The image is a cover page for a financial report. It features a photograph of a dam with water cascading over its spillway. A large crane is visible on the left side of the dam. In the background, a steel truss bridge spans across the water. The sky is blue with some light clouds. The text is overlaid on the upper right portion of the image.

Hamilton County TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for year ended June 30, 2007





Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee
for the year ended June 30, 2007

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

HAMILTON COUNTY, TENNESSEE

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

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

December 21, 2007

As Hamilton County’s Mayor, I am responsible for making sure our tax dollars are used effectively to improve the quality of life for all who live, work or play in our county and to protect health and welfare. What follows is our plan to provide services to Hamilton County residents.

As my fourth term continues, my effort to strengthen economic development and improve public education continues. Enterprise South is listed as one of the top new mega sites in the nation. I feel confident that we will bring in industries that will provide top paying jobs. We must continue to improve the education level of children so they will be prepared for the jobs Enterprise South, and existing businesses and industry, will bring. My resolve to have those children ready for those jobs is stronger than ever.



I continue to partner with local educational institutions and the Chamber of Commerce toward workforce development, so our students are trained and prepared in the skills necessary to hold good jobs. Our conversations with industrial prospects indicate the availability of a skilled workforce is a key factor for business leaders to locate in our area.

I take great pride in our CEG program – the Center for Entrepreneurial Growth. From inception to mass marketing, the CEG provides assistance to help fledgling businesses grow and succeed. The CEG is a highlight of Hamilton County’s effort to groom successful high tech businesses.

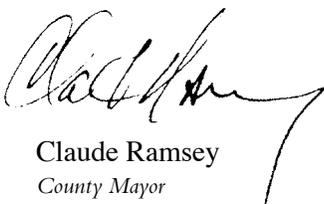
One of the recommendations from my 2004 Education Summit was to develop Read 20 to promote reading to children of all ages, beginning at birth. Numerous studies have shown that reading early and often is the key to learning. Our Read 20 program is beginning to make a difference in our community. We have distributed 15 thousand reading logs for parents to monitor their children’s reading exposure. We have developed Readfest, an annual reading festival and created 75 public opportunities for the community to read with their children. Our goal remains to have at least 95% of our children reading at or above grade level by the end of the third grade.

I’m very proud to note that we were ahead of the curve in recognizing obesity as a national epidemic, one of our country’s prime health concerns. We took action to reverse the national trend here in Hamilton County. Step ONE: Optimize with Nutrition and Education, is Hamilton County’s program to educate and help eliminate contributing factors to obesity such as, decreased activity, vending machines without nutritious snacks and restaurants without healthy options. Step ONE’s strategy is to encourage people to “Just Move It” and “Eat Smart.” Promoting the importance of eating fruits and vegetables and making exercise a part of our daily activities are key to this program.

The Hamilton SHINES program is targeted toward reducing litter in our community through education and enforcement of litter laws. Through public education and community support, we are making a difference. I strongly believe if we can stress the importance of keeping our community clean to our younger citizens, they may have an influence on older residents who have developed some bad habits. I have toured Hamilton County Schools and supported school children’s efforts to help make Hamilton County Shine.

My pleasure of serving as your county mayor continues to grow in my fourth term. I remain excited about what is happening in our community and believe our future is bright. I hope you will join me in making Hamilton County a place everyone would like to call home.

Sincerely,



Claude Ramsey
 County Mayor

Visit www.hamiltontn.gov

BOARD OF COMMISSIONERS *for fiscal year ending June 30, 2007*



Curtis D. Adams
Commissioner



Larry Henry
Chairman



Gregory Beck
Commissioner



Bill Hullander
Chairman, Pro Tempore



John Brooks
Commissioner



Warren Mackey
Commissioner



Richard Casavant
Commissioner



Fred Skillern
Commissioner



Jim Coppinger
Commissioner



HAMILTON COUNTY, TENNESSEE

LOUIS S. WRIGHT

Administrator of Finance

December 21, 2007

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, 2007. 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, Henderson, Hutcherson & McCullough, 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, 2007, 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 Board of Education, the Hamilton County "911" Emergency Communication District, the Water and Wastewater Treatment Authority, and the Hamilton County Railroad Authority. These agencies are included based on criteria established by GASB.

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



PROFILE OF HAMILTON COUNTY, TENNESSEE

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

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

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

Even though the Hamilton County Board of Education is a separate entity from Hamilton County, it constitutes a major portion of the funding requirement for the County. With a school system of 5,723 employees and a student population of 39,856, the Board of Education operating budget for fiscal year 2007 was \$335,144,936. Hamilton County financed 49.6 percent, or \$166,351,249, of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$152,185,673, charges for services provided \$10,879,759 and miscellaneous items provided \$5,728,255.

FACTORS AFFECTING FINANCIAL CONDITION

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

LOCAL ECONOMIC OUTLOOK

In a period of economic uncertainty, Hamilton County remains strong and healthy. Unemployment remains below the state and national averages 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.

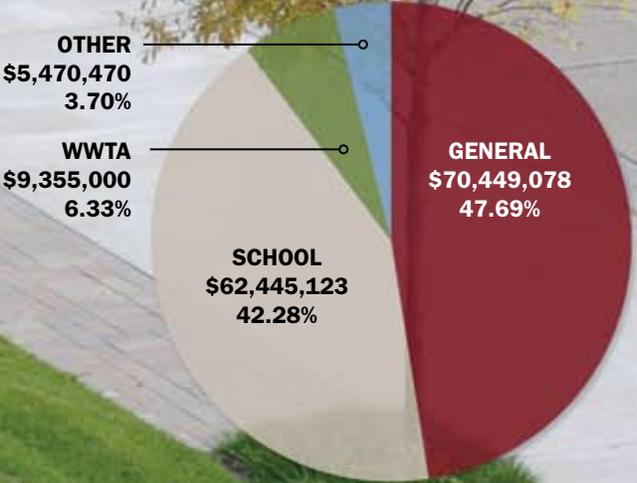
Hamilton County's year-end fund balances continue to remain healthy. Our strong reserves allow us to manage any unexpected shortfalls in revenues.

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

	General Fund	Special Revenue Funds	Debt Service Fund
1998	23,436	3,531	17,342
1999	43,654	3,217	619
2000	45,938	11,623	1,438
2001	57,536	7,286	2,725
2002	55,315	8,897*	1,685
2003	53,605	9,251*	832
2004	52,619	8,338*	1,277
2005	49,714	6,709*	1,343
2006	55,363	8,440	1,421
2007	58,334	8,542	1,653

* Prior years do not include Children's Service and Economic Crimes

**HAMILTON COUNTY
TOTAL DEBT AS OF JUNE 30, 2007
\$147,719,671**



MANAGEMENT’S GOALS AND OBJECTIVES

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

SCHOOLS

Hamilton County has embarked on an aggressive capital plan to build new schools and to bring many older schools into the twenty-first century. Since 1996, Hamilton County has provided funding for the completion of eleven new schools (one with private funding) and major renovation of eighteen existing structures for a total cost of over \$176 million.

RIVERWALK

The Tennessee Riverpark extends some thirteen miles from downtown Chattanooga to the Chickamauga Dam. Hamilton County joined with the City of Chattanooga and the RiverCity Company in developing this world-class facility. More than \$57 million in public and private funds were used for design and construction. The Riverpark has received national media recognition and designation as one of sixty “Great American Places.” It has been honored with awards from organizations including the American Institute of Architects, American Society of Landscape Architects, National Association of Counties and American Planning Association.

ENTERPRISE SOUTH INDUSTRIAL PARK

The Enterprise South Industrial Park is becoming a premier industrial site with potential for an enormous impact on the region’s economy. In May 2005, it was certified by the Tennessee Valley Authority as Tennessee’s first industrial megasite suitable for major automotive manufacturing. The total funding required to develop the site is estimated at \$20 million. The project has received \$1.5 million in EDA assistance for initial infrastructure development of two hundred acres of the site. Approximately 20 miles of the existing rail system throughout the property has been purchased. The site is 1,600-acre developable land surrounded by a 2,800-acre buffer to the east and a 128-acre buffer to the west. When complete, Enterprise South will include 3,000 developable acres while retaining both buffers. In 2006, a

\$23 million interchange with Interstate 75 was completed providing direct access to the industrial park. Next, roadways within the park will be constructed to facilitate access. Bids are scheduled for January 2008, and the project should be completed within a year.

In April 2005, 2,800 passive acres were deeded to the City and County through the federal government’s Lands to Parks Program to be used as a nature park. Deemed too hilly for development, the nature park will include a system of trails for walking, hiking, cycling and horseback riding. The nature park will be one of the largest parks in the State of Tennessee.

CAPITAL OUTLAY

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

FUND BALANCE

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

Ratio of Net General Bonded Debt Outstanding

Fiscal Year Ended June 30	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
1998	\$ 168,410,000	1.23%	\$ 552
1999	\$ 152,365,000	1.08%	\$ 499
2000	\$ 135,890,000	0.93%	\$ 443
2001	\$ 173,680,000	1.15%	\$ 564
2002	\$ 154,960,000	0.88%	\$ 502
2003	\$ 139,070,000	0.77%	\$ 450
2004	\$ 162,040,000	0.89%	\$ 524
2005	\$ 143,380,000	0.77%	\$ 463
2006	\$ 125,510,000	0.57%	\$ 404
2007	\$ 107,730,000	0.45%	\$ 344



The background of the page features a photograph of a park. In the foreground, there is a large, intricate metal sculpture made of dark, weathered metal plates, resembling a complex geometric or organic form. Behind it, there are green trees and a clear blue sky. The overall scene is bright and sunny, with some lens flare effects.

FINANCIAL INFORMATION

ACCOUNTING SYSTEM AND INTERNAL CONTROL

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

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

BUDGET CONTROLS

The Board of Commissioners adopted the 2007 annual budget for the County in June 2006. A formal budget is employed as a management control device. The budgets are prepared on a basis consistent with GAAP except that encumbrances are treated as budgeted expenditures when the commitment to purchase has occurred. All unencumbered and unexpended appropriations lapse at year-end. The level at which expenditures may not legally exceed appropriations is the division level.

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

CASH MANAGEMENT POLICIES AND PRACTICES

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

During fiscal year 2007, the County's cash resources were primarily invested in AmSouth Bank's investment pool. The County did not invest in any derivatives or similar debt and investment instruments. The interest rates received by the County for the fiscal year ranged from 5.25 percent to 5.45 percent and yielded \$5,808,622 of interest income.

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

Associated with any investment activity, there is a risk that a governmental entity will be unable to fully realize its investments. Based on this risk, GASB has taken the position that a governmental entity should disclose information concerning its investments and deposits that will enable its constituents to better assess the associated risks. This information for Hamilton County has been provided based on criteria established by GASB as described in Note C to the Financial Statements.

RISK MANAGEMENT

The Hamilton County Financial Management Department administers the County's risk management program, which includes the self-funded insurance program (on-the-job injuries, auto and general liability) and commercial insurance program (property and boiler/machinery, other related policies) in order to protect the assets of Hamilton County.

The department is responsible for administering the claims associated with the self-funded program and does so utilizing a third-party claims administrator. The County has a Safety Program which is an integral part of this process and consists of an Executive Safety Committee and departmental safety committees, bolstered by regular staff training on a variety of topics as well as facility inspections.

In addition, the Risk Management Officer provides consultations on a variety of topics related to the various risks that divisions/departments face in their daily service delivery. To further minimize the County's exposure, the *Insurance Recommendations and Requirements Manual* is utilized for the various contracts and agreements of the County. Through the utilization of external resources, Financial Management also maintains an accurate and up-to-date property schedule for insurance purposes and obtains an annual actuarial review and evaluation to ensure adequate funding is maintained for the self-funded program.

GROUP INSURANCE

Each full-time employee is eligible for group medical and life insurance on the first of the month following thirty days of employment. The County offers two fully insured group medical plans through BlueCross BlueShield of Tennessee: a Co-pay PPO plan which was closed to new employees as of September 6, 2006 and a Coinsurance PPO plan, which is offered to all new hires. The County also provides \$20,000 of group term life insurance and \$20,000 of accidental death & dismemberment insurance at no cost to each full-time employee.

PENSION TRUST FUNDS

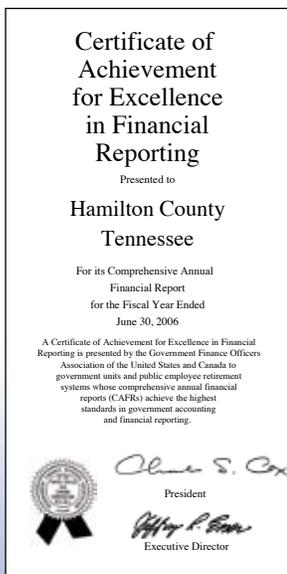
The vast majority of employees participate in the State of Tennessee Consolidated Retirement System (TCRS). The remaining employees participate in three very small County-administered plans. More detailed information concerning these plans can be found in Note H.

TCRS is an agent multiple-employer defined benefit pension plan, and publicly available financial reports can be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230.

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, 2006. Hamilton County has received this award for twenty-six 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, 2006. This is the fifth consecutive year Hamilton County received this award for the CABR. In order to be awarded a Distinguished Budget Presentation Award, a govern-

mental 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, 2007 continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.

ACKNOWLEDGEMENTS

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

Respectfully submitted,

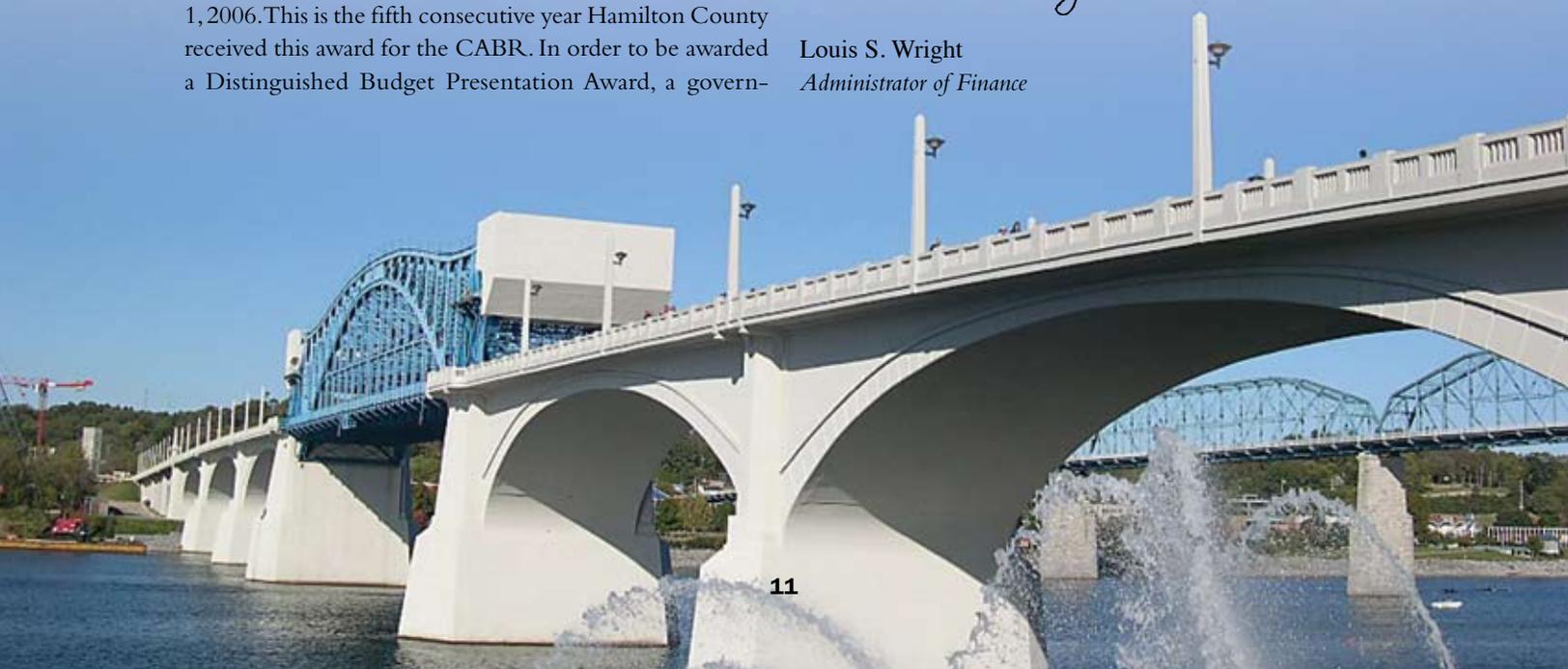
Louis S. Wright
Administrator of Finance



