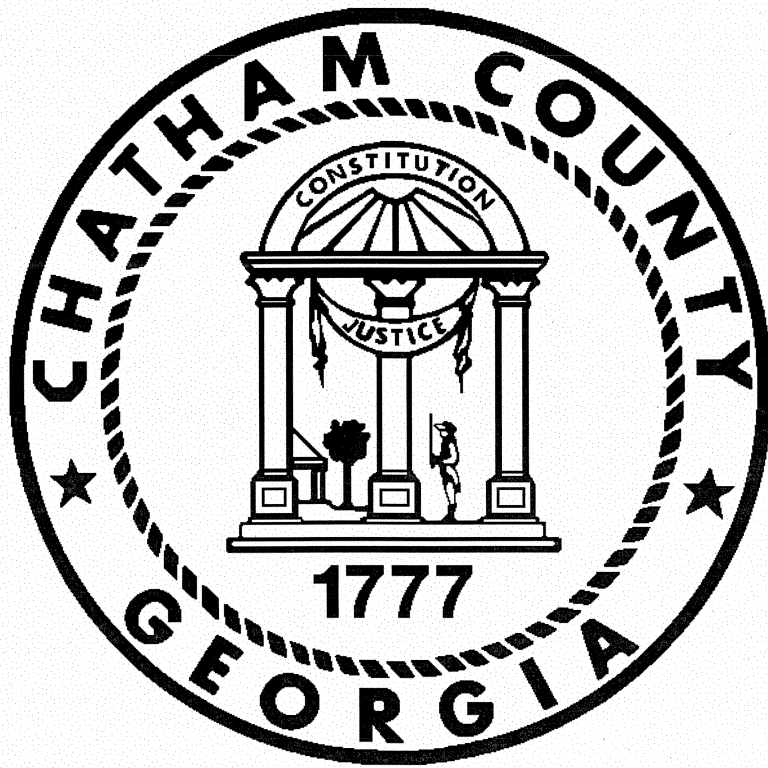


LETTER OF TRANSMITTAL

LIST OF PRINCIPAL OFFICIALS

ORGANIZATIONAL CHART

**GFOA CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING**



COMMISSIONERS OF CHATHAM COUNTY

CHATHAM COUNTY COURTHOUSE
124 BULL STREET
P. O. BOX 8161
SAVANNAH, GEORGIA 31412

<http://www.chathamcounty.org>

(912) 652-7869 VOICE
(912) 652-7874 FAX



PETE LIAKAKIS
Chairman

DR. PRISCILLA D. THOMAS
District 8
Vice Chairman

DEAN KICKLIGHTER
District 7
Chairman Pro Tem

HELEN L. STONE
District 1

JAMES J. HOLMES
District 2

PATRICK SHAY
District 3

PATRICK K. FARRELL
District 4

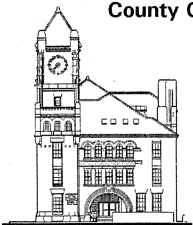
HARRIS ODELL, JR.
District 5

DAVID M. GELLATLY
District 6

R. E. ABOLT
County Manager

R. JONATHAN HART
County Attorney

SYBIL E. TILLMAN
County Clerk



October 6, 2006

The Chairman and Members
Board of Commissioners
Chatham County, Georgia

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of Chatham County as of June 30, 2006 and for the year ended is hereby transmitted. The accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, is the responsibility of Chatham County. Management believes that the presented data is materially accurate and is designed to report the financial position and the results of operations as measured by the financial activity of the County's various funds. The necessary disclosures to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The development and evaluation of the County's accounting system must consider the adequacy of internal accounting controls. Management continues to emphasize strong internal controls throughout the County. The County's Internal Audit Department and an annual independent audit facilitate consistent review of the County's processes.

This report has been prepared following the guidelines recommended by the Government Finance Officers Association of the United States and Canada. The Government Finance Officers Association awards Certificates of Achievement for Excellence in Financial Reporting to those governments whose annual financial reports are judged to substantially conform with high standards of public financial reporting, including generally accepted accounting principles promulgated by the National Council on Governmental Accounting and adopted by the Governmental Accounting Standards Board. Chatham County was awarded a Certificate of Achievement for its annual financial report for the 2005 fiscal year, the twenty-second year the County has received the award. The County also received the Distinguished Budget Award for its Adopted Annual Budget, Fiscal Year July 1, 2005 to June 30, 2006.

