastructure	200,767,568	4,319,839	(3,465,187)	201,622,220
Intangibles	<u>5,340,020</u>	<u>425,552</u>	<u>(1,114,983)</u>	<u>4,650,589</u>
Total depreciable assets	<u>406,183,315</u>	<u>9,975,796</u>	<u>(7,465,673)</u>	<u>408,693,438</u>
Less Accumulated Depreciation for:				
Buildings	(59,035,174)	(2,914,871)	105,055	(61,844,990)
Improvements other than buildings	(12,131,739)	(1,218,563)	-	(13,350,302)
Machinery and equipment	(32,046,882)	(2,176,274)	1,754,224	(32,468,931)
Infrastructure	(119,584,145)	(5,512,048)	2,442,304	(122,653,889)
Intangibles	<u>(4,195,836)</u>	<u>(440,359)</u>	<u>843,921</u>	<u>(3,792,274)</u>
Total accumulated depreciation	<u>(226,993,776)</u>	<u>(12,262,114)</u>	<u>5,145,504</u>	<u>(234,110,386)</u>
Depreciable Assets, net	<u>179,189,539</u>	<u>(2,286,318)</u>	<u>(2,320,169)</u>	<u>174,583,052</u>
Governmental activities capital assets, net	<u>\$ 269,646,911</u>	<u>\$ 36,666,532</u>	<u>\$ (6,973,083)</u>	<u>\$ 299,340,360</u>

Discretely Presented Component Units

	<u>Beginning Balance</u>	<u>Current Year Additions</u>	<u>Current Year Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 18,555,714	\$ 1,949,811	\$ (104,648)	\$ 20,400,877
Construction in progress	6,811,481	1,936,507	(374,839)	8,373,149
Other non-depreciable assets	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
Total non-depreciable assets	<u>25,392,195</u>	<u>3,886,318</u>	<u>(504,487)</u>	<u>28,774,026</u>
Depreciable Assets:				
Buildings	478,442,361	79,015	(2,125,413)	476,395,963
Improvements other than buildings	23,645,165	90,947	(323,998)	23,412,114
Machinery and equipment	34,296,834	1,087,771	(70,161)	35,314,444
Utility plant	<u>113,271,736</u>	<u>3,339,135</u>	<u>-</u>	<u>116,610,871</u>
Total depreciable assets	<u>649,656,096</u>	<u>4,596,868</u>	<u>(2,519,572)</u>	<u>651,733,392</u>
Less Accumulated Depreciation for:				
Buildings	(201,689,759)	(9,316,594)	2,125,413	(208,880,940)
Improvements other than buildings	(18,144,204)	(371,968)	308,599	(18,207,573)
Machinery and equipment	(23,183,133)	(2,040,310)	94,100	(25,129,343)
Utility plant	<u>(25,750,155)</u>	<u>(3,102,292)</u>	<u>-</u>	<u>(28,852,447)</u>
Total accumulated depreciation	<u>(268,767,251)</u>	<u>(14,831,164)</u>	<u>2,528,112</u>	<u>(281,070,303)</u>
Depreciable Assets, net	<u>380,888,845</u>	<u>(10,234,296)</u>	<u>8,540</u>	<u>370,663,089</u>
Component units capital assets, net	<u>\$ 406,281,040</u>	<u>\$ (6,347,978)</u>	<u>\$ (495,947)</u>	<u>\$ 399,437,115</u>

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
Ambulance	\$ 702,017
Criminal Court	61,344
General Government	2,412,391
Health	175,015
Highway	5,862,476
Juvenile Court	159,358
Public Safety	988,196
Recreation	1,228,471
Sheriff	657,513
Social Services	<u>15,333</u>
Total	<u>\$ 12,262,114</u>
Discretely Presented Component Units:	
Department of Education	\$ 11,070,837
Water & Wastewater Treatment Authority	3,238,676
“911” Emergency Communications	521,101
Railroad Authority	<u>550</u>
Total	<u>\$ 14,831,164</u>

Hamilton County donated \$2,452,772 assets transferred from construction in progress to the Department of Education.