LOUIS S. WRIGHT
Administrator of Finance



ALBERT C. KISER
Assistant Administrator of Finance



HAMILTON COUNTY

GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2007)

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

Board of Commissioners

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

Legislative

Carolyn Collins, *Administrator*

Constitutional Officers

S. Lee Akers, *Clerk & Master*
Suzanne Bailey, *Juvenile Court Judge*
Bill Bennett, *Assessor of Property*
Bill Cox, *District Attorney*
William Long, *Sheriff*
Ardena Garth, *District Public Defender*
Pam Hurst, *Register of Deeds*
Bud Knowles, *Registrar-at-Large, Election Commission*
Dr. Frank King, *Medical Examiner*
William F. Knowles, *County Clerk*
Paula Thompson, *Circuit Court Clerk*
Carl E. Levi, *Trustee*
Ron Swafford, *Juvenile Court Clerk*
Gwen Tidwell, *Criminal Court Clerk*

Division & Department Heads

AUDITING

Bill W. McGriff, *County Auditor*

FINANCE

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

HEALTH SERVICES

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

HUMAN SERVICES

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

LEGAL

Rheubin M. Taylor, *County Attorney*

PUBLIC WORKS

Dan Wade, *Administrator*
Harold Austin, *Director of Highway Department*
Todd Leamon, *Chief Engineer, Director of Engineering*
Pat Payne, *Director of Building Inspection*



CITIZENS

COUNTY BOARD OF COMMISSIONERS
209-7200

LEGISLATIVE STAFF
209-7200
MEDICAL EXAMINER
493-5175

APPOINTED BOARDS
AUDITING
209-6200
LEGAL
209-6150

COUNTY MAYOR
209-6100

MAYORAL STAFF
209-6100

CHIEF OF STAFF
209-6180

HUMAN RESOURCES
209-6120

EQUAL EMPLOYMENT OPPORTUNITY
209-6144

DEVELOPMENT
209-6810

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

HUMAN SERVICES DIVISION
209-6800
EMERGENCY MANAGEMENT 209-6900
RECREATION 842-0177
MAINTENANCE 209-7700
CORRECTIONS 209-6880
SOCIAL SERVICES 209-6833

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

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

CONSTITUTIONAL OFFICES

ASSESSOR — 209-7300

CHANCERY COURT CHANCELLORS — 209-7380

CLERK AND MASTER — 209-6600

CIRCUIT COURT JUDGE — 209-6700

CIRCUIT COURT CLERK — 209-6700

COUNTY CLERK — 209-6500

CRIMINAL COURT JUDGE — 209-7500

CRIMINAL COURT CLERK — 209-7500

DISTRICT ATTORNEY — 209-7400

ELECTION COMMISSION — 493-5100

JUVENILE COURT JUDGE — 209-5100

JUVENILE COURT CLERK — 209-5250

PUBLIC DEFENDER — 634-6374

REGISTER — 209-6560

SESSIONS COURT JUDGE — 209-7660

SHERIFF — 209-7000

TRUSTEE — 209-7270





HENDERSON, HUTCHERSON & McCULLOUGH, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee (the County) as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the discretely presented component units of the County as of and for the year ended June 30, 2007 as displayed in the County's basic financial statements, except as described in the last two sentences of this paragraph. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion 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 4 percent and 2 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hamilton County "911" Emergency Communications District in the discretely presented component units, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund and the sheriff fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the discretely presented component units, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages iii-xvi of the Financial Section and the required supplementary information on pages B-1 through B-3 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal and state awards on pages G-1 through G-5 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund (presented on pages C-1 through C-18), combining and individual fund financial statements of the Board of Education (a discretely presented component unit) (pages D-1 through D-9), and financial schedules (pages E-1 through E-17) are presented for purposes of additional analysis and are also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund, combining and individual fund financial statements of the Board of Education (a discretely presented component unit), financial schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section (pages 1 through 14) and statistical tables (pages F-1 through F-20) are presented for purposes of additional analysis and are not a required part of the financial statements of the County. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Chattanooga, Tennessee
December 21, 2007

Henderson Hutcherson
& McCullough, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007. 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 2007 were \$481,410,992
- Revenues for governmental funds increased \$10,336,328 or 5.2 percent over last year
- Expenditures for governmental funds increased \$34,317,773 or 17.1 percent over last year
- Capital project expenditures were \$37,369,195 with \$30,744,012 spent for education
- Total debt at June 30, 2007 for the County was \$147,719,671, of which \$62,445,123 was for the Hamilton County Board of Education for capital improvements

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's basic financial statements contain three components:

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

The Statement of Activities presents information showing how the government's net assets changed during fiscal year 2007. 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 Board of Education, the Water and Wastewater Treatment Authority, Hamilton County "911" Emergency Communication, and Hamilton County Railroad Authority.

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

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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



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.

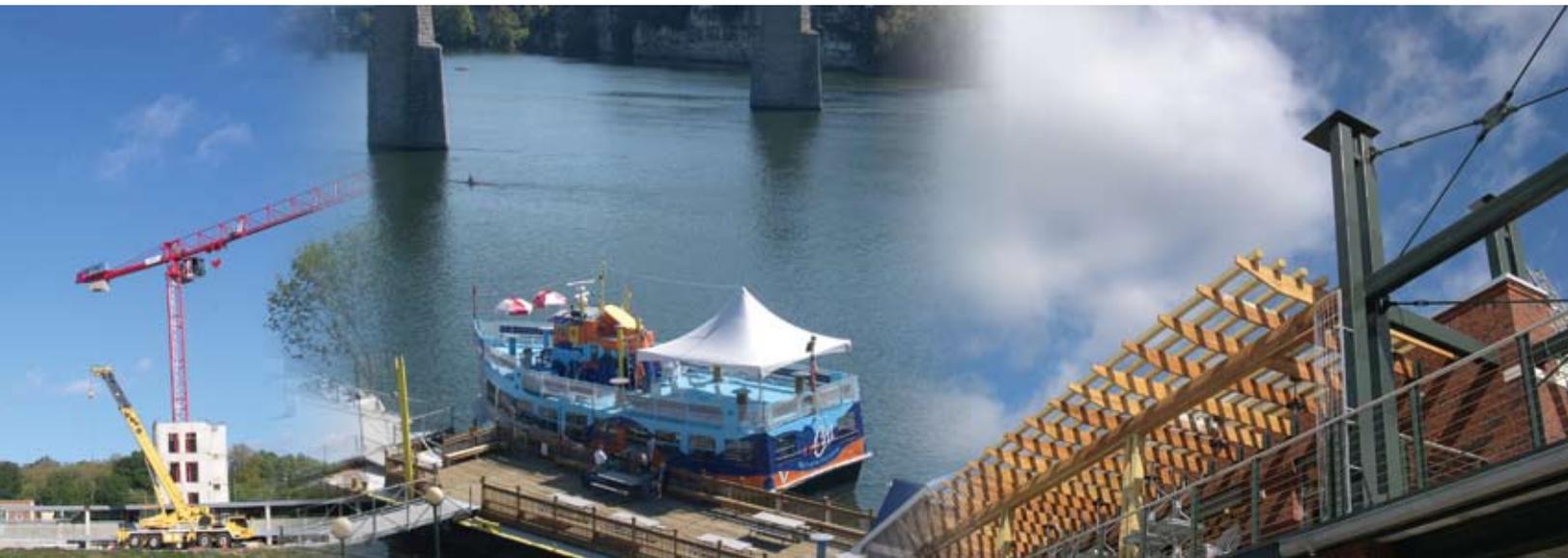
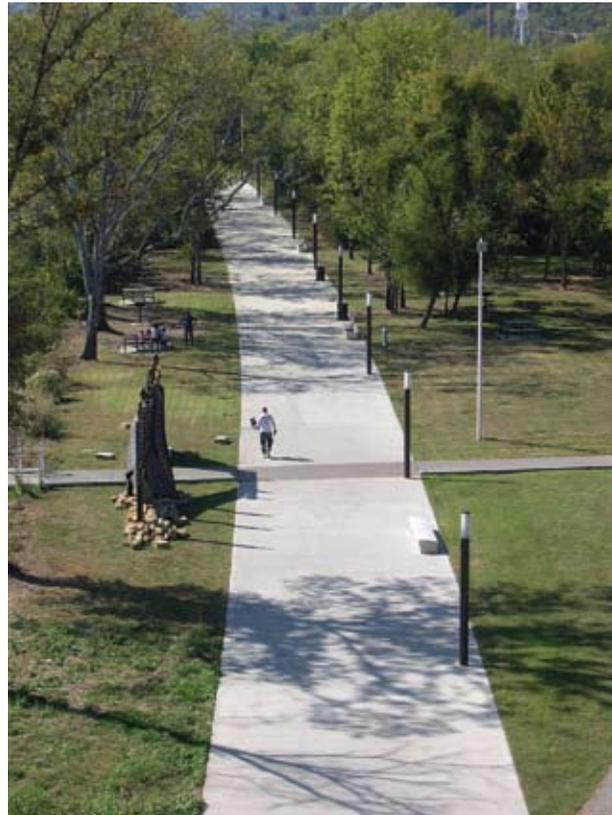
NOTES TO THE FINANCIAL STATEMENTS

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 financial statements can be found on pages A-20 to A-45 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 Board 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-20.



GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAMILTON COUNTY, TENNESSEE NET ASSETS

	Governmental Activities	
	2007	2006
ASSETS		
Current and Other Assets	\$ 247,011,256	\$ 227,064,904
Capital Assets	234,399,736	215,212,483
TOTAL ASSETS	481,410,992	442,277,387
LIABILITIES		
Long-term Liabilities	162,896,521	156,806,478
Other Liabilities	120,037,516	97,820,577
TOTAL LIABILITIES	282,934,037	254,627,055
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	197,381,058	172,743,851
Restricted	20,087,313	26,796,148
Unrestricted	(18,991,416)	(11,889,667)
TOTAL NET ASSETS	\$ 198,476,955	\$ 187,650,332

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 \$198,476,955 at the close of the fiscal year ended June 30, 2007.

Net assets are comprised of three elements:

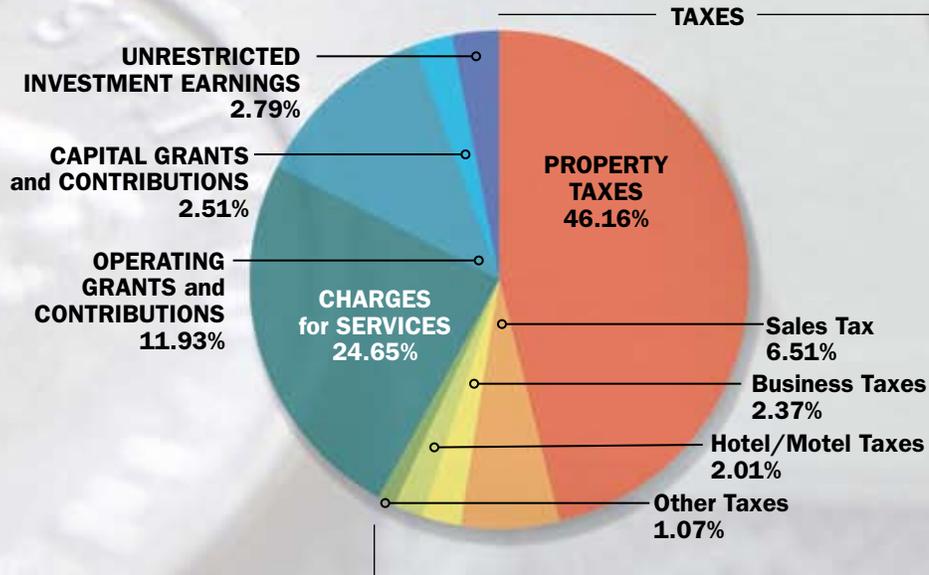
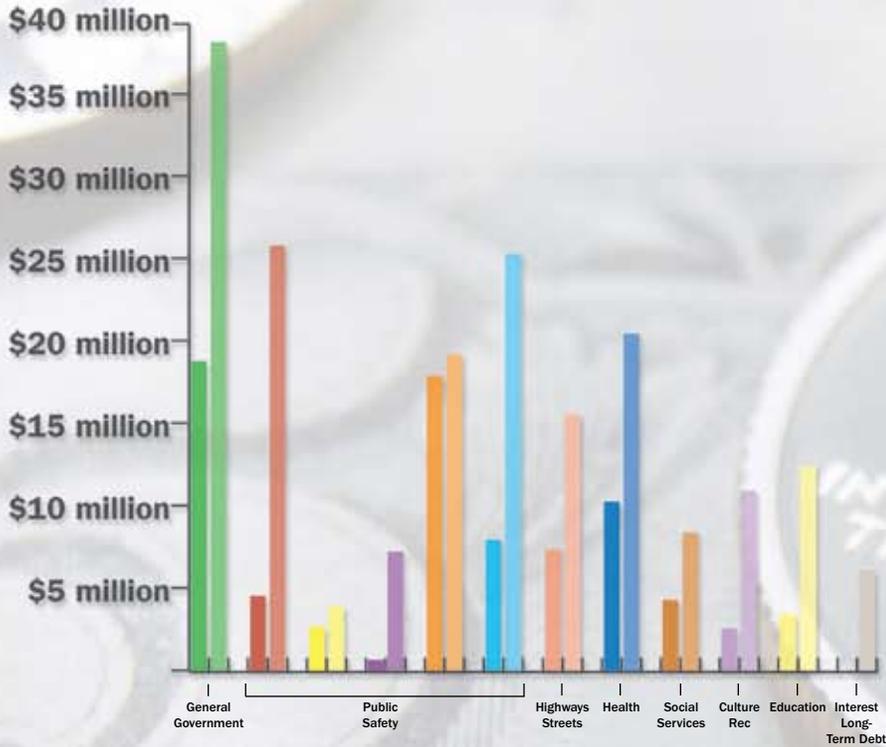
- (1) Investment in capital assets (e.g., land, buildings, infrastructures and equipment), less any related outstanding debt;
- (2) Restricted assets held for future capital improvements, debt repayment and other restrictions as prescribed by law; and
- (3) Unrestricted assets. The long-term liabilities of \$162,896,521 include \$62,445,123 of debt for assets contributed to the Hamilton County Board of Education, a component unit, which results in negative unrestricted net assets.



HAMILTON COUNTY, TENNESSEE CHANGES IN NET ASSETS

	Governmental Activities	
	2007	2006
REVENUES		
Program Revenues		
Charges for Services	\$ 51,300,244	\$ 50,906,935
Operating Grants and Contributions	24,838,263	24,653,509
Capital Grants and Contributions	5,230,533	3,091,343
Total Program Revenues	81,369,040	78,651,787
General Revenues		
Property Taxes	96,081,225	90,818,279
Other Taxes	24,882,938	25,516,604
Other	5,808,622	3,863,330
Total General Revenues	126,772,785	120,198,213
TOTAL REVENUES	208,141,825	198,850,000
EXPENSES		
General Government	38,442,141	34,981,305
Public Safety	83,021,880	77,081,738
Highways and Streets	15,540,503	13,673,235
Health	20,528,751	19,121,961
Social Services	7,911,773	7,776,426
Culture and Recreation	12,513,987	10,460,777
Education	13,011,783	12,792,560
Interest on Long-Term Debt	6,344,384	6,533,192
TOTAL EXPENSES	197,315,202	182,421,194
INCREASE (DECREASE) IN NET ASSETS	\$ 10,826,623	\$ 16,428,806





The County's net assets increased by \$10,826,623 during the current fiscal year. Elements key to this increase include:

- Property taxes increased by \$5,262,946 or 5.8 percent. Most of this increase is a result of growth and new development.
- Capital grants and contributions increased by \$2,139,190 or 69.2 percent. This growth is largely attributed to funds received for school renovations and construction.