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Vice Chairman

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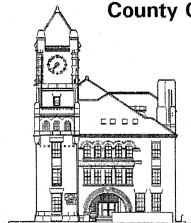
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County Clerk



In accordance with the above mentioned guidelines, the accompanying report consists of four parts:

1. Introductory Section, including the Finance Director's letter of transmittal;
2. Financial Sections, including the financial statements and supplemental data of the government accompanied by our independent auditors' report and Management's Discussion and Analysis (MD&A). Beginning capital asset and net assets balances have been restated to include infrastructure assets acquired after June 30, 1980, in accordance with GASB Statement 34: Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;
3. Statistical Section, including a number of tables of unaudited data depicting the financial history of the government for the past 10 years (if available), information on overlapping governments, and demographic and other miscellaneous information. Implementation of GASB Statement 44: Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1 occurred in fiscal 2005;
4. Single Audit Section, including various reports on internal controls and compliance with laws and regulations as well as a schedule of expenditures of federal awards as required by the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Also, as required by State law, certain data pertaining to state grants or state legislation are included in this section.

State law requires that the financial statements of Chatham County be audited by a certified public accountant selected by the Board. The County has complied with this requirement, and our auditors' opinion is included in the Financial Section of this report.

The Comprehensive Annual Financial Report has been prepared by the Finance Department, and the Finance Director's transmittal letter follows on page A-3.

R. E. Abolt
County Manager

Chatham County Finance Department



P.O. Box 9297
Savannah, Georgia 31412
(912) 652-7900 (912) 652-7920 Fax

Linda B. Cramer, CPA
Finance Director
lbcramer@chathamcounty.org

October 6, 2006

The Chairman and Members
Board of County Commissioners
Chatham County, Georgia

The Comprehensive Annual Financial Report of Chatham County, Georgia (County) for the year ended June 30, 2006 is hereby submitted to meet the requirements of local ordinances and state statutes. Those requirements state that the County must annually issue a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited by an independent firm of certified public accountants.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including disclosures, rests with management. Management hereby asserts that, to the best of its knowledge and belief, the financial report is complete and reliable in all material respects. All disclosures necessary to enable the reader to gain an understanding of the County's activities have been included.

The financial report presents data within three sections: Introductory, Financial and Statistical. The Introductory Section is unaudited and includes letters of transmittal, an organizational chart, and a list of Chatham County's principal elected and appointed officials. The Financial Section includes the Management's Discussion and Analysis (MD&A), Basic Financial Statements (Government-wide Statements, Fund Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information other than the MD&A, and Supplementary Data), as well as the Independent Auditors' Report on these financial statements. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. The financial report includes statistical schedules as specified in GASB Statement No. 44 *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1*. General infrastructure assets acquired after June 30, 1980 are included in the financial statements for the first time as defined under GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Consequently, beginning capital asset and net assets balances have been restated to reflect the inclusion of infrastructure assets.

The Management's Discussion and Analysis is designed to be an objective and easily readable analysis of the County's financial activities on both a short-term and long-term basis. This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the Independent Auditors' Report.

The firm Karp, Ronning & Tindol, CPA, was selected by the Board of County Commissioners to provide independent audit services. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget's Circular A-133. Auditing standards generally accepted in the United States of America and the standards applicable to financial audits in the General Accounting

Office's *Government Auditing Standards* were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the Financial Section of this report. The auditor's report on internal controls over financial reporting and on compliance with applicable laws and regulations, including a schedule of findings and questioned costs, are found in the Single Audit Section of this report. The findings enumerated in the Single Audit Section relate to the financial activities and transactions of the period July 1, 2005 to June 30, 2006.

Profile of the Government

The County, incorporated in 1777, is located in the southeastern part of the state and has a land area of 455 square miles with a population of 250,539. The County is empowered to levy a property tax on both real and personal property located within its boundaries.

The County has operated under the county-manager form of government since 1985. Policy making and legislative authority are vested in the governing Board of Commissioners consisting of a Chairman and eight Commissioners. The Board's responsibilities include passing ordinances, adopting an annual budget, appointing committees, and hiring the County Manager and the County Attorney. The County Manager is responsible for carrying out the policies and ordinances of the governing county commission, for overseeing the day-to-day operations of the County, and for appointing the heads of the County's departments. The Chairman and County Commissioners are elected for a four-year term with the current term expiring on December 31, 2008.