NOTE K – EMPLOYEE RETIREMENT SYSTEMS

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

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

The following is a summary of each of these plans:

Tennessee Consolidated Retirement Systems

(1) POLITICAL SUBDIVISION PENSION PLAN (PSPP)

Plan Description

Employees of Hamilton County are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member’s highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General

Assembly. Political subdivisions such as Hamilton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

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

Hamilton County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013, was 14.08% 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, 2013, Hamilton County’s annual pension cost of \$14,337,306 to TCRS was equal to Hamilton County’s required and actual contributions. The required contribution was determined as part of the July 1, 2011, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent per year compounded annually; (b) projected 3.0 percent annual rate of inflation; (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries); (d) projected 3.5 percent annual increase in the Social Security wage base; and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamilton County’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was seven years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/13	\$14,337,306	100.00%	\$ -
6/30/12	14,332,188	100.00%	-
6/30/11	14,938,598	100.00%	-

Funded Status and Funding Progress

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

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

(2) **STATE EMPLOYEES, TEACHERS, AND HIGHER EDUCATION EMPLOYEES PENSION PLAN (SETHEEPP)**

Plan Description

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

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

Funding Policy

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The employer contribution rate for Hamilton County Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2013 was 8.88% of annual covered payroll. The employer contribution requirement for Hamilton County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2013, 2012, and 2011 were \$14,418,973, \$14,591,484, and \$14,431,297, 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 position.

Actuarial Assumptions and Estimates

The actuarial calculations are based on the benefits provided under the terms of the plans in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are always subject to continual revisions as results are compared to past expectations and new estimates are made about the future. The actuarial methods used and calculations determined reflect a long term perspective as the techniques used are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of the related assets.

Plan Description and Provisions

(1) EMPLOYEES’ PENSION PLAN

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

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

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

(2) COMMISSIONERS’ PENSION PLAN

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

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

(3) TEACHERS’ PENSION PLAN

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

	<u>Employees’ Pension Plan</u>	<u>Commissioners’ Pension Plan</u>	<u>Teachers’ Pension Plan</u>
Retirees and beneficiaries receiving benefits	23	11	3
Vested terminated employees	-	3	-
Active employees:			
Fully vested	-	4	-
Non vested	-	5	-
Actuarial valuation date	June 30, 2013	June 30, 2013	June 30, 2013

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, 2013 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u> Private Acts of TN	<u>Commissioners'</u> Private Acts of TN	<u>Teachers'</u> Pension Board
Contribution authorization:	Actuarially	Actuarially	Actuarially
How contributions are determined:			
Required contribution rate:			
Active employees	6.4%	N/A	N/A
Employer	-	Actuarially Determined	-
Other contributing entities	N/A	N/A	-
Actual contributions:			
Employees	-	-	-
Employer	-	\$ 67,418	-
Other contributing entities	N/A	N/A	\$6,450
Date of last actuarial valuation	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial valuation date for current contributions	June 30, 2013	June 30, 2013	June 30, 2013
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, 2013, no employer contributions were made for the Employees' and Teachers' Pension Plans. Other contributions to the Commissioners' Pension Plan totaled \$67,418.

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

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Annual required contribution	\$ -	\$ 50,074	\$ 2,075
Interest on net pension obligation (asset)	(17,018)	(10,581)	(35,217)
Adjustment to annual required contribution	<u>33,058</u>	<u>23,961</u>	<u>91,216</u>
Annual pension cost	16,040	63,454	58,074
Contributions made	<u>-</u>	<u>(67,418)</u>	<u>-</u>
Increase in net pension obligation (asset)	16,040	(3,964)	58,074
Net pension obligation (asset) at beginning of year	<u>(226,912)</u>	<u>(176,356)</u>	<u>(704,344)</u>
Net pension obligation (asset) at the end of year	<u>\$ (210,872)</u>	<u>\$ (180,320)</u>	<u>\$ (646,270)</u>