- Unrestricted investment earnings increased by \$1,945,292 or 50.4 percent due to improved interest rates.

In total, expenditures increased by \$14,894,008 or 8.2 percent. The increase is due, in part, to a \$5,940,142 or 7.7 increase in public safety expenditures attributed mostly to the demand for ambulance services. General government expenditures rose by \$3,460,836 or 9.9 percent, and highways and streets expenditures increased by \$1,867,268 or 13.7 percent.

EXPENSES AND PROGRAM REVENUES for fiscal year ending June 30, 2007

	REVENUES	EXPENSES
General Government	\$ 18,226,689	\$ 38,442,141
Public Safety		
Sheriff	4,852,367	26,176,514
Criminal Court	2,641,719	3,835,788
Juvenile Court	676,830	7,960,486
Ambulance Services	18,697,842	19,676,312
Other	8,335,948	25,372,780
Highways and Streets	6,910,267	15,540,503
Health	10,474,176	20,528,751
Social Services	4,537,707	7,911,773
Culture and Recreation	2,678,368	12,513,987
Education	3,337,127	13,011,783
Interest on long-term debt	-	6,344,384
TOTAL	\$ 81,369,040	\$ 197,315,202

REVENUES BY SOURCE for fiscal year ending June 30, 2007

	2007	PERCENTAGE	2006	PERCENTAGE
Taxes				
Property Taxes	\$ 96,081,225	46.16%	\$ 90,818,279	45.69%
Sales Tax	13,547,577	6.51%	15,715,561	7.90%
Business Taxes	4,938,615	2.37%	5,096,014	2.56%
Hotel/Motel Tax	4,174,410	2.01%	3,960,862	1.99%
Other taxes	2,222,336	1.07%	744,167	0.37%
Charges for Services	51,300,244	24.65%	50,906,935	25.60%
Operating Grants and Contributions	24,838,263	11.93%	24,653,509	12.40%
Capital Grants and Contributions	5,230,533	2.51%	3,091,343	1.55%
Unrestricted Investment Earnings	5,808,622	2.79%	3,863,330	1.94%
TOTAL	\$ 208,141,825	100.00%	\$ 198,850,000	100.00%

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

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

As of the end of fiscal year 2007, the County's governmental funds reported combined ending fund balances of \$92,720,214 a decrease of \$907,018. The unreserved portion of fund balance was \$(40,354,784). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed:

- 1) to liquidate contracts and purchase orders of the prior period \$123,163,958;
- 2) for inventories, prepaid items and notes advances \$7,514,672; and
- 3) to cover other legal requirements \$2,396,368.

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 2007, unreserved fund balance of the General Fund was \$56,760,180, while the total fund balance was \$58,334,162. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 43.25 percent of the total General Fund expenditures, while total fund balance represents 44.45 percent of that same amount.

The unreserved fund balance of the County's General Fund increased by \$4,121,311 during the current fiscal year. The major reasons for that change are as follows:

- Property taxes increased by \$3,586,533 or 3.83 percent due to growth in the tax base and new development
- Investment earnings increased by \$746,721 or 53.95 percent due to improved interest rates

The Debt Service fund has a total fund balance of \$1,653,012. Beginning with the 1998 tax levy, the debt service tax levy was moved into the General Fund to better comply with

federal arbitrage regulations. Funds are transferred to the Debt Service fund as needed.

Capital Projects has a total fund balance of \$24,190,945. This represents \$13,097,339 from the issuance of bonds, \$3,133,625 from interest earnings and \$7,959,981 from other sources. Of the total fund balance, commitments are \$722,112 or 3 percent for school construction, \$11,952,016 or 49.5 percent for economic development, \$2,286,098 or 9.5 percent for recreation projects and \$9,230,719 or 38 percent for general government improvements.

The Sheriff's fund balance of \$2,289,614 increased by \$1,141,258 from the prior year. The increase was largely due to an increase of \$1,459,880 in operating transfers from the general fund. Investment earnings also increased by \$75,356 or 147.9 percent.

PROPRIETARY FUNDS

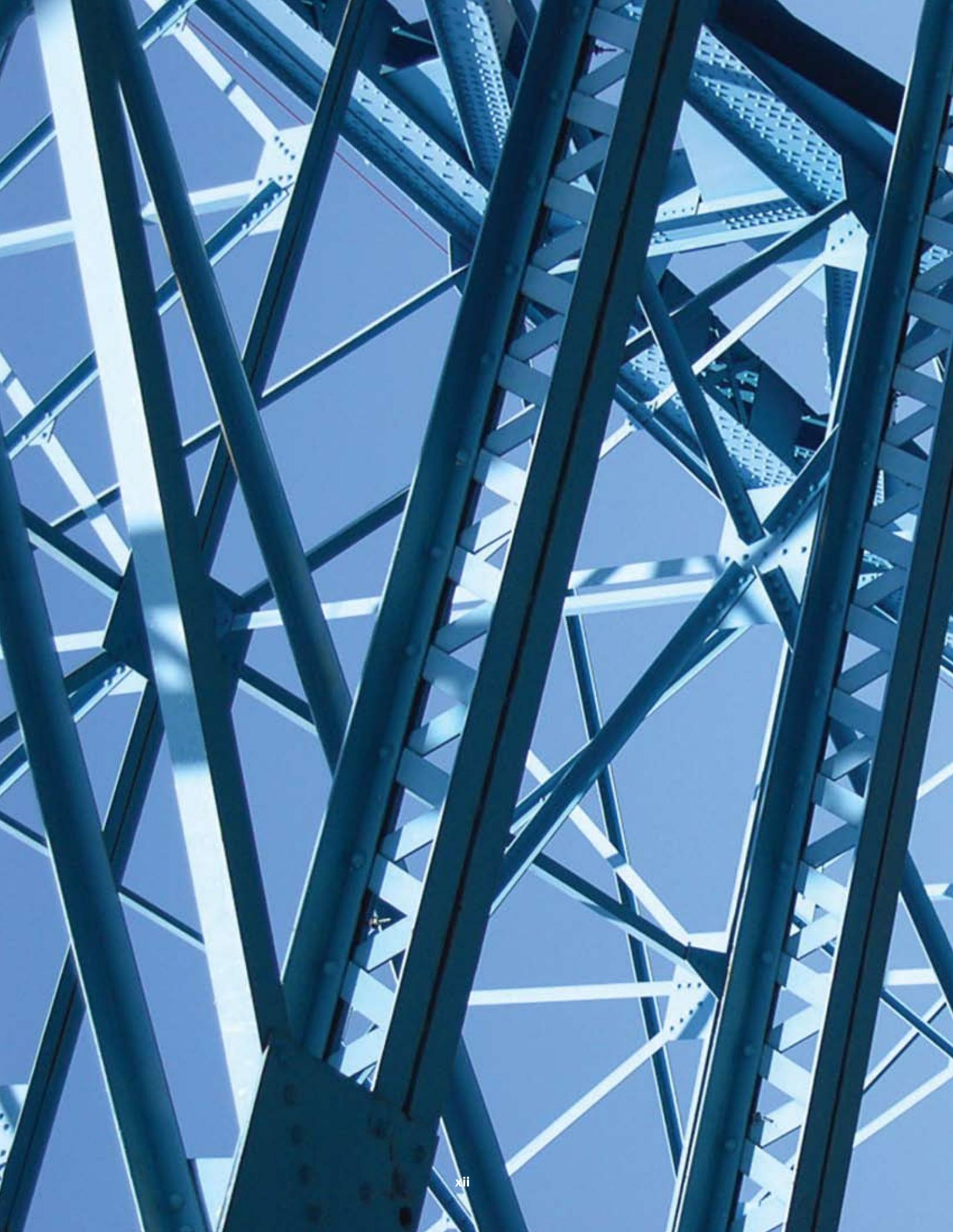
The County's Proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The County's Proprietary fund is used to account for the self-insurance programs. The County is self-insured for unemployment compensation, on-the-job injury claims, property and liability claims and losses due to liabilities arising under the laws of the state and federal governments. The cost for these programs is funded through premiums paid by the departments and agencies of Hamilton County Government. Unrestricted net assets for the Proprietary fund at the end of the fiscal year amounted to \$19,324,430.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$4,720,912 and can be briefly summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$3,725,694 of the increase.
- New grants from various state and federal agencies accounted for \$749,824 of the increase.
- Adjustments to operating budgets or new appropriations accounted for a \$245,394 increase.
- Actual revenues were less than final budgeted revenues by \$2.2 million. \$1.8 million or 80.5 percent of this shortfall is a result of a decrease in revenues received from the State.
- Expenditures were less than budgeted estimates by \$7.6 million. The General Fund was budgeted to use \$2.3 million of fund balance. With the favorable variance of actual expenditures to budget, \$3.8 million was added to fund balance.





CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2007 amounts to \$234,399,736 (net of accumulated depreciation \$180,440,257). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructures and construction in progress. The change in the County's investment in capital assets for the current fiscal year was 7 percent or \$27,081,258. Additional information on the County's capital assets can be found in Note G on pages A-31 to A-32 of this report.

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

- Infrastructure Construction of Enterprise South
- School construction and renovations

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2007

NET OF DEPRECIATION

	Beginning Balance	Additions	Retirements/ Depreciation	Ending Balance
Land	\$ 67,471,005	\$ —	\$ (322,468)	\$ 67,148,537
Construction in Progress	19,760,059	33,358,035	(9,187,761)	43,930,333
Buildings	49,211,903	3,676,580	(2,966,965)	49,921,518
Improvements other than buildings	17,121,454	44,278	(1,092,761)	16,072,971
Machinery and equipment	9,976,653	4,136,130	(4,840,825)	9,271,958
Infrastructure	51,671,409	—	(3,616,990)	48,054,419
	\$ 215,212,483	\$ 41,215,023	\$ (22,027,770)	\$ 234,399,736



LONG-TERM DEBT

At the end of fiscal year 2007, the County had general obligation bonds outstanding of \$107,730,000 and notes payable and other debt outstanding of \$39,989,671. Of this debt, \$62,445,123 or 42.3 percent was issued for Hamilton County Board of Education capital improvements.

The County's outstanding notes and bonded debt increased by \$4,887,662 or 3.4 percent during fiscal year 2007. This amount is the result of the issuance of bond anticipation notes netted with the scheduled retirement of debt. Additional information on the County's debt can be found in Note J on pages A-39 to A-42 of this report.

General Long-Term Debt

<i>General Obligation Bonds Outstanding</i>	\$ 107,730,000	72.93%
<i>Other Notes</i>	<u>39,989,671</u>	<u>27.07%</u>
	147,719,671	
<i>Less: Unreserved Debt Service Fund Balance</i>	<u>(1,653,012)</u>	
<i>Net General Long-Term Debt</i>	<u>\$ 146,066,659</u>	

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in preparing the County's budget for fiscal year 2008:

- Property taxes increased over the prior year's budget. Most of the County General's portion is a result of the twenty-six cent property tax increase plus a projected growth of 2 percent. The Department of Education also projected growth of 2 percent for property tax revenue.
- Local sales taxes have been estimated to increase 3 percent for the General Fund and the Department of Education Fund. A trend analysis is maintained by the budget staff on collections and is used to project sales tax revenue.
- The pay plan, now in its seventh year, will be funded from revenue growth and strategic economic spending. This year's phase of the plan will cost \$3,623,885.
- The cost of health insurance for Hamilton County General Government increased by \$1,477,222 this fiscal year.
- As a result of an actuarial valuation, \$1,600,000 has been appropriated in the 2008 budget to fund the estimated annual required contribution for Hamilton County General Government's other post employment benefits.

During this past year, the Tennessee State Legislature passed major reform to the Basic Education Plan funding formula.



\$39,989,671

27.07%

Other Notes

\$107,730,000

72.93%

*General Obligation Bonds
Outstanding*



REQUESTS FOR INFORMATION

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

Additional financial information can be found on our website <http://www.hamiltontn.gov>. Two discretely presented component units, "911" Emergency Communication and the Water & Wastewater Treatment Authority have separately issued financial reports that can be obtained from: Hamilton County "911" Emergency Communication District, 2402 Amnicola Highway, Chattanooga, TN 37406; Water & Wastewater Treatment Authority, P.O. Box 8856, Chattanooga, TN 37414.



STATEMENT OF NET ASSETS

HAMILTON COUNTY, TENNESSEE

June 30, 2007

	Primary Government Governmental Activities	Component Units
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 7,334,673	\$ 50,812,296
Certificates of deposit	-	7,749,783
Investments	86,655,305	4,020,078
Receivables, net of allowance for uncollectibles	132,947,436	135,626,643
Due from component units	17,238,312	-
Inventories	837,752	554,371
Prepaid items	282,984	1,782,423
Net pension asset	1,522,731	-
Land and other nondepreciable assets	111,078,870	19,449,321
Other capital assets, net of accumulated depreciation	<u>123,320,866</u>	<u>215,144,032</u>
 Total assets	 <u>481,218,929</u>	 <u>435,138,947</u>
LIABILITIES		
Accounts payable and accrued expenses	19,147,445	30,650,831
Due to primary government	-	294,211
Unearned revenue	100,698,008	108,461,885
Long-term liabilities:		
Due within one year	46,294,907	3,702,589
Due in more than one year	<u>116,601,614</u>	<u>41,426,032</u>
 Total liabilities	 <u>282,741,974</u>	 <u>184,535,548</u>
NET ASSETS		
Invested in capital assets, net of related debt	197,381,058	203,301,209
Restricted for:		
Capital projects	17,690,945	-
Other purposes	2,396,368	5,528,098
Unrestricted	<u>(18,991,416)</u>	<u>41,774,092</u>
 Total net assets	 <u>\$ 198,476,955</u>	 <u>\$ 250,603,399</u>

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

STATEMENT OF ACTIVITIES

HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Government activities:			
General government	\$ 38,442,141	\$ 15,358,345	\$ 2,447,583
Public safety:			
Sheriff	26,176,514	1,581,710	3,270,657
Criminal Court	3,835,788	2,641,719	-
Juvenile Court	7,960,486	676,830	-
Ambulance Services	19,676,312	18,697,842	-
Other	25,372,780	2,711,231	5,624,717
Highways and streets	15,540,503	1,960,832	4,399,315
Health	20,528,751	2,758,815	7,715,361
Social services	7,911,773	4,351,989	185,718
Culture and recreation	12,513,987	560,931	1,194,912
Education	13,011,783	-	-
Interest on long-term debt	6,344,384	-	-
TOTAL PRIMARY GOVERNMENT	\$ 197,315,202	\$ 51,300,244	\$ 24,838,263
Component units:			
Education	\$ 343,659,458	\$ 25,569,077	\$ 52,179,542
Emergency communications	3,575,022	5,598,189	-
Water and wastewater treatment	7,654,753	8,197,885	-
Railroad authority	520,561	9,988	528,079
TOTAL COMPONENT UNITS	\$ 355,409,794	\$ 39,375,139	\$ 52,707,621
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 assets			
Net assets, beginning			
Net assets, ending			

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

	Net (Expense) Revenues and Changes in Net Assets	
	Capital Grants and Contributions	Primary Government Governmental Activities
\$ 420,761	\$ (20,215,452)	
-	(21,324,147)	
-	(1,194,069)	
-	(7,283,656)	
-	(978,470)	
-	(17,036,832)	
550,120	(8,630,236)	
-	(10,054,575)	
-	(3,374,066)	
922,525	(9,835,619)	
3,337,127	(9,674,656)	
-	(6,344,384)	
<u>\$ 5,230,533</u>	<u>(115,946,162)</u>	
\$ 4,259,786		\$ (261,651,053)
-		2,023,167
3,609,267		4,152,399
-		<u>17,506</u>
<u>\$ 7,869,053</u>		<u>(255,457,981)</u>
	96,081,225	111,538,683
	13,547,577	56,991,614
	4,938,615	-
	4,174,410	-
	2,222,336	-
	-	96,880,129
	<u>5,808,622</u>	<u>2,866,879</u>
	<u>126,772,785</u>	<u>268,277,305</u>
	10,826,623	12,819,324
	<u>187,650,332</u>	<u>237,784,075</u>
	<u>\$ 198,476,955</u>	<u>\$ 250,603,399</u>