The County provides a full range of services including public safety, health and social services, judicial functions, planning and zoning, parking, sanitation services, recreational activities, cultural events, general administrative services, and the construction and maintenance of highways, streets and infrastructure. Public transportation services are provided by one of the County's component unit, Chatham Area Transit. Information on all of the County's component units can be found in Note I A. of the Notes to the Basic Financial Statements.

The County's financial reporting entity incorporates the activities of three component units. The County is considered a primary government. The financial activities of the Chatham Area Transit Authority (CAT) are included as an enterprise fund in the County's financial statements as a part of the primary government. Financial activities of the Chatham County Board of Health and the Live Oak Library System are reported separately from the primary government on the Statement of Net Assets and the Statement of Activities.

Budgetary Controls

The County maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County Commission and to provide appropriate disclosures to the general public. Activities of the General Fund, special revenue funds and debt service fund are included in the annual appropriated budget. Project-length budgets are prepared for the capital project funds. The level of budgetary control (i.e. the level at which expenditures cannot legally exceed the appropriated amount) is the department level within each fund. The County also maintains an encumbrance accounting system as one method of maintaining budgetary control. Although encumbrances lapse at year end, outstanding encumbrances are re-appropriated as part of the following year's budget.

Local Economic Condition and Outlook

The region has a varied manufacturing and industrial base which adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the County's boundaries or in close proximity include aircraft manufacturing, paper products, chemical manufacturers, unbleached kraft products, freight vans, sugar, newspaper, and dental equipment. On September 21, 2005 Target Corporation announced that it will build a 2 million-square-foot distribution center on approximately 200 acres of property in the County. The center is expected to open in Spring 2007 and

hire 200-500 employees at wages between \$15 and \$20 per hour. In March 2006 Gulfstream Aerospace Corporation announced plans for a \$300 million, seven-year expansion of its local manufacturing and service facilities, a move that is expected to add some 1,100 jobs to its current employment level.

The Port of Savannah is a catalyst for the area's economic growth. The port is the farthest inland port on the East Coast. Although the port has a number of private businesses with docking facilities, the Georgia Ports Authority has the largest wharfing facilities for cargo handling. More than 1.76 million containers were processed at the GPA's Garden City terminal in 2005, and projections are that over 2 million will be processed in 2006.

The County's June 2006 unemployment rate was 4.1 percent while the state's average rate was 4.7 percent and the national average was 4.4 percent. The County has an employed labor force of approximately 130,060. The County's central business district enjoys stable growth with a variety of stores, specialty shops, hotels and commercial businesses, many of which cater to the area's tourism industry.

The County's tax digest continued a trend of steady growth in 2006, especially within the real and personal property category. The County's Consolidated 2006 net tax digest grew 14.41% while the unincorporated tax digest grew by 10.71%. The Board of Commissioners approved a .2 mill tax reduction for the General Fund in July 2006.

Cash Management Policies and Practices

The County takes full advantage of temporarily idle funds by pooling its cash to ensure the most competitive rates on its investments. Interest income is allocated to the various funds based on their average monthly balances. In 1985 the County began use of the State's Georgia Fund 1 Pool which frequently provides higher rates of return than those available locally. The County also invests in other fiscal instruments as authorized by Georgia statutes including U.S. government and agency instruments. In accordance with State statutes, the County collateralizes its deposit accounts at 110%. At year end, all account balances were collateralized.

Since the major portion of current property tax revenue is not received until December annually, the County has in the past issued tax anticipation notes to provide necessary liquidity to pay expenditures during the year. However, more recently the County has used an interfund loan instead of tax anticipation notes to meet its cash flow needs. Short-term borrowing and interfund transactions are fully disclosed in the Notes to the Basic Financial Statements.

Debt Administration

Chatham County's financial condition is demonstrated by the AI rating of its bonds by Moody's Investor Services and AA from Standard and Poor's Corporation. The county was reviewed by Moody's and Standard and Poor's in October 2005.

The constitutional debt limit for direct general obligation bonds is 10 percent of the assessed value of taxable property within the County. The constitutional debt limitation applies to all general obligation bonds authorized. Additional general obligation bonds may be authorized if approved by a majority of those voting in an election held for that purpose. In September 2006 county voters approved a \$100 million general obligation bond issue for expansion of the County's detention center, to be repaid with special purpose local option sales tax revenue. The bonds are scheduled for issuance in early 2007. Capital leases and contractual obligations are presented in Note III. F and G and constitute a debt, general obligation, or a pledge of the faith and credit of the County.