Trend Information

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Employees' Plan	6/30/13	\$ 16,040	0.0%	\$ (210,872)
	6/30/12	17,259	0.0%	(226,912)
	6/30/11	18,572	0.0%	(244,171)
Commissioners' Plan	6/30/13	63,454	106.2%	(180,320)
	6/30/12	63,128	106.8%	(176,356)
	6/30/11	60,207	112.0%	(172,066)
Teachers' Plan	6/30/13	58,074	0.0%	(646,270)
	6/30/12	63,089	0.0%	(704,344)
	6/30/11	67,304	0.0%	(767,433)

Schedule of Funding Progress

(Dollar amounts in thousands)

Hamilton County Administered Plans

<u>Actuarial Valuation Date (entry age normal)</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
Employees' Retirement						
06/30/13	\$ 1,924	\$ 583	\$ (1,341) **	330.1%	\$ -	N/A
06/30/11	2,025	705	(1,320) **	287.1%	-	N/A
06/30/09	1,787	873	(914) **	204.7%	-	N/A
Commissioners' Retirement						
06/30/13	\$ 572	\$ 756	\$ 184	75.6%	\$ 187	98.8%
06/30/11	519	700	181	74.2%	187	96.6%
06/30/09	482	702	220	68.6%	196	112.3%
Teachers' Retirement						
06/30/13	\$ 7	\$ 18	\$ 11	39.5%	\$ -	N/A
06/30/11	26	42	16	61.1%	-	N/A
06/30/09	57	64	7	89.1%	-	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 Position

	Employees' Pension	Commissioners' Pension	Teachers' Pension	Pension Trust Funds
ASSETS:				
Cash	\$ 11,417	\$ 173,398	\$ (5,554)	\$ 179,261
Certificate of Deposit	-	-	11,372	11,372
Investments, at fair value				
US Gov. Securities	116,287	-	-	116,287
Foreign Bonds/Notes	52,001	-	-	52,001
Mutual Funds	842,639	331,099	-	1,173,738
Domestic Equity Securities	399,920	-	-	399,920
Domestic Corporate Bonds	337,254	-	-	337,254
Foreign Securities	43,766	-	-	43,766
Municipal Bonds	113,126	-	-	113,126
Total investments	<u>1,904,993</u>	<u>331,099</u>	<u>-</u>	<u>2,236,092</u>
Interest receivable	8,234	477	-	8,711
Intergovernmental	-	67,418	1,612	69,030
Total Receivables	<u>8,234</u>	<u>67,895</u>	<u>1,612</u>	<u>77,741</u>
Total Assets	<u>1,924,644</u>	<u>572,392</u>	<u>7,430</u>	<u>2,504,466</u>
LIABILITIES				
Accrued Items & Other	<u>656</u>	<u>656</u>	<u>250</u>	<u>1,562</u>
NET POSITION				
Held in trust for pension benefits	<u>\$ 1,923,988</u>	<u>\$ 571,736</u>	<u>\$ 7,180</u>	<u>\$ 2,502,904</u>

Combining Statement of Changes in Plan Net Position

	Employees' Pension	Commissioners' Pension	Teachers' Pension	Pension Trust Funds
ADDITIONS:				
Contributions				
Employer	\$ -	\$ 67,418	\$ -	\$ 67,418
Other	-	-	6,450	6,450
Total contributions	<u>-</u>	<u>67,418</u>	<u>6,450</u>	<u>73,868</u>
Investments earnings:				
Net increase (decrease) in fair value of investments	74,246	10,644	-	84,890
Interest	57,392	10,812	5	68,209
Net investment income (loss)	<u>131,638</u>	<u>21,456</u>	<u>5</u>	<u>153,099</u>
Total additions	<u>131,638</u>	<u>88,874</u>	<u>6,455</u>	<u>226,967</u>
DEDUCTIONS:				
Benefits	108,957	52,128	12,900	173,985
Consulting Fees	1,232	750	656	2,638
Miscellaneous expense	-	-	280	280
Administrative expense	10,643	1,334	-	11,977
Total deductions	<u>120,832</u>	<u>54,212</u>	<u>13,836</u>	<u>188,880</u>
Change in net position	10,806	34,662	(7,381)	38,087
Net position, beginning	<u>1,913,182</u>	<u>537,074</u>	<u>14,561</u>	<u>2,464,817</u>
Net position, ending	<u>\$ 1,923,988</u>	<u>\$ 571,736</u>	<u>\$ 7,180</u>	<u>\$ 2,502,904</u>