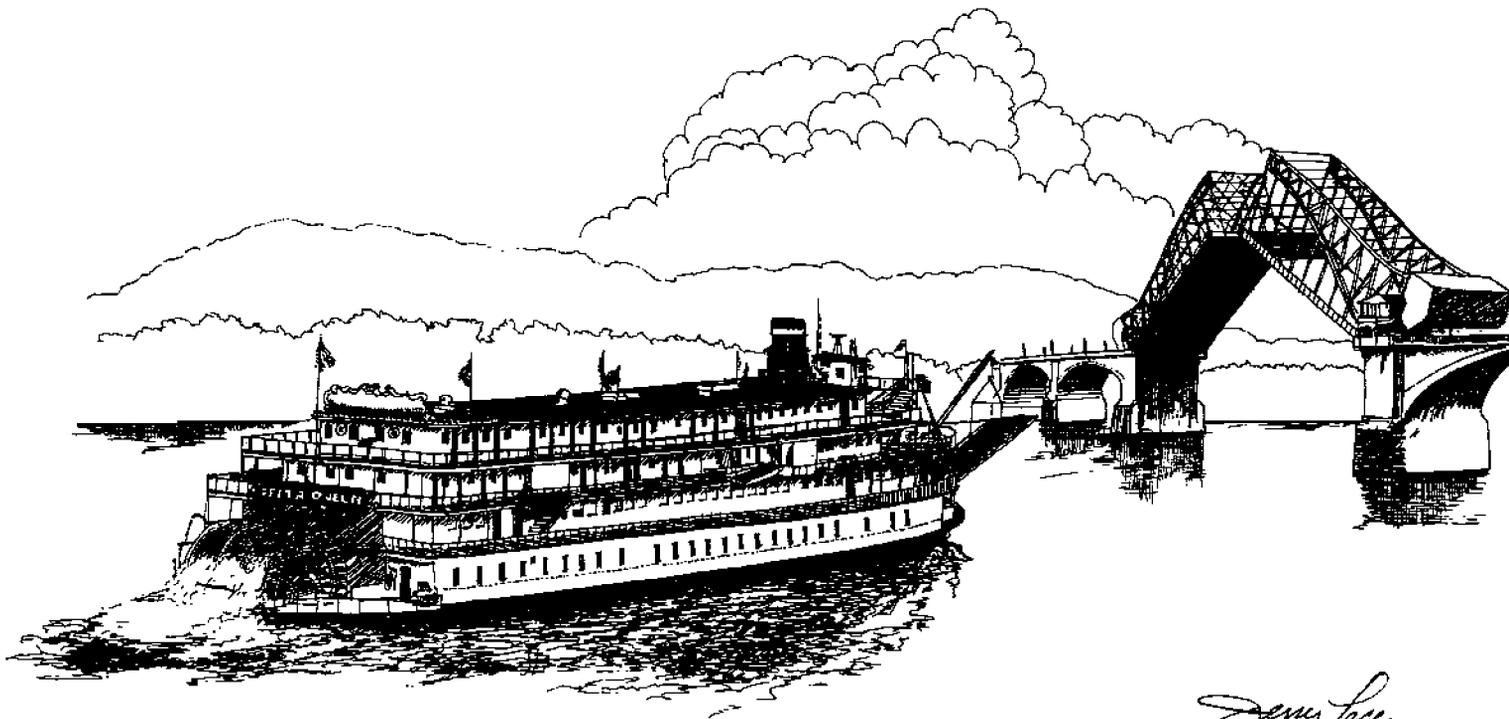
**BALANCE SHEET
GOVERNMENTAL FUNDS**

**HAMILTON COUNTY, TENNESSEE
June 30, 2007**

	General	Sheriff	Debt Service
ASSETS	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 3,313,949	\$ 30,859	\$ 148,942
Investments	41,088,485	2,726,414	428,559
Receivables, net of allowance for uncollectibles	122,586,600	437,085	2,033,828
Due from other funds	3,418,965	30,445	-
Due from component units	294,509	-	-
Inventories	837,752	-	-
Prepaid items	176,920	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 171,717,180</u>	<u>\$ 3,224,803</u>	<u>\$ 2,611,329</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Bank overdraft	\$ -	\$ 16,486	\$ -
Accounts payable	2,588,971	147,328	21,946
Accrued items and other	2,294,386	660,104	-
Intergovernmental payables	3,906,061	-	-
Due to other funds	66,642	111,271	285,006
Due to component units	-	-	-
Unearned revenues:			
Uncollected property taxes	104,420,474	-	-
Other	106,484	-	651,365
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>113,383,018</u>	<u>935,189</u>	<u>958,317</u>
Fund balances:			
Reserved for:			
Encumbrances	559,310	195,909	-
Inventories	837,752	-	-
Advances	-	-	-
Prepaid items	176,920	-	-
Litigants and beneficiaries	-	-	-
Restricted activities	-	567,171	-
Unreserved, reported in:			
General fund	56,760,180	-	-
Sheriff	-	1,526,534	-
Debt service	-	-	1,653,012
Capital projects fund	-	-	-
Special revenue funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>58,334,162</u>	<u>2,289,614</u>	<u>1,653,012</u>
Total liabilities and fund balances	<u>\$ 171,717,180</u>	<u>\$ 3,224,803</u>	<u>\$ 2,611,329</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 815,629	\$ 2,931,122	\$ 7,240,501
17,278,916	5,191,602	66,713,976
4,217,900	3,614,815	132,890,228
13,712	53,864	3,516,986
6,500,000	-	6,794,509
-	-	837,752
-	-	176,920
<u>\$ 28,826,157</u>	<u>\$ 11,791,403</u>	<u>\$ 218,170,872</u>
\$ 13,415	\$ 235,392	\$ 265,293
4,560,973	-	7,319,218
-	2,252,512	5,207,002
8,572	-	3,914,633
3,049	3,051,018	3,516,986
-	-	-
-	-	104,420,474
49,203	-	807,052
<u>4,635,212</u>	<u>5,538,922</u>	<u>125,450,658</u>
121,892,950	515,789	123,163,958
-	-	837,752
6,500,000	-	6,500,000
-	-	176,920
-	1,249,142	1,249,142
-	580,055	1,147,226
-	-	56,760,180
-	-	1,526,534
-	-	1,653,012
(104,202,005)	-	(104,202,005)
-	3,907,495	3,907,495
<u>24,190,945</u>	<u>6,252,481</u>	<u>92,720,214</u>
<u>\$ 28,826,157</u>	<u>\$ 11,791,403</u>	<u>\$ 218,170,872</u>



Jerry Lee
'90

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

HAMILTON COUNTY, TENNESSEE

June 30, 2007

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

Fund balances - total governmental funds		\$ 92,720,214
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		234,399,736
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.		4,529,518
Internal service funds are used by management to charge the costs of self-insurance programs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		19,324,430
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.		1,522,731
Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable		10,443,803
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:		
General obligation bonds	\$107,730,000	
Add: original issue premiums	1,195,863	
Notes payable & other debt	39,989,671	
Landfill post closure costs	250,000	
Compensated absences	13,730,987	
Accrued interest payable	<u>1,566,956</u>	
		<u>(164,463,477)</u>
Net assets of governmental activities		<u>\$ 198,476,955</u>

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

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

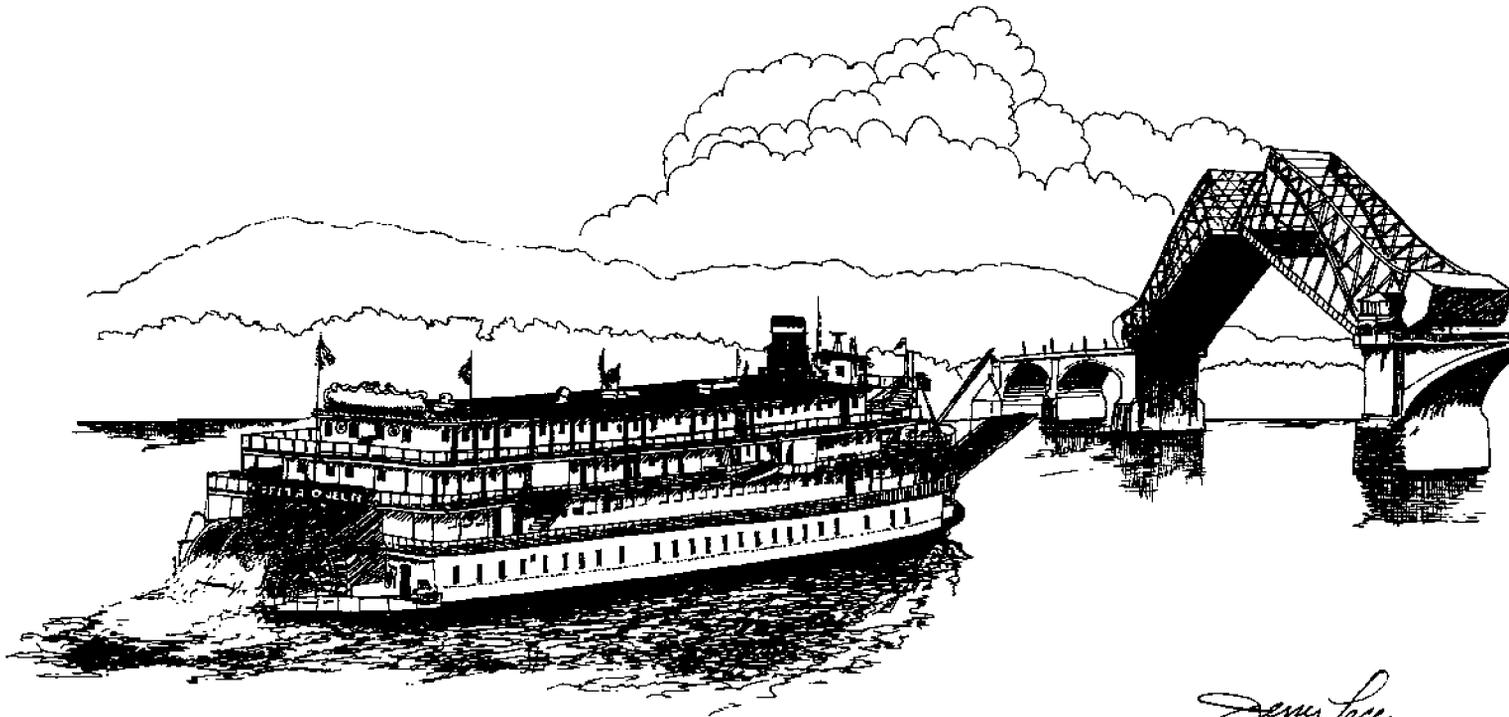
HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2007

	General	Sheriff	Debt Service
REVENUES			
Taxes	\$ 116,319,855	\$ -	\$ 316
Licenses and permits	1,003,230	-	-
Intergovernmental	20,529,023	3,270,657	2,404,225
Charges for services	23,188,957	105,242	465,107
Fines, forfeitures and penalties	1,167,822	587,429	-
Investment earnings	2,130,874	126,307	56,940
Miscellaneous	3,585,108	889,039	-
Total revenues	<u>167,924,869</u>	<u>4,978,674</u>	<u>2,926,588</u>
EXPENDITURES			
Current:			
General government	31,417,739	-	-
Public safety:			
Sheriff	-	25,276,122	-
Criminal Court	1,153,529	-	-
Juvenile Court	5,911,253	-	-
Ambulance Services	19,276,996	-	-
Other	23,311,883	-	-
Highways and streets	11,387,520	-	-
Health	20,281,542	-	-
Social services	4,755,754	-	-
Culture and recreation	11,154,441	-	-
Debt service:			
Principal	-	-	19,951,308
Interest and fiscal charges	-	-	6,626,765
Capital outlay:			
General government	2,594,422	-	-
Education	-	-	-
Total expenditures	<u>131,245,079</u>	<u>25,276,122</u>	<u>26,578,073</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,679,790</u>	<u>(20,297,448)</u>	<u>(23,651,485)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,785,190	21,438,706	24,168,248
Transfers out	(46,493,646)	-	(285,000)
Sale of capital assets	-	-	-
Proceeds from bond anticipation notes	-	-	-
Total other financing sources and uses	<u>(33,708,456)</u>	<u>21,438,706</u>	<u>23,883,248</u>
Net change in fund balances	2,971,334	1,141,258	231,763
Fund balances, beginning	<u>55,362,828</u>	<u>1,148,356</u>	<u>1,421,249</u>
Fund balances, ending	<u>\$ 58,334,162</u>	<u>\$ 2,289,614</u>	<u>\$ 1,653,012</u>

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

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,191,762	\$ 120,511,933
-	-	1,003,230
4,680,413	695,379	31,579,697
281,028	19,710,547	43,750,881
-	146,653	1,901,904
2,189,696	499,912	5,003,729
137,051	33,031	4,644,229
<u>7,288,188</u>	<u>25,277,284</u>	<u>208,395,603</u>
-	6,688,048	38,105,787
-	-	25,276,122
-	2,380,656	3,534,185
-	1,929,927	7,841,180
-	-	19,276,996
-	704,105	24,015,988
-	-	11,387,520
-	-	20,281,542
-	3,122,787	7,878,541
-	-	11,154,441
-	-	19,951,308
-	-	6,626,765
6,625,183	2,110	9,221,715
<u>30,744,012</u>	<u>-</u>	<u>30,744,012</u>
<u>37,369,195</u>	<u>14,827,633</u>	<u>235,296,102</u>
<u>(30,081,007)</u>	<u>10,449,651</u>	<u>(26,900,499)</u>
100	1,209,967	59,602,211
-	(12,698,565)	(59,477,211)
868,481	-	868,481
<u>25,000,000</u>	<u>-</u>	<u>25,000,000</u>
<u>25,868,581</u>	<u>(11,488,598)</u>	<u>25,993,481</u>
(4,212,426)	(1,038,947)	(907,018)
<u>28,403,371</u>	<u>7,291,428</u>	<u>93,627,232</u>
<u>\$ 24,190,945</u>	<u>\$ 6,252,481</u>	<u>\$ 92,720,214</u>



Jenny Lane
'90

**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, 2007

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	\$ (907,018)
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	36,886,111
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities	(9,849,159)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums and deferred amount on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment on long-term debt and related items.	(4,679,426)
The net revenues of internal service funds are reported with governmental activities	(128,194)
The net effect of various transactions involving capital assets is to decrease net assets	(7,849,699)
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities	(99,819)
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	(1,487,502)
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds	<u>(1,058,671)</u>
Change in net assets of governmental activities	<u>\$ 10,826,623</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, 2007

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 115,087,363	\$ 115,087,363	\$ 116,319,855	\$ 1,232,492
Licenses and permits	1,087,000	1,087,000	1,003,230	(83,770)
Intergovernmental revenues	18,713,123	22,937,169	20,529,023	(2,408,146)
Charges for services	12,485,207	12,485,207	11,481,520	(1,003,687)
Fines, forfeitures and penalties	1,367,801	1,367,801	1,167,822	(199,979)
Investment earnings	1,454,429	1,454,429	2,130,874	676,445
Miscellaneous	4,063,524	4,074,024	3,585,108	(488,916)
Total revenues	<u>154,258,447</u>	<u>158,492,993</u>	<u>156,217,432</u>	<u>(2,275,561)</u>
EXPENDITURES				
Current:				
General government	32,035,148	33,494,873	31,302,115	2,192,758
Public safety	36,851,746	39,134,844	37,761,507	1,373,337
Highways and streets	11,917,219	11,917,219	11,005,871	911,348
Health	21,848,727	22,111,924	20,342,379	1,769,545
Social services	5,073,678	5,100,395	4,741,894	358,501
Culture and recreation	11,719,786	11,719,786	11,150,118	569,668
Capital outlay	2,194,287	2,882,462	2,416,409	466,053
Total expenditures	<u>121,640,591</u>	<u>126,361,503</u>	<u>118,720,293</u>	<u>7,641,210</u>
Excess of revenues over expenditures	<u>32,617,856</u>	<u>32,131,490</u>	<u>37,497,139</u>	<u>5,365,649</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	12,037,197	12,037,197	12,785,190	747,993
Transfers out	(46,493,546)	(46,493,546)	(46,493,646)	(100)
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>(34,456,349)</u>	<u>(34,456,349)</u>	<u>(33,708,456)</u>	<u>747,893</u>
Net change in fund balance	(1,838,493)	(2,324,859)	3,788,683	6,113,542
Fund balance allocation	<u>1,838,493</u>	<u>2,324,859</u>	<u>-</u>	<u>(2,324,859)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>3,788,683</u>	<u>\$ 3,788,683</u>
Add encumbrances at end of year			559,310	
Less encumbrances at beginning of year			<u>(1,376,659)</u>	
Net change in fund balance--(GAAP Modified Accrual Basis)			2,971,334	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			<u>55,362,828</u>	
Fund balance at end of year--(GAAP Modified Accrual Basis)			<u>\$ 58,334,162</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, 2007**

	Budget Original	Budget Final	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 2,588,608	\$ 3,488,122	\$ 3,270,657	\$ (217,465)
Charges for current services	90,500	40,500	105,242	64,742
Fines, forfeitures and penalties	550,588	600,500	587,429	(13,071)
Investment earnings	10,000	10,000	126,307	116,307
Miscellaneous	653,000	653,000	889,039	236,039
Total revenues	3,892,696	4,792,122	4,978,674	186,552
EXPENDITURES				
Current:				
Public safety:				
Administration	1,682,306	1,705,734	1,757,310	(51,576)
Patrol	6,117,274	6,117,274	6,245,319	(128,045)
Jail	10,150,986	10,150,986	9,675,096	475,890
Process and court servers	732,533	732,533	680,570	51,963
Communications	1,444,665	1,444,665	1,364,225	80,440
Major crimes	1,833,891	1,833,891	1,749,503	84,388
Fugitive warrant	1,663,295	1,663,295	1,623,400	39,895
Special operations	1,028,897	1,028,897	979,734	49,163
Inmate commissary	-	-	278,313	(278,313)
Governor's Hwy Safety Grant	-	251,478	195,564	55,914
Electronic Fingerprint Grant	-	-	-	-
East TN Methamphetamine Task Force	-	607,201	572,354	34,847
2005 Justice Assistance Grant	-	18,609	64,060	(45,451)
IV-D civil process	164,231	164,231	129,939	34,292
Homeland Security	-	-	-	-
Total budgetary expenditures	24,818,078	25,718,794	25,315,387	403,407
Excess (deficiency) of revenues over (under) budgetary expenditures	(20,925,382)	(20,926,672)	(20,336,713)	589,959
OTHER FINANCING SOURCES (USES)				
Transfers in	21,438,706	21,438,706	21,438,706	-
Net change in fund balance	513,324	512,034	1,101,993	589,959
Fund balance allocation	(513,324)	(512,034)	-	512,034
	\$ -	\$ -	1,101,993	\$ 1,101,993
Add encumbrances at end of year			195,908	
Less encumbrances at beginning of year			(156,643)	
Net change in fund balance--(GAAP)			1,141,258	
Fund balance at beginning of year--(GAAP)			1,148,356	
Fund balance at end of year--(GAAP)			\$ 2,289,614	

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
June 30, 2007**

	<u>Governmental Activities - Internal Service Fund</u>
CURRENT ASSETS	
Cash	\$ 94,172
Investments	19,941,329
Receivable	57,208
Prepaid Insurance	<u>106,064</u>
Total current assets	<u>20,198,773</u>
CURRENT LIABILITIES	
Accounts payable	18,522
Accrued claims	<u>855,821</u>
Total current liabilities	<u>874,343</u>
NET ASSETS	
Unrestricted	<u>\$ 19,324,430</u>

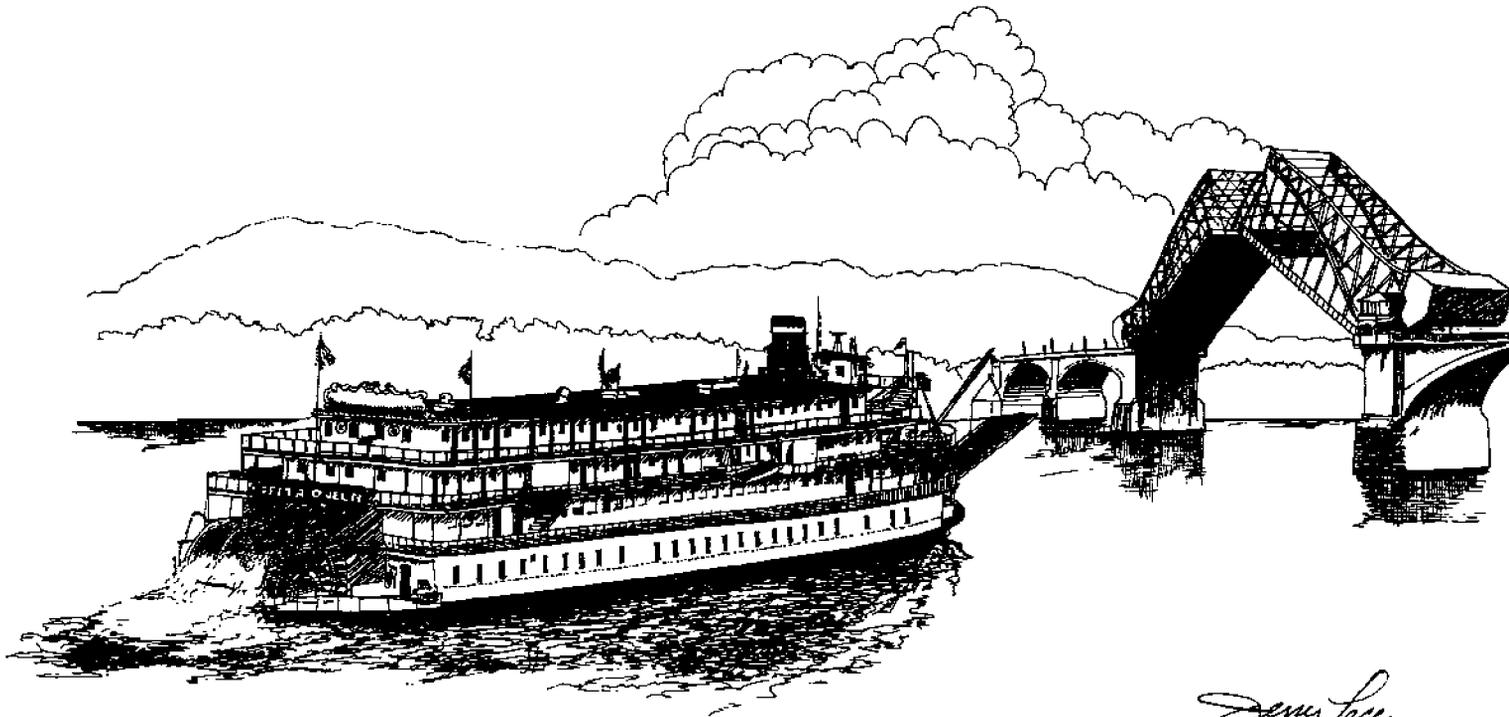
The Notes to Basic Financial Statements are an integral part of this statement.

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

**HAMILTON COUNTY, TENNESSEE
Year ended June 30, 2007**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Charges for services	\$ 17,019,740
Other	<u>543,610</u>
Total operating revenues	<u>17,563,350</u>
OPERATING EXPENSES	
Unemployment compensation	42,672
Claims and premiums	18,244,231
Administration	<u>84,534</u>
Total operating expenses	<u>18,371,437</u>
Operating income (loss)	(808,087)
NONOPERATING REVENUES	
Investment earnings	<u>804,893</u>
Income (loss) before transfers	(3,194)
Transfers out	<u>(125,000)</u>
Change in net assets	(128,194)
Net assets, beginning	<u>19,452,624</u>
Net assets, ending	<u>\$ 19,324,430</u>

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



Jenny Lane
'90

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE
Year ended June 30, 2007**

	Governmental Activities - Internal Service Fund
	<u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from (paid for) insurance premiums	\$ 17,577,785
Cash paid for unemployment compensation	(45,458)
Cash paid for claims and premiums	(16,864,354)
Cash paid for administration	<u>(84,535)</u>
Net cash used in operating activities	<u>583,438</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	<u>(125,000)</u>
Net cash used in non-capital financing activities	<u>(125,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(19,941,328)
Proceeds from sale of investments	18,557,168
Interest on investments	<u>804,894</u>
Net cash provided by investing activities	<u>(579,266)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(120,828)
BEGINNING CASH AND CASH EQUIVALENTS	<u>215,000</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 94,172</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	<u>\$ (808,087)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Change in due from other funds	12,347
Change in due from component units	-
Change in accounts payable	(1,856)
Change in accrued claims	13,840
Change in prepaid insurance	1,366,181
Change in due to other funds	1,514
Change in deferred revenue	<u>(501)</u>
Total adjustments	<u>1,391,525</u>
Net cash used by operating activities	<u>\$ 583,438</u>

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

**HAMILTON COUNTY, TENNESSEE
June 30, 2007**

	Pension Trust Funds	Constitutional Officers Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 346,057	\$ 10,256,847
Certificates of deposit	94,240	9,135,414
Investments, at fair value:		
Mutual funds	78,000	201,163
Domestic corporate bonds	887,442	-
Domestic equity securities	1,388,299	-
Foreign securities	51,750	-
U.S. government securities	48,871	-
	<u>2,454,362</u>	<u>201,163</u>
Receivables:		
Interest	3,082	-
Accounts	300	97,687
Due from other funds	<u>-</u>	<u>-</u>
Total assets	<u>2,898,041</u>	<u>19,691,111</u>
LIABILITIES		
Accrued items and other	2,080	13,634,857
Intergovernmental payables	-	6,056,254
Due to other funds	<u>-</u>	<u>-</u>
Total liabilities	<u>2,080</u>	<u>19,691,111</u>
NET ASSETS		
Assets held in trust for pension benefits	<u>\$ 2,895,961</u>	<u>\$ -</u>

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

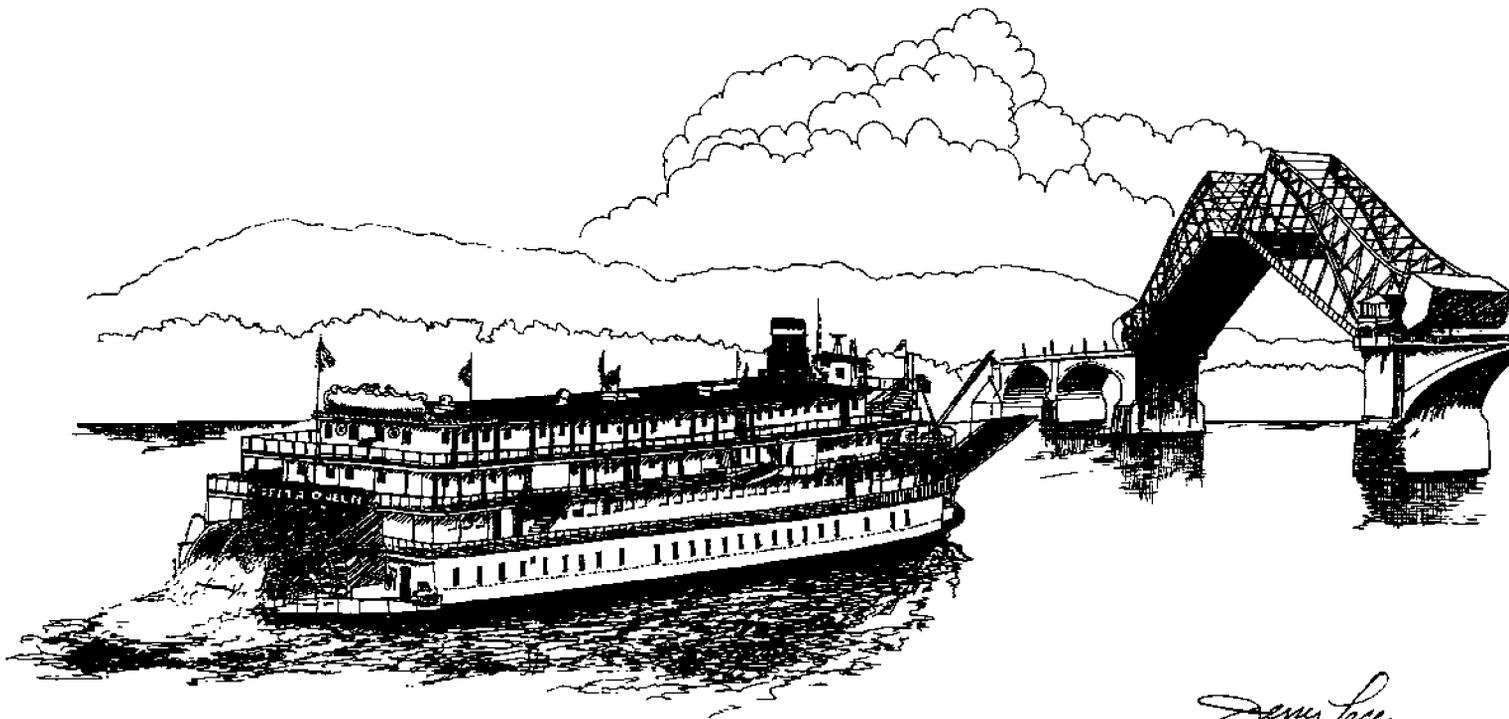
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2007

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 27,487
Plan members	<u>75,258</u>
Total contributions	<u>102,745</u>
Investment earnings:	
Net increase in fair value of investments	241,310
Interest	<u>62,251</u>
Net investment income	<u>303,561</u>
Total additions	<u>406,306</u>
DEDUCTIONS	
Benefits	266,282
Administrative expense	<u>19,343</u>
Total deductions	<u>285,625</u>
Change in net assets	120,681
Net assets, beginning	<u>2,775,280</u>
Net assets, ending	<u>\$ 2,895,961</u>

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



Jerry Luce
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**STATEMENT OF NET ASSETS
COMPONENT UNITS**