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

(1) PLAN DESCRIPTION:

Primary Government

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

Department of Education (Department)

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

(2) FUNDING POLICY:

Primary Government

In fiscal year 2011, the County established an Other Postemployment Benefits Trust (OPEB Trust) which is used to partially pre-fund benefits. The County's general fund has contributed \$9,600,000 (\$1,600,000 for fiscal year 2013 plus \$8,000,000 for fiscal years 2008, 2009, 2010, 2011 and 2012) to the OPEB Trust to pre-fund benefits. Only the prefunded portion of the OPEB cost is included in the OPEB Trust. The pay-as-you-go component is funded and accounted for in the County's Governmental Activities - Internal Service Fund. Eligible retirees pay a premium using a formula based on date of retirement, years of service, and the County's computed cost for active employees. During fiscal year 2013, the County and retirees contributed \$1,564,993 and \$53,677 respectively to the internal service fund for health care benefits for 110 retirees. Funding is established and amended by the County Commission, and no planned increases were approved for fiscal year 2013.

Department of Education

Eligible retirees pay a premium using a formula based on date of retirement, years of service, and the Department of Education's computed cost for active employees. During fiscal year 2013, the Department contributed \$7,142,433 for these health care benefits for 654 retirees. The Department will make contributions to its Department of Education - Internal Service Fund in amounts sufficient to cover the pay-as-you-go component plus administrative costs. The Department has no plans at this time to fund the remaining portion of the annual required contributions. Funding is established and amended by the Hamilton County School Board, and no planned increases were approved for fiscal year 2013.

(3) ANNUAL OPEB COST AND NET OPEB OBLIGATION:

The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual OPEB Cost and Net OPEB Obligation:

	Primary Government	Department of Education	Total
Net OPEB Obligation – July 1	\$ (268,474)	\$ 13,187,841	\$ 12,919,367
Annual required contribution	2,888,991	11,382,578	14,271,569
Interest on net OPEB obligation	(17,451)	527,514	510,063
Adjustment to annual required contribution	<u>(73,952)</u>	<u>(552,668)</u>	<u>(626,620)</u>
Annual OPEB cost (expense)	2,797,588	11,357,424	14,155,012
Expected payout for Retiree Benefits	(1,306,665)	(7,142,433)	(8,449,098)
Current Year Contribution to Trust	<u>(1,600,000)</u>	<u>-</u>	<u>(1,600,000)</u>
Contribution made	(2,906,665)	(7,142,433)	(10,049,098)
Increase (decrease) in net OPEB obligation	<u>(109,077)</u>	<u>4,214,991</u>	<u>4,105,914</u>
Net OPEB obligation – June 30	<u>\$ (377,551)</u>	<u>\$ 17,402,832</u>	<u>\$ 17,025,281</u>
% of annual OPEB cost contributed	57.2%	0%	11.3%
% of annual OPEB cost to total contribution	103.9%	62.9%	71.0%

(4) FUNDED STATUS AND FUNDING PROGRESS:

Primary Government

As of July 1, 2013, the most recent actuarial valuation date, the County employees post retirement medical insurance benefits plan was 27.6% funded. The actuarial accrued liability for benefits was \$31,796,250 and the actuarial value of assets was \$8,772,754, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,023,496. The covered payroll (annual payroll of active employees covered by the plan) was \$76,586,117, and the ratio of the UAAL to the covered payroll was 30.1%. In fiscal year 2011, the primary government established an OPEB Trust and contributed \$8,000,000 to fund the annual required contribution. For the year ended June 30, 2013, \$1,600,000 was contributed to the OPEB Trust, and an additional \$1,600,000 has been budgeted for fiscal year ended June 30, 2014.