HAMILTON COUNTY, TENNESSEE

June 30, 2007

	Hamilton County Board of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Railroad Authority	Total
ASSETS					
Cash and cash equivalents	\$ 47,837,968	\$ 850,513	\$ 2,100,208	\$ 23,607	\$ 50,812,296
Certificates of deposit	305,177	7,444,606	-	-	7,749,783
Investments	1,516,045	2,504,033	-	-	4,020,078
Receivables, net of allowance for uncollectible	133,410,508	660,709	1,425,065	600	135,496,882
Receivables, restricted	-	-	129,761	-	129,761
Inventories	351,063	-	203,308	-	554,371
Prepaid items	1,546,342	62,019	174,062	-	1,782,423
Land and other nondepreciable assets	16,045,077	-	3,404,244	-	19,449,321
Capital assets, net of accumulated depreciation	<u>138,596,169</u>	<u>5,486,278</u>	<u>71,061,585</u>	<u>-</u>	<u>215,144,032</u>
Total assets	<u>339,608,349</u>	<u>17,008,158</u>	<u>78,498,233</u>	<u>24,207</u>	<u>435,138,947</u>
LIABILITIES					
Accounts payable and other current liabilities	28,692,456	46,471	1,911,179	725	30,650,831
Due to primary government	177,429	-	116,782	-	294,211
Unearned revenue	108,461,885	-	-	-	108,461,885
Noncurrent liabilities:					
Due within one year	2,657,852	-	1,044,737	-	3,702,589
Due in more than one year	<u>11,178,626</u>	<u>-</u>	<u>30,247,406</u>	<u>-</u>	<u>41,426,032</u>
Total liabilities	<u>151,168,248</u>	<u>46,471</u>	<u>33,320,104</u>	<u>725</u>	<u>184,535,548</u>
NET ASSETS					
Invested in capital assets, net of related debt	154,641,246	5,486,278	43,173,685	-	203,301,209
Restricted for:					
Food services	1,740,866	-	-	-	1,740,866
Extracurricular activities	2,970,533	-	-	-	2,970,533
Other purposes	816,699	-	-	-	816,699
Unrestricted	<u>28,270,757</u>	<u>11,475,409</u>	<u>2,004,444</u>	<u>23,482</u>	<u>41,774,092</u>
Total net assets	<u>\$188,440,101</u>	<u>\$ 16,961,687</u>	<u>\$45,178,129</u>	<u>\$ 23,482</u>	<u>\$250,603,399</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, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
HAMILTON COUNTY BOARD OF EDUCATION				
Regular instruction	\$ 160,234,008	\$ 1,582,554	\$ 21,656,654	\$ 2,302,868
Exceptional instruction	35,053,031	-	7,144,274	497,109
Vocational instruction	9,933,574	-	1,043,289	140,742
Support services:				
Pupil services	8,981,931	-	1,033,797	127,468
Instructional staff	19,113,448	-	8,668,075	-
Board of education	5,245,837	-	329	-
Administration	22,009,906	-	496,063	309,977
Business and fiscal services	1,932,046	-	9,776	-
Plant operation and maintenance	27,343,858	-	18,108	377,951
Pupil transportation	12,794,556	-	492,695	-
Central	3,625,424	-	35,880	-
Operation of noninstructional services:				
Community services	3,529,195	2,705,990	986,961	50,036
Early childhood education	1,336,629	9,869	1,215,609	-
Extracurricular	16,029,105	14,572,399	-	-
Child Nutrition	16,496,910	6,698,265	9,378,032	453,635
TOTAL BOARD OF EDUCATION	<u>343,659,458</u>	<u>25,569,077</u>	<u>52,179,542</u>	<u>4,259,786</u>
"911" EMERGENCY COMMUNICATIONS				
Emergency communications operations	<u>3,575,022</u>	<u>5,598,189</u>	<u>-</u>	<u>-</u>
WATER & WASTEWATER TREATMENT AUTHORITY				
Water and wastewater treatment operations	<u>7,654,753</u>	<u>8,197,885</u>	<u>-</u>	<u>3,609,267</u>
RAILROAD AUTHORITY				
Railroad authority operations	<u>520,561</u>	<u>9,988</u>	<u>528,079</u>	<u>-</u>
TOTAL COMPONENT UNITS	<u>\$ 355,409,794</u>	<u>\$ 39,375,139</u>	<u>\$ 52,707,621</u>	<u>\$ 7,869,053</u>

General revenues:

Property taxes

Sales taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Total general revenues

Change in net assets

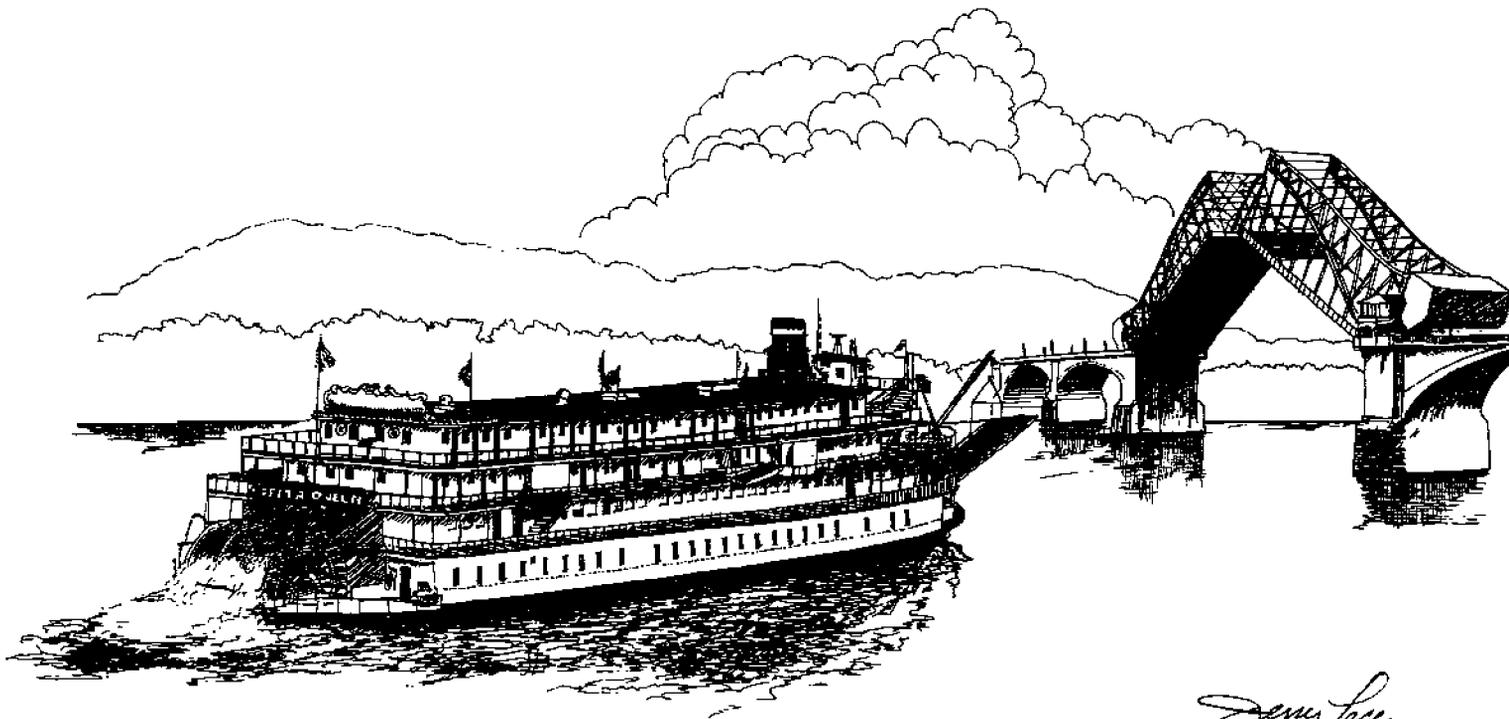
Net assets, beginning

Net assets, ending

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

Net (Expense) Revenue and
Changes in Net Assets

Hamilton County Board of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Railroad Authority	Total
\$ (134,691,932)				\$ (134,691,932)
(27,411,648)				(27,411,648)
(8,749,543)				(8,749,543)
(7,820,666)				(7,820,666)
(10,445,373)				(10,445,373)
(5,245,508)				(5,245,508)
(21,203,866)				(21,203,866)
(1,922,270)				(1,922,270)
(26,947,799)				(26,947,799)
(12,301,861)				(12,301,861)
(3,589,544)				(3,589,544)
213,792				213,792
(111,151)				(111,151)
(1,456,706)				(1,456,706)
<u>33,022</u>				<u>33,022</u>
<u>(261,651,053)</u>				
	<u>\$ 2,023,167</u>			2,023,167
		<u>\$ 4,152,399</u>		4,152,399
			<u>\$ 17,506</u>	<u>17,506</u>
				<u>(255,457,981)</u>
111,538,683	-	-	-	111,538,683
56,991,614	-	-	-	56,991,614
96,880,129	-	-	-	96,880,129
<u>2,428,026</u>	<u>362,765</u>	<u>76,088</u>	-	<u>2,866,879</u>
<u>267,838,452</u>	<u>362,765</u>	<u>76,088</u>	-	<u>268,277,305</u>
6,187,399	2,385,932	4,228,487	17,506	12,819,324
<u>182,252,702</u>	<u>14,575,755</u>	<u>40,949,642</u>	<u>5,976</u>	<u>237,784,075</u>
<u>\$ 188,440,101</u>	<u>\$ 16,961,687</u>	<u>\$ 45,178,129</u>	<u>\$ 23,482</u>	<u>\$ 250,603,399</u>



Jerry Lee
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NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE June 30, 2007

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NOTES TO BASIC FINANCIAL STATEMENTS

HAMILTON COUNTY, TENNESSEE JUNE 30, 2007

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. Because of the closeness of their relationship with the primary government (the County), some component units are blended as though they are part of the primary government; however, most component units are 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. The financial activities also include the operations of a centralized cafeteria system, school activity funds, capital projects, and an internal service fund. Additional information may be obtained from: Hamilton County Department of Education, 6703 Bonny Oaks Drive, Bldg. 200-1, Chattanooga, TN 37421.

Emergency Communication District Board (911) – The “911” Emergency Communication Board was approved by resolution of the Hamilton County Board of Commissioners after the passage of Chapter 867 of the 1984 Tennessee Public Acts which authorized Emergency Communications Districts. The nine-member board is appointed by the County Mayor, is approved by the Hamilton County Board of Commissioners, and is legally separate from Hamilton County. The Board of Commissioners must approve any bonds or indebtedness of the district. Complete financial statements may be obtained from: Hamilton County “911” Emergency Communication District, 2402 Amnicola Highway, Chattanooga, TN 37406.

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

Hamilton County Railroad Authority – The Railroad Authority (the Authority) was organized under the Railroad Authority Act of the State of Tennessee. The Authority was established on February 20, 2002 for the purpose of improving rail service in Hamilton County. The five-member Board consists of the County Mayor, City of Chattanooga Mayor, one member elected by the Board of County Commissioners, one member elected by the Chattanooga City Council, and the President and CEO of Chattanooga Area Chamber of Commerce. The Authority's Board has final decision-making authority for the entity. The Board of Commissioners must approve any bonds or indebtedness of the Authority. Additional information may be obtained from: Hamilton County Railroad Authority, 625 Walnut St., Room 210, Chattanooga, TN 37402.

(2) **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 P – Joint Venture.

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

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

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

Chattanooga-Hamilton County Hospital Authority – The County Mayor appoints, subject to the approval of the County Board of Commissioners, four members of the eleven-member Hospital Authority Board. The County is committed to fund a minimum of \$3,000,000 annually for indigent patient care to the Authority. The Authority has the ability to issue its own debt, which is not an obligation of the County, and primarily patient revenues finance its operations.

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

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements, focusing on either the County as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. At June 30, 2007, the County has no business-type activities in the primary government. In the government-wide Statement of Net Assets, the governmental activities (a) are presented on a consolidated basis in a single column and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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

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

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

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statement. Operating revenues and expenses are the result of providing services to the principal user of the internal service. Any revenues or expenses that are not the result of providing those services are classified as nonoperating. Since the principal users of the internal services are the County's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, highways and streets, etc.).

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

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

(4) **BASIS OF PRESENTATION**

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

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

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

a) Major Funds:

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

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

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

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

b) Other Fund Types:

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

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

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

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

c) Non-Current Governmental Assets/Liabilities:

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

(5) 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.

(6) BUDGET POLICY AND BUDGETARY DATA

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

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

Public hearings are conducted which allow for taxpayer comments.

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

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

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

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

Encumbrances against budgeted appropriations are recorded during the year upon execution of purchase orders, contracts, or other appropriate documents. Amounts shown as encumbrances at June 30, 2007, reflect material expenditures for goods and services that had not been received or completed at that date. These items are recorded as reservations of fund balances and provide authority for the carryover of appropriations to the subsequent year in order to complete these transactions. Encumbrances are utilized in the General Fund, certain special revenue funds, the Capital Projects Fund, and the General Purpose School Fund, a component unit.

The various departments within the County are organized by function into separate divisions. The level at which expenditures may not legally exceed appropriations is the division level. All budget amounts included in these financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2007, several supplemental appropriations were necessary.

(7) **ASSETS, LIABILITIES, AND FUND EQUITY**

a) Cash and Cash Equivalents

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

b) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase and investments in the state investment pool, which is a 2a7-like pool. The fair value of the County's position in the state investment pool is the same as the value of the pool shares. The state investment pool is managed by the Treasurer of the State of Tennessee under the oversight of the Tennessee Comptroller's Office.

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

c) Receivables

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

d) Inventories and Prepaid Items

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

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

e) Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. The County maintains infrastructure asset records consistent with other capital assets. The County’s threshold for additions to capital assets is \$5,000 in the primary government and \$5,000 for the Department of Education. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

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

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

f) Fund Balance

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

g) Pension Plans

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

(8) 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, 2006
Levy date	October 1, 2006
Tax bills mailed	October 1, 2006
Payment due dates	October 1, 2006 through February 28, 2007
Delinquency date	March 1, 2007
Tax sale – 2002 delinquent property taxes	June 2006

b) Grant Revenue

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

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

c) Investment Income

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

d) Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if they involve organizations external to the County are treated as revenues in the receiving fund and expenditures in the disbursing fund.

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

e) Payments Between the County and Component Units

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions – that is, as revenues and expenses. Payments from component units consist of debt service payments from "911" Emergency Communication for equipment purchased by the County.

f) Indirect Costs

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

g) Estimates

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

h) Vacation Pay and Sick Leave

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

(9) NET ASSETS

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

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

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

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

(10) ACCOUNTING PRONOUNCEMENTS

The County adopted GASB Statement No. 44, Economic Condition Reporting: the Statistical Section, during the year ended June 30, 2006. This statement updates the statistical section that accompanies the basic financial statements.

The County plans to adopt GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions, required for fiscal periods beginning after December 15, 2006, in fiscal 2008. This statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other nonpension benefits.

NOTE B – RESTATEMENT OF PRIOR YEAR BALANCES

As discussed in Note H, the Hamilton County Board of Education, a component unit, recorded adjustments to beginning net capital assets during the year ended June 30, 2007. As a result, net assets are restated at July 1, 2006 as follows:

	<u>Component Units</u>
Net assets, as previously reported	\$275,018,876
Adjustments to capital assets, net	<u>(37,234,801)</u>
	<u>\$237,784,075</u>

NOTE C – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

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

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2007, the County had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

At June 30, 2007, the County has a deficit of \$18,991,416 in unrestricted net assets in the government-wide statement of net assets for governmental activities. This deficit results from the specific reporting requirements of the GASB Statement No. 34 reporting model. The County’s government-wide financial statements include the liability for all general obligation bonds. Historically, significant portions of the County’s general obligation bonds are issued to acquire, construct, and develop facilities for the Department of Education. These facilities are not recorded as capital assets of the County’s governmental activities but are recorded as capital assets of the Department of Education, which is a discretely presented component unit. At June 30, 2007, the County’s long-term liabilities include general obligation bonds of \$61,356,322 issued for the Department of Education capital projects.

NOTE D – CASH AND INVESTMENTS

At June 30, 2007, investments of the primary government (except for Pension Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Primary Government – Governmental Activities:		
U.S. Government agency securities	0.99	\$ 48,057,851
Investment in local investment pool	0.00	38,531,518
Investment in state investment pool	0.00	50,936
Cash balances classified as investments	<u>0.00</u>	<u>15,000</u>
Total	<u>0.55</u>	\$ <u>86,655,305</u>
Primary Government – Agency Funds:		
U.S. Government agency securities	0.99	\$ 126,894
Investment in local investment pool	<u>0.00</u>	<u>74,269</u>
Total	<u>0.62</u>	\$ <u>201,163</u>
Component Units:		
U.S. Government agency securities	0.99	\$ 769,832
Investment in local investment pool	0.00	745,107
Investment in state investment pool	<u>0.00</u>	<u>2,505,139</u>
Total	<u>0.18</u>	\$ <u>4,020,078</u>

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the County purchases investments with maturities of two years or less. The County presents its exposure to interest rate changes using the weighted average maturity method. The County manages its interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year. The County’s policies limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. 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 – The County’s policies are designed to maximize investment earnings while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At June 30, 2007, the County’s investment in U.S. Government agency securities include Federal Home Loan Bank and Federal National Mortgage Association bonds, which were rated AAA by Moody’s Investor Service. The County also invests in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated.