Department of Education

As of July 1, 2013, 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 \$108,129,525, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$108,129,525. The covered payroll (annual payroll of active employees covered by the plan) was \$172,478,284, and the ratio of the UAAL to the covered payroll was 62.7%. The Department of Education will make payments in amounts sufficient to cover annual benefits paid and administrative costs but has no plans at this time to fund the remaining portion of the annual required contributions.

(5) ACTUARIAL VALUATIONS:

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

(6) ACTUARIAL METHODS AND ASSUMPTIONS:

Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Primary Government

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

Department of Education

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

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

Other key assumptions are as follows:

	<u>Primary Government</u>	<u>Department of Education</u>
Healthcare Cost Trend		
Annual medical costs increase, first year	10%	8.5%
Future annual increases - medical	5% over a 10-year period	5% over a 7-year period
Dental	N/A	Capped at \$1,000/year
UAAL Amortization Period	30 years closed	30 years closed
Investment Return	6.5%	4.0%
Inflation Rate	2.5%	2.5%
Projected Salary Increase	3.0%	3.0%
Post Retirement Benefit Increases	None	None

NOTE M – SHORT TERM OBLIGATIONS

In August 2006, the Board of Commissioners approved a resolution authorizing the issuance of short term financing in the form of Commercial Paper with the aggregate principal amount not to exceed \$125,000,000. Commercial Paper debt is authorized by the state statute for Bond Anticipation Notes (BAN's) but varies from BAN's in that interest is paid monthly. Under the terms of the Commercial Paper agreements, all commercial paper reaching maturity is refinanced through the issuance of replacement short-term Commercial Paper debt, and ultimately is replaced with long-term general obligation debt. The Commercial Paper debt is used as a vehicle for financing certain public works projects and the incidental and necessary expenses related thereto. Hamilton County issued \$13,000,000 in short-term financing in the form of Commercial Paper and retired the remaining balance of \$41,556,000 into long-term debt for the year ended June 30, 2013.

A summary of the short-term financing transactions for the year ended June 30, 2013, follows:

<u>Fund/Issue</u>	<u>Outstanding 7/1/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/13</u>
Commercial Paper	\$28,556,000	\$13,000,000	\$41,556,000	\$ -
Total	<u>\$28,556,000</u>	<u>\$13,000,000</u>	<u>\$41,556,000</u>	<u>\$ -</u>

NOTE N – LONG-TERM LIABILITIES

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

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Amount Due Within One Year</u>
General Improvement, Series 1998-B	5.00-5.10%	\$ 4,220,000	\$ 265,000
General Improvement, Series 2008-A	3.50-5.00%	2,883,780	961,756
School, Series 2008-A	3.50-5.00%	16,516,220	5,508,244
General Improvement, Series 2008-B	3.25-4.00%	2,591,506	1,070,945
School, Series 2008-B	3.25-4.00%	8,878,494	3,669,055
General Improvement, Series 2009	3.00-4.375%	6,540,990	595,020
School, Series 2009	3.00-4.375%	16,654,010	1,514,980
General Improvement, Series 2010-A	3.00-4.00%	7,475,000	-
General Improvement, Series 2010-B	2.50-4.25%	11,270,000	1,610,000
General Improvement, Series 2010-C	2.20-5.00%	4,000,000	330,000
General Improvement, Series 2011-A	3.25-5.00%	12,258,655	635,245
School, Series 2011-A	3.25-5.00%	46,116,345	2,389,755
General Improvement, Series 2011-B	3.00-5.00%	14,517,500	1,427,833
School, Series 2011-B	4.00-5.00%	3,932,500	647,167
General Improvement, Series 2013-A	2.00-4.00%	10,061,000	671,453
School, Series 2013-A	2.00-4.00%	50,549,000	3,373,547
General Improvement, Series 2013-B	2.00-4.00%	6,701,100	85,473
School, Series 2013-B	2.00-4.00%	38,378,900	489,527
Total payable from the Debt Service Fund		<u>\$ 263,545,000</u>	<u>\$ 25,245,000</u>