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

	<u>Moody’s Rating</u>	<u>Fair Value</u>
U.S. Government and agency securities	AAA	\$ 48,871
Domestic corporate bonds	A1	52,524
Domestic corporate bonds	BAA1	25,476
Domestic equity securities	A+	320,411
Domestic equity securities	A	216,623
Domestic equity securities	A-	158,148
Domestic equity securities	B+	331,370
Domestic equity securities	B	251,270
Domestic equity securities	B-	56,593
Domestic equity securities	C	13,134
Domestic equity securities	Not rated	53,173
Mutual funds	Not rated	887,442
Foreign equity securities	Not rated	<u>39,327</u>
		<u>\$ 2,454,362</u>

NOTE E – RECEIVABLES

Receivables at June 30, 2007, 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	\$113,183,308	\$3,522,318	\$3,202,797	\$ 7,847,380	\$(5,169,203)	\$122,586,600
Sheriff	-	-	49,789	387,296	-	437,085
Debt service	-	-	39,897	1,993,931	-	2,033,828
Capital projects	-	-	108,054	4,109,846	-	4,217,900
Internal service	-	-	57,208	-	-	57,208
Nonmajor	-	-	<u>2,691,965</u>	<u>922,850</u>	-	<u>3,614,815</u>
	<u>\$113,183,308</u>	<u>\$3,522,318</u>	<u>\$6,149,710</u>	<u>\$15,261,303</u>	<u>\$(5,169,203)</u>	<u>\$132,947,436</u>
Component Units:						
Governmental	\$118,166,704	\$ -	\$ 558,790	\$19,716,706	\$5,605,330	\$132,836,870
Proprietary	-	-	<u>2,789,773</u>	-	-	<u>2,789,773</u>
	<u>\$118,166,704</u>	<u>\$ -</u>	<u>\$3,348,563</u>	<u>\$19,716,706</u>	<u>\$5,605,330</u>	<u>\$135,626,643</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, 2007.

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 \$250,000 at June 30, 2007, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$250,000 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, 2007. However, the actual cost of closure and post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in post closure requirements will be covered by appropriations in the General Fund.

NOTE G – COMMITMENTS AND CONTINGENCIES

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

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

The County has entered into various construction commitments. Such contracts include contracts for improvements to schools, industrial parks, jails, and other facilities related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2007. The total contractual commitments outstanding as of June 30, 2007, aggregated approximately \$119,601,259. The County has sufficient funds available to cover these commitments.

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, is as follows:

Primary Government	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 67,471,005	\$ -	\$ (322,468)	\$ 67,148,537
Construction in progress	<u>19,760,059</u>	<u>33,358,035</u>	<u>(9,187,761)</u>	<u>43,930,333</u>
Total non-depreciable assets	<u>87,231,064</u>	<u>33,358,035</u>	<u>(9,510,229)</u>	<u>111,078,870</u>
Depreciable Assets:				
Buildings	95,258,553	3,676,580	(835,306)	98,099,827
Improvements other than buildings	22,500,007	44,278	-	22,544,285
Machinery and equipment	38,089,534	4,136,130	(3,788,230)	38,437,434
Infrastructure	<u>144,679,577</u>	<u>-</u>	<u>-</u>	<u>144,679,577</u>
Total depreciable assets	<u>300,527,671</u>	<u>7,856,988</u>	<u>(4,623,536)</u>	<u>303,761,123</u>
Less Accumulated Depreciation for:				
Buildings	(46,046,650)	(2,427,421)	295,762	(48,178,309)
Improvements other than buildings	(5,378,553)	(1,092,761)	-	(6,471,314)
Machinery and equipment	(28,112,881)	(2,711,987)	1,659,392	(29,165,476)
Infrastructure	<u>(93,008,168)</u>	<u>(3,616,990)</u>	<u>-</u>	<u>(96,625,158)</u>
Total accumulated depreciation	<u>(172,546,252)</u>	<u>(9,849,159)</u>	<u>1,955,154</u>	<u>(180,440,257)</u>
Depreciable Assets, net	<u>127,981,419</u>	<u>(1,992,171)</u>	<u>(2,668,382)</u>	<u>123,320,866</u>
Governmental activities capital assets, net	<u>\$ 215,212,483</u>	<u>\$ 31,365,864</u>	<u>\$(12,178,611)</u>	<u>\$ 234,399,736</u>

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Non-Depreciable Assets:				
Land	\$ 15,967,024	\$ 78,053	\$ -	\$ 16,045,077
Construction in progress	<u>4,611,267</u>	<u>550,892</u>	<u>(1,757,915)</u>	<u>3,404,244</u>
Total non-depreciable assets	<u>20,578,291</u>	<u>628,945</u>	<u>(1,757,915)</u>	<u>19,449,321</u>
Depreciable Assets:				
Buildings	308,284,670	5,655,586	-	313,940,256
Improvements other than buildings	22,366,878	774,172	-	23,141,050
Machinery and equipment	26,980,181	657,673	(395,379)	27,242,475
Utility plant	<u>74,159,726</u>	<u>7,990,217</u>	<u>-</u>	<u>82,149,943</u>
Total depreciable assets	<u>431,791,455</u>	<u>15,077,648</u>	<u>(395,379)</u>	<u>446,473,724</u>
Less Accumulated Depreciation for:				
Buildings	(182,115,143)	(5,406,595)	-	(187,521,738)
Improvements other than buildings	(15,195,539)	(404,740)	-	(15,600,279)
Machinery and equipment	(14,862,079)	(2,159,731)	395,379	(16,626,431)
Utility plant	<u>(9,427,432)</u>	<u>(2,153,812)</u>	<u>-</u>	<u>(11,581,244)</u>
Total accumulated depreciation	<u>(221,600,193)</u>	<u>(10,124,878)</u>	<u>395,379</u>	<u>(231,329,692)</u>
Depreciable Assets, net	<u>210,191,262</u>	<u>4,952,770</u>	<u>-</u>	<u>215,144,032</u>
Component units capital assets, net	<u>\$ 230,769,553</u>	<u>\$ 5,581,715</u>	<u>\$(1,757,915)</u>	<u>\$ 234,593,353</u>

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
Ambulance	\$ 329,306
Criminal Court	288,308
General Government	1,513,344
Health	263,529
Highway	4,093,645
Juvenile Court	145,379
Public Safety	973,303
Recreation	1,204,188
Sheriff	1,025,482
Social Services	<u>12,675</u>
Total	<u>\$ 9,849,159</u>

Discretely Presented Component Units:	
Education	\$ 6,870,940
Water & wastewater treatment	2,303,894
"911" Emergency communications	<u>950,044</u>
Total	<u>\$10,124,878</u>

Following the implementation of GASB Statement No. 34 in 2002, the Hamilton County Board of Education continued to expand and refine its capital assets records, and during 2007, reviewed and adjusted the depreciable lives of the capital assets. As a result, net capital assets have been adjusted for the effect of these changes, as follows:

	<u>Component Units</u>
Capital assets, net, as previously recorded	\$268,004,354
Adjustment for change in depreciable lives	<u>(37,234,801)</u>
Capital assets, net, as restated	<u>\$230,769,553</u>

NOTE I – EMPLOYEE RETIREMENT SYSTEMS

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

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

The following is a summary of each of these plans:

Tennessee Consolidated Retirement Systems

(1) Political Subdivision Pension Plan (PSPP)

Plan Description:

Employees of Hamilton County are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member’s high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1,

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

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

Funding Policy:

Hamilton County adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 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, 2007, was 15.01% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost:

For the year ending June 30, 2007, Hamilton County’s annual pension cost of \$13,421,822 to TCRS was equal to Hamilton County’s required and actual contributions. The required contribution was determined as part of the July 1, 2005, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent per year compounded annually; (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries); (c) projected 3.5 percent annual increase in the social security wage base; and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hamilton County’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was twelve years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	\$13,421,822	100.00%	\$ -
6/30/06	10,971,880	100.00%	-
6/30/05	10,027,369	100.00%	-

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

Plan Description:

The Hamilton County Schools contribute to the SETHEEPP, a cost sharing, multiple-employer defined benefit pension plan administered by the TCRS. TCRS provides retirement as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member’s highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced benefit is available to vested members who are at least age 55 or have twenty-five years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service.

Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at 3 percent.

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

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, 2007 was 6.13% of annual covered payroll. The employer contribution requirement for Hamilton County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the year ending June 30, 2007, 2006, and 2005 were \$15,534,183, \$14,453,467, and \$13,850,969, respectively, equal to the required contribution for each year.

Hamilton County Administered Plans

Significant Accounting Policies:

Basis of Accounting

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

Method Used to Value Investments

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

Plan Description and Provisions:

(1) Employees' Pension Plan

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

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

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

(2) Commissioners' Pension Plan

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

(3) Teachers' Pension Plan

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

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Retirees and beneficiaries receiving benefits	37	11	13
Vested terminated employees	0	2	0
Active employees:			
Fully vested	0	5	0
Non vested	0	4	0
Actuarial valuation date	June 30, 2007	June 30, 2007	June 30, 2007

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, 2007 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u>	<u>Commissioners'</u>	<u>Teachers'</u>
	Private Acts of TN	Private Acts of TN	Pension Board
Contribution authorization:	Private Acts of TN	Private Acts of TN	Pension Board
How contributions are determined:	Actuarially	Actuarially	Actuarially
Required contribution rate:			
Active employees	6.4%	N/A	N/A
Employer	-	\$ 75,258	-
Other contributing entities	N/A	N/A	-
Actual contributions:			
Employees	-	-	-
Employer	-	\$ 75,258	-
Other contributing entities	N/A	N/A	-
Date of last actuarial valuation	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial valuation date for current contributions	June 30, 2007	June 30, 2007	June 30, 2007
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	40 years open	5-10 years open	40 years open

Annual Pension Cost:

For the year ended June 30, 2007, no employer contributions were made for the Employees' and Teachers' Pension Plans. Contributions to the Commissioners' Pension Plan totaled \$75,258.

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	\$ -	\$ 49,563	\$ -
Interest on net pension obligation (asset)	(26,421)	(6,287)	(58,274)
Adjustment to annual required contribution	<u>51,322</u>	<u>14,238</u>	<u>150,936</u>
Annual pension cost	24,901	57,514	92,662
Contributions made	<u>-</u>	<u>(75,258)</u>	<u>-</u>
Increase in net pension obligation (asset)	24,901	(17,744)	92,662
Net pension obligation (asset) at beginning of year	<u>(352,275)</u>	<u>(104,790)</u>	<u>(1,165,485)</u>
Net pension obligation (asset) at end of year	\$ <u>(327,374)</u>	\$ <u>(122,534)</u>	\$ <u>(1,072,823)</u>

Trend Information:

	<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u> <u>(Asset)</u>
Employees' Plan:	6/30/07	\$24,901	0.0%	\$ (327,374)
	6/30/06	1,558	0.0%	(352,275)
	6/30/05	1,564	0.0%	(353,833)
Commissioners' Plan:	6/30/07	57,514	130.9%	(122,534)
	6/30/06	30,844	244.0%	(104,790)
	6/30/05	27,497	218.2%	(60,376)
Teachers' Plan:	6/30/07	92,662	0.0%	(1,072,823)
	6/30/06	9,728	0.0%	(1,165,485)
	6/30/05	10,676	78.2%	(1,175,213)

Financial Reports:

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

COMBINING STATEMENT OF PLAN NET ASSETS

	Employees' <u>Pension</u>	Commissioners' <u>Pension</u>	Teachers' <u>Pension</u>	Total Pension Trust <u>Funds</u>
ASSETS				
Cash	\$ (71,043)	\$ 414,151	\$ 2,949	\$ 346,057
Certificate of deposit	-	-	94,240	94,240
Investments, at fair value:				
Domestic corporate bonds	887,442	-	-	887,442
Mutual funds	78,000	-	-	78,000
Domestic equity securities	1,388,299	-	-	1,388,299
Foreign securities	51,750	-	-	51,750
U.S. government securities	<u>48,871</u>	<u>-</u>	<u>-</u>	<u>48,871</u>
Total investments	<u>2,454,362</u>	<u>-</u>	<u>-</u>	<u>2,454,362</u>
Due from others	-	-	300	300
Interest receivable	<u>2,935</u>	<u>-</u>	<u>147</u>	<u>3,082</u>
Total receivable	<u>2,935</u>	<u>-</u>	<u>447</u>	<u>3,382</u>
 Total assets	 <u>2,386,254</u>	 <u>414,151</u>	 <u>97,636</u>	 <u>2,898,041</u>
LIABILITIES				
Accrued items	<u>-</u>	<u>-</u>	<u>2,080</u>	<u>2,080</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>2,080</u>	<u>2,080</u>
NET ASSETS				
Held in trust for pension benefits	<u>\$ 2,386,254</u>	<u>\$ 414,151</u>	<u>\$ 95,556</u>	<u>\$ 2,895,961</u>

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

	Employees' <u>Pension</u>	Commissioners' <u>Pension</u>	Teachers' <u>Pension</u>	Total Pension Trust <u>Fund</u>
ADDITIONS				
Contributions:				
Employer	\$ -	\$ 75,258	\$ -	\$ 75,258
Members	<u>-</u>	<u>-</u>	<u>27,487</u>	<u>27,487</u>
Total contributions	<u>-</u>	<u>75,258</u>	<u>27,487</u>	<u>102,745</u>
Investment earnings:				
Net increase (decrease) in fair value of investments	241,310	-	-	241,310
Interest	<u>43,632</u>	<u>13,134</u>	<u>5,485</u>	<u>62,251</u>
Net investment income (loss)	<u>284,942</u>	<u>13,134</u>	<u>5,485</u>	<u>303,561</u>
 Total additions	 <u>284,942</u>	 <u>88,392</u>	 <u>32,972</u>	 <u>406,306</u>
DEDUCTIONS				
Benefits	164,184	45,561	56,537	266,282
Consulting fees	608	609	608	1,825
Miscellaneous expense	124	-	-	124
Administrative expense	<u>17,394</u>	<u>-</u>	<u>-</u>	<u>17,394</u>
Total deductions	<u>182,310</u>	<u>46,170</u>	<u>57,145</u>	<u>285,625</u>
 Change in net assets	 102,632	 42,222	 (24,173)	 120,681
Net assets, beginning	<u>2,775,280</u>	<u>2,283,622</u>	<u>371,929</u>	<u>119,729</u>
Net assets, ending	<u>\$ 2,386,254</u>	<u>\$ 414,151</u>	<u>\$ 95,556</u>	<u>\$ 2,895,961</u>

NOTE J – POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County provides a portion of the health care benefits for certain retired employees. Employees who have retired under one of the County’s retirement plans and who are ineligible for Medicare can elect to continue their health care coverage until they become eligible for Medicare. The County recognizes the actual cost of these benefits as expenditures as the claims are paid. The County is reimbursed by the retirees using a formula based on date of retirement, years of service, and the County’s computed cost for active employees. During the fiscal year ended June 30, 2007, the County provided these health care benefits to 101 retirees at a cost of \$639,998.

NOTE K – LONG-TERM LIABILITIES

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

General Obligation Bonds – Hamilton County periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the County. These bonds are generally issued as 15- to 30- year serial bonds with the 15-year term being prevalent for the last few years. General obligation bonds are summarized by issue as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Amount Due Within One Year</u>
General Improvement, Series 1997 School, Series 1997	5.0 – 5.125%	\$ 775,540	\$ 155,108
General Improvement, Series 1998-A School, Series 1998-A	5.0 – 5.125%	16,874,460	3,374,892
General Improvement, Series 1998-B	4.5 – 5.0%	7,456,841	1,065,263
General Improvement, Series 2000 School, Series 2000	4.5 – 5.0%	1,398,159	199,737
General Improvement, Series 2002 School, Series 2002	4.4 – 5.1%	5,560,000	200,000
General Improvement Series 2004 School, Series 2004	5.0 – 5.3%	5,402,547	600,283
Water & Wastewater Treatment Authority, Series 2004	5.0 – 5.3%	26,412,453	2,934,717
	4.0%	2,623,750	1,421,250
	4.0%	7,871,250	4,263,750
	4.0 – 5.00%	15,200,000	1,266,666
	4.0 – 5.00%	8,800,000	733,334
	4.0 – 5.00%	<u>9,355,000</u>	<u>210,000</u>
Total payable from the Debt Service Fund		<u>\$107,730,000</u>	<u>\$16,425,000</u>

Note Payable and Other Debt – The County entered into a Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 2, 1996. This Agreement reserved funds for the County in the amount of \$9,500,000 (the “Loan”) from the proceeds of the Authority’s Adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1995. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. The County has withdrawn \$9,500,000 of the Funds reserved to fund certain public work projects and the incidental and necessary expenses related thereto. At June 30, 2007, the balance due per the Agreement was \$3,317,400, of which \$764,000 is due within one year.