Note Payable and Other Debt – The County entered into a Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 17, 1999. This Agreement reserves funds for the County in the amount of \$9,000,000 (the “Loan”) from the proceeds of the Authority’s adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1997. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 14-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and

billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. As of June 30, 2013, 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, 2013, the balance due per the Agreement was \$819,000, of which \$819,000 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, 2013, the County's remaining obligations to the City of Chattanooga total \$1,295,500, of which \$422,500 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, 2013, the County's remaining obligation for this Agreement was \$81,978, of which \$81,978 is due within one year.

The County entered into a Loan Agreement (the "Agreement") with the Tennessee State School Bond Authority (the "Authority"), pursuant to TCA Sections 49-3-1202 et seq. as amended (the "Act") December 20, 2003. This Agreement reserves funds for the County in the amount of \$1,365,000 (the Loan) from the proceeds of the Authority's Qualified Zone Academy Bonds (the "Bonds"), Series 2003. The County is obligated under the Agreement to repay the Loan in installments consisting of principal and administrative expenses payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit and taxing power of the County are irrevocably pledged for its repayment. For the purpose of providing funds to finance the cost of the Projects, including the payment of legal and fiscal cost incident to the issuance and sale of the Bonds and the Loan Agreement and making and receiving the loan from the Authority, the Hamilton County Department of Education, on behalf of the County, shall make annual payments of principal in amounts equal to approximately level debt service payable in the years 2004 through 2017. The loan shall not bear interest. As of June 30, 2013, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2013, the County's remaining obligation was \$418,748, 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:		
2014	\$ 25,245,000	\$ 9,546,923
2015	23,800,000	9,165,170
2016	23,935,000	8,241,561
2017	20,395,000	7,335,286
2018	20,575,000	6,461,349
2019-2023	98,425,000	19,561,219
2024-2028	49,690,000	4,256,575
2029-2031	1,480,000	103,757
	<u>\$ 263,545,000</u>	<u>\$ 64,671,840</u>
Notes Payable and Other Debt:		
2014	\$ 1,414,211	\$ 49,291
2015	518,233	29,377
2016	535,734	10,013
2017-2018	146,549	-
	<u>\$ 2,614,727</u>	<u>\$ 88,681</u>

Changes in Long-term Liabilities – During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Primary Government:					
Government Activities:					
General Obligation Bonds	\$ 223,705,000	\$105,690,000	\$ 65,850,000	\$ 263,545,000	\$ 25,245,000
Notes payable and other debt	4,170,834	-	1,556,107	2,614,727	1,414,211
OPEB Obligation	-	2,888,991	2,888,991	-	-
Landfill post closure costs	200,000	-	10,000	190,000	10,000
Compensated absences	15,675,004	5,990,556	6,256,022	15,409,538	3,128,011
	<u>243,750,838</u>	<u>114,569,547</u>	<u>76,561,120</u>	<u>281,759,265</u>	<u>\$ 29,797,222</u>
Net deferred premium	12,891,039	8,836,869	1,616,511	20,111,397	
	<u>\$ 256,641,877</u>	<u>\$123,406,416</u>	<u>\$ 78,177,631</u>	<u>\$ 301,870,662</u>	
	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Component Units:					
Notes payable and other debt	\$ 14,221,659	\$ -	\$ 998,086	\$ 13,223,573	\$ 846,308
OPEB Obligation	13,187,841	11,357,424	7,142,433	17,402,832	7,499,576
Pollution Remediation	6,277,820	-	-	6,277,820	-
Compensated absences	11,218,831	600,133	419,723	11,399,241	2,276,976
	<u>44,906,151</u>	<u>11,957,557</u>	<u>8,560,242</u>	<u>48,303,466</u>	<u>\$ 10,622,860</u>
Net deferred premium	20,341	-	4,359	15,982	
	<u>\$ 44,926,492</u>	<u>\$ 11,957,557</u>	<u>\$ 8,564,601</u>	<u>\$ 48,319,448</u>	

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

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

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

NOTE O – DEFEASED DEBT

In prior years, the County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in a trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2013, the County's balance of the defeased debt outstanding was \$46,255,000.