The County entered into another Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 17, 1999. This Agreement reserves funds for the County in the amount of \$9,000,000 (the “Loan”) from the proceeds of the Authority’s adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1997. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 14-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. As of June 30, 2007, 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, 2007, the balance due per the Agreement was \$5,113,000, of which \$648,000 is due within one year.

The County has a long-term Agreement with the Corrections Corporation of America (“CCA”) for the management of the Hamilton County Penal Farm. This Agreement requires the County to make annual payments through 2013. The County’s obligation under this Agreement is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. At June 30, 2007, the County’s remaining obligation for this Agreement was \$1,685,470, of which \$267,736 is due within one year.

The County has entered into Agreements with certain municipalities within Hamilton County to fund a portion of the municipalities’ debt obligations. These Agreements include obligations to the City of Chattanooga for the University of Tennessee at Chattanooga Stadium project, the Memorial Auditorium project, and the Bessie Smith Hall project. The County also has an Agreement with the City of East Ridge for the Camp Jordan Park project. These Agreements represent 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. At June 30, 2007, the County’s remaining obligations to the City of Chattanooga total \$3,615,000, of which \$490,000 is due within one year. Remaining obligations to the City of East Ridge total \$170,000, of which \$80,000 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 Board of Education, on behalf of the County, shall make annual payments of principal in amounts equal to approximately level debt service payable in the years 2004 through 2018. The loan shall not bear interest. As of June 30, 2007, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2007, the County’s remaining obligation was \$1,088,801, of which \$90,733 is due within one year.

In August, 2006, the Board of Commissioners approved a resolution authorizing the issuance of bond anticipation notes in the form of commercial paper in an aggregate principal amount not to exceed \$125,000,000. In September, 2006, the County issued \$25,000,000 in short-term commercial paper, bearing annual interest rates of 3.58%-3.74%. 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 the County is obligated to make monthly interest payments on the debt.

Arbitrage Rebate – In accordance with the Tax Reform Act of 1986, state and local governments are required to refund according to a prescribed formula any arbitrage from investing the proceeds of tax-exempt debt issues. Specifically, the Tax Reform Act of 1986, the Technical and Miscellaneous Revenue Act of 1988, the Revenue Reconciliation Act of 1989, and the Revenue Reconciliation Act of 1990 provide for an arbitrage “rebate” of 100% of amounts earned in excess of the effective rate of the debt issued for most governments. The County has elected to retain arbitrage rebates and remit payments to the federal government every five years. As of June 30, 2007, the County had no current arbitrage rebate liabilities on any of its General Obligation Bonds. The current liabilities, if any, are recorded in the Capital Projects Fund.

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:		
2008	\$ 16,425,000	\$ 4,793,315
2009	13,180,000	4,123,415
2010	13,155,000	3,496,189
2011	10,775,000	2,911,345
2012	10,795,000	2,394,615
2013-2017	29,315,000	6,305,423
2018-2022	7,310,000	2,285,898
2023-2027	3,225,000	1,198,024
2028-2032	2,415,000	611,022
2033-2034	<u>1,135,000</u>	<u>79,747</u>
	<u>\$ 107,730,000</u>	<u>\$ 28,198,993</u>

Notes Payable and Other Debt:		
2008	\$ 27,340,469	\$ 264,593
2009	2,259,238	218,998
2010	2,255,538	185,585
2011	2,345,338	151,652
2012	1,500,469	115,312
2013-2017	4,107,148	183,287
2018-2019	<u>181,471</u>	<u>-</u>
	<u>\$ 39,989,671</u>	<u>\$ 1,119,427</u>

Changes in Long-term Liabilities – During the year ended June 30, 2007, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30</u>	<u>Due Within</u> <u>One Year</u>
Primary Government-Governmental Activities					
General obligation bonds	\$125,510,000	\$ -	\$17,780,000	\$107,730,000	\$16,425,000
Notes payable and other debt	17,322,009	25,000,000	2,332,338	39,989,671	27,340,469
Landfill post closure costs	260,000	-	10,000	250,000	10,000
Compensated absences	<u>12,320,370</u>	<u>6,449,492</u>	<u>5,038,875</u>	<u>13,730,987</u>	<u>2,519,438</u>
	<u>\$155,412,379</u>	<u>\$31,449,492</u>	<u>\$25,161,213</u>	161,700,658	<u>\$46,294,907</u>
Net deferred premiums				<u>1,195,863</u>	
				<u>\$162,896,521</u>	
Component Units:					
Long-term advance due to					
primary government	\$17,158,381	\$ 5,000	\$ 307,500	\$16,855,881	\$ 307,500
Notes payable and other debt	14,633,690	1,863,340	1,059,887	15,437,143	834,737
Compensated absences	<u>13,218,467</u>	<u>-</u>	<u>382,870</u>	<u>12,835,597</u>	<u>2,560,352</u>
	<u>\$45,010,538</u>	<u>\$ 1,868,340</u>	<u>\$ 1,750,257</u>	<u>\$45,128,621</u>	<u>\$3,702,589</u>

Debt service requirements for general obligation bonds, notes payable and other debt are met by the General Fund, Hotel/Motel Fund, and intergovernmental funds received directly by the Debt Service Fund. Compensated absences are liquidated by the General Fund and Special Revenue Funds.

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

Total reductions in Long-Term Liabilities for Governmental Activities above exceed principal retirement expenditures in the Debt Service Fund by the amount of Hotel/Motel taxes that are used to reduce the County's obligations to other municipalities (\$245,000 in 2007), landfill post-closure care costs paid from the General Fund and compensated absences used during the year.

NOTE L – CONSTITUTIONAL OFFICERS

Certain operating expenditures of the Constitutional Officers for the year ended June 30, 2007, which are budgeted and included within the General Fund, are summarized as follows:

	Compensation and Fringe <u>Benefits</u>	Purchased <u>Services</u>	Capital <u>Outlay</u>	<u>Total</u>
Circuit Court Clerk	\$ 765,882	\$ 294,213	\$ 5,098	\$ 1,065,193
Clerk and Master	515,855	139,981	6,356	662,192
County Clerk	1,270,512	230,106	2,895	1,503,513
Criminal Court Clerk	1,007,447	133,070	13,012	1,153,529
Juvenile Court Clerk	-	-	4,946	4,946
Register	285,399	82,948	1,880	370,227
Sheriff	-	-	599,779	599,779
Trustee	252,175	63,766	2,249	318,190
Election Commission	1,069,540	351,118	370,516	1,791,174
Assessor of property	<u>2,595,129</u>	<u>276,668</u>	<u>53,876</u>	<u>2,925,673</u>
	<u>\$ 7,761,939</u>	<u>\$1,571,870</u>	<u>\$1,060,607</u>	<u>\$10,394,416</u>

NOTE M – 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, 2007, there were a total of 63 series outstanding (60 series of Industrial Revenue Bonds and 3 series of Mortgage Revenue Bonds). The aggregate principal amount payable for 6 Industrial Revenue Bond series issued after July 1, 1995, was \$5,859,863.

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 N – INTERFUND RECEIVABLES AND PAYABLES

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

<u>Receivable Primary Government</u>	<u>Payable Primary Government</u>	<u>Amount</u>
General Fund	Sheriff	\$ 111,271
General Fund	Capital Projects	3,049
General Fund	Nonmajor Governmental Funds	3,019,645
General Fund	Debt Service	285,000
Sheriff	Nonmajor Governmental Funds	30,445
Capital Projects	General Fund	13,712
Nonmajor Governmental Funds	General Fund	52,930
Nonmajor Governmental Funds	Debt Service	6
Nonmajor Governmental Funds	Nonmajor Governmental Funds	928
		<u>\$ 3,516,986</u>

<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Fund	Water & Wastewater Authority	\$ 116,782
General Fund	General Purpose School	115,222
General Fund	Centralized Cafeteria	22,207
General Fund	“911” Emergency Communication	298
		<u>\$ 294,509</u>

<u>Receivable Component Units</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Purpose School	Centralized Cafeteria	\$ 1,565,128
Education Capital Projects	General Purpose School	2,000,000
BOE Internal Service	Education Capital Projects	9,343
BOE Internal Service	General Purpose School	12,699,941
BOE Internal Service	Centralized Cafeteria	<u>1,997,415</u>
		<u>\$18,271,827</u>

NOTE O – INTERFUND TRANSFERS

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

<u>Transfers in Primary Government</u>	<u>Transfers Out Primary Government</u>	<u>Amount</u>
General Fund	Debt Service	\$ 285,000
General Fund	Nonmajor Governmental Funds	12,375,190
General Fund	Internal Service	125,000
Sheriff	General Fund	21,438,706
Debt Service	General Fund	23,844,873
Debt Service	Nonmajor Governmental Funds	323,375
Capital Projects	General Fund	100
Nonmajor Funds	General Fund	<u>1,209,967</u>
		<u>\$59,602,211</u>

NOTE P – 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 original construction of the Chattanooga/Hamilton County Convention and Trade Center and parking garage was financed by Lease Rental Revenue Bonds issued by the Industrial Development Board of Hamilton County, Tennessee, in 1985. On September 15, 1994, the Industrial Development Board of Hamilton County, Tennessee, issued \$15,835,000 of Lease Rental Revenue Bonds to provide funds for the refunding of a portion of Series 1986 Lease Rental Revenue Bonds to provide funds to be advanced to the Corporation to pay the cost of certain engineering, architectural, and environmental services and to pay the cost of issuance of the Series 1994 Bonds.

The City and the County funded the repayment of the bonds through rental payments to Carter Street Corporation equal to the Corporation's total principal and interest payments. Repayment of the total bond indebtedness occurred in the year ended June 30, 2006. 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, 2007, is as follows:

ASSETS	
Cash	\$ 809,566
Accounts receivable	652,631
Inventories	96,518
Prepaid expenses	58,377
Premises and equipment	11,893,184
Other assets	<u>16,900</u>
Total assets	<u>\$13,527,176</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable and accrued items	\$ 231,739
Deferred revenues	20,000
Advance deposits	<u>80,926</u>
Total liabilities	<u>332,665</u>
NET ASSETS	
Invested in capital assets, Net of related debt	11,893,184
Unrestricted	<u>1,301,327</u>
Total net assets	<u>13,194,511</u>
Total liabilities and net assets	<u>\$13,527,176</u>

Schedule of Revenues, Expenses and Changes in Fund Equity:

Total operating revenues	\$ 6,319,120
Total operating expenses	<u>6,719,542</u>
Loss from operations	(400,422)
Non-operating revenues	412,410
Non-operating expenses	<u>2,446</u>
Net income	9,542
Net assets at July 1, 2006	<u>13,184,969</u>
Net assets at June 30, 2007	<u>\$13,194,511</u>

NOTE Q – RISK MANAGEMENT

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

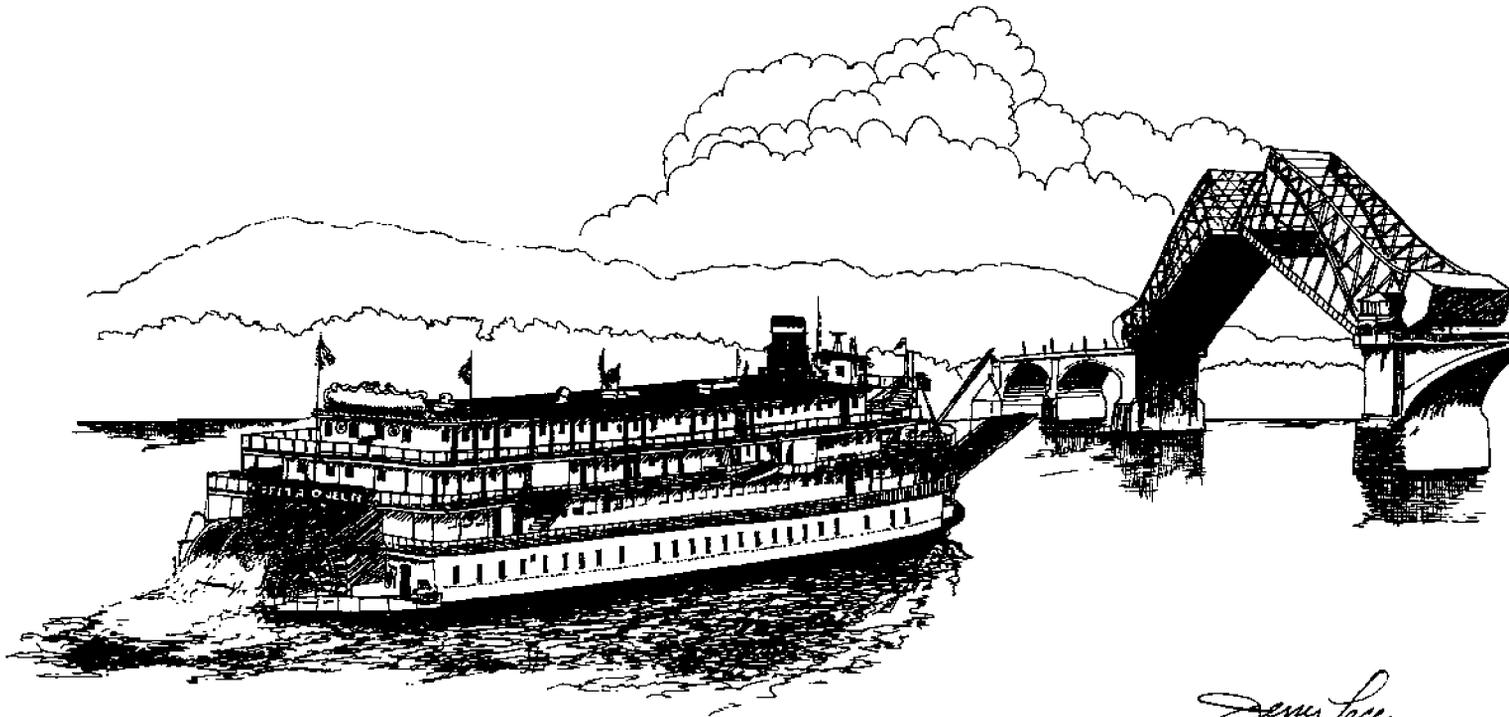
The County is self-funded for liability, on-the-job injuries, errors and omissions, unemployment compensation and the first \$25,000 per incident on property and boiler/machinery claims. The County has an excess liability policy with limits of \$1,000,000 per occurrence and a \$600,000 retention covering liability claims outside of the County’s tort limits, and non-tort claims such as employment-related liability, medical malpractice, benefits and law enforcement liability. The County has a liability policy to cover election polling booth locations with a \$1,000 deductible and a \$1,000,000 per occurrence and aggregate limit. In addition, the County carries a \$1,000,000 excess auto liability policy for out-of-state travel. The County also has a jointly owned Pollution Legal Liability Policy with the City of Chattanooga, which covers specified acreage at the Enterprise South Industrial Park identified for development with limits of \$35,000,000 and a \$500,000 deductible with a term of up to 15 years, which commenced on January 8, 2003. There were no significant reductions in insurance coverage from the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

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

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated and periodically reevaluated, 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, 2005	\$ 1,129,848	\$ 6,701,708
Incurred claims	73,750	23,519,068
Claims payments	<u>(361,653)</u>	<u>(24,496,431)</u>
Unpaid claims, June 30, 2006	841,945	5,724,345
Incurred claims	575,134	22,899,142
Claims payments	<u>(561,294)</u>	<u>(24,232,003)</u>
Unpaid claims, June 30, 2007	<u>\$ 855,785</u>	<u>\$ 4,391,484</u>

At June 30, 2007, the Hamilton County Internal Service Fund has net assets of \$19,324,430, and the Board of Education Internal Service Fund has net assets of \$11,956,534. These net assets balances are designated for future catastrophic losses.



Jenny Lane
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