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 position.

<u>Receivable Primary Government</u>	<u>Payable Primary Government</u>	<u>Amount</u>
Debt Service	General Fund	\$ 776
General Fund	Nonmajor Government Fund	1,869
General Fund	Capital Projects	2,536,859
Internal Service Funds	General Fund	2,510,718
Internal Service Funds	Sheriff	439,798
Internal Service Funds	Nonmajor Government Fund	29,778
Nonmajor Governmental Fund	General Fund	1,800
Sheriff	General Fund	74,769
		<u>\$ 5,596,367</u>

<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Fund	“911” Emergency Communication	\$ 910,224
General Fund	Water/Wastewater Treatment	414,285
General Fund	Board of Education	20,858
General Fund	Food Service	1,676
		<u>\$ 1,347,043</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</u> <u>Primary Government</u>	<u>Transfers Out</u> <u>Primary Government</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 10,537,630
Debt Service	General Fund	30,479,136
Sheriff	General Fund	24,828,886
Nonmajor Governmental Funds	General Fund	2,142,860
		<u>\$ 67,988,512</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, 2013, is as follows:

ASSETS	
Cash	\$ 1,418,028
Accounts receivable	232,556
Inventories	53,633
Prepaid expenses	68,866
Premises and equipment	<u>9,758,506</u>
Total assets	<u>11,531,589</u>
LIABILITIES AND NET POSITION	
Liabilities	
Accounts payable and accrued items	33,623
Accrued expenses	129,104
Advanced deposits	220,885
Deferred revenue	<u>20,000</u>
Total liabilities	<u>403,612</u>
Net position	
Invested in capital assets,	
Net of related debt	9,758,506
Unrestricted	<u>1,369,471</u>
Total net position	<u>\$11,127,977</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

Total operating revenues	\$ 3,312,240
Total operating expenses	(3,453,918)
Less depreciation and amortization	<u>(623,234)</u>
Loss from operations	(764,912)
Non-operating revenues	500,000
Non-operating expenses	<u>-</u>
Net income	(264,912)
Net position at July 1, 2012	<u>11,392,889</u>
Net position at June 30, 2013	<u>\$11,127,977</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 equipment claims. The County has an umbrella liability policy with limits of \$1,000,000 per occurrence/\$2,000,000 aggregate 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 \$1,000,000 per occurrence and aggregate limit. The County also has a jointly owned Pollution Legal Liability Policy with the City of Chattanooga, which covers specified acreage at the Enterprise South Industrial Park identified for development with limits of \$35,000,000 and a \$500,000 deductible with a term of up to 15 years, which commenced on January 8, 2003. There were no significant reductions in insurance coverage from the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

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

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

	<u>Total Primary Government</u>	<u>Total Component Units</u>
Unpaid claims, June 30, 2011	\$ 2,602,399	\$ 4,884,884
Incurred claims	22,955,149	54,968,803
Claims payments	<u>(22,928,266)</u>	<u>(53,233,184)</u>
Unpaid claims, June 30, 2012	2,629,282	6,620,503
Incurred claims	25,681,062	54,832,467
Claims payments	<u>(25,561,454)</u>	<u>(53,965,572)</u>
Unpaid claims, June 30, 2013	<u>\$ 2,748,890</u>	<u>\$ 7,487,398</u>

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

At June 30, 2013, the Hamilton County Internal Service Fund has net position of \$15,816,426, and the Department of Education Internal Service Fund has net position of \$20,997,834. These net position balances are designated for future catastrophic losses.