Financial Planning Efforts

Over the past three years the County has emphasized a financial planning approach in its decision making and budget processes. In early 2006 the Board of Commissioners asked each department for

their top five goals. The Board then conducted budget workshops to review the goals presented, discuss the County Manager's proposed budget, and formulate Commission goals. The fiscal 2007 budget was adopted in June 2006. In February 2006 the Board received the Five-Year Capital Improvement Program which outlined the County's CIP needs for the next five years. The Board held workshops to discuss the projects therein and identify projects that could be funded in the next special purpose local option sales tax (SPLOST) referendum. Joint workshops were held with local municipalities and a SPLOST referendum was approved by the public in September 2006, with an effective date of September 2008.

During the 2006 budget process, staff continued to utilize a five year forecasting model for the two main operating funds and the enterprise funds. The model shows the impact of current year's decisions in "out" years, including the effect on fund balance, as well as the impact of millage rate changes. This model is also utilized as recurring revenues or expenditures are considered.

Financial policies were adopted by the Board in fiscal 2004 and continue to be used as a guideline for fiscal management.

Internal Audit

The internal audit function is the responsibility of the Internal Audit Department. Internal audit is an independent appraisal function that examines and evaluates the activities of the County's various departments, agencies, and officials. The Internal Audit Director reports to the County Manager.

Risk Management Programs

The responsibilities of the County's risk management programs are i) to identify recurring exposures to loss, ii) provide assistance in eliminating or minimizing losses, and iii) control the cost of those exposures by recommending the use of retention, non-insurance transfer, loss prevention, and the purchase of commercial insurance.

The County evaluates claims on a case-by-case basis using all immunities and defenses permitted under the law. Claims are paid from two sources - the Catastrophic Claims Fund and the Risk Management Fund. In order for a claim to become eligible for payment from the Catastrophic Claims Fund, the claim must exceed \$100,000. Claims related to a 2005 accident were paid from the Catastrophic Claims Fund during the year, and related insurance recoveries were also recognized. Expenses of the Risk Management Fund relate to workers compensation claims, insurance premiums or reasonable physical damage and bodily injury claims resulting from the County's operations.

Contributions to the Risk Management Fund are charged to other county funds based upon the County's cost allocation plan. The County's self funded workers compensation program purchases specific excess insurance with a per claim retention of \$400,000 to protect against catastrophic occurrences.

The net assets of the County's Risk Management Fund and Catastrophic Claims Fund are specifically reserved for payments of directly related liabilities. The Catastrophic Claims Fund had net assets of \$1,592,919 at year end. The fund provided \$200,000 in seed money to the Risk Management Fund during fiscal 2006. In its first year of operation, the County's Risk Management Fund provided centralized accounting for risk management activities that had previously been spread throughout various County funds. The fund had a deficit net asset balance at year end of \$96,716 largely due to the full accrual of future claim costs.

Group health obligations are recorded in the Health Insurance Fund and administered through the ACCG-Group Health Benefits Program. The ACCG-Group Health Benefits Program's Minimum Premium arrangement functions similarly to the former self-insured program; however, this financing mechanism is legally considered a fully insured program. Employees currently have the option of choosing between two health delivery systems: (1) Blue Choice Health Maintenance Organization (HMO); or the (2) Blue Choice Preferred Provider Organization (PPO). Through the ACCG's administrative partner, Blue Cross Blue Shield of Georgia, Inc. and/or Blue Cross Blue Shield Healthcare Plan of Georgia, Inc., all programs have

developed contracts with selected health care providers to reduce health care costs.

County contributions to the Health Insurance Fund are based on the provider's projections of future costs allocated based upon the number of eligible full-time employees. Contributions for retiree health are based on previous claim history, demographics, and cost indices; retiree health costs are not currently prefunded. Under the provisions of the current ACCG/Blue Cross Blue Shield fully insured program, the County no longer purchases specific and excess insurance coverage.

In response to rising health care costs, in 2005 the County engaged an independent consultant to provide a review of the County's health insurance program and explore alternatives. The Fiscal 2008 implementation of GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* will provide further impetus for health care cost containment and plan management as the County will be required to quantify the liability for retiree health care. Retiree health care is currently paid as claims are incurred. The County has received preliminary figures from its actuary that quantify an annual required contribution of \$9.3 million for other post employment benefits. The County is reviewing various methods to manage the liability.

As of June 30, 2006 the net assets of the Health Insurance Fund totalled \$1,824,447, an increase of \$515,364 from the prior year. Although annual claims expenditures increased, the claims payable liability related to incurred but not reported claims decreased at year end.

Awards & Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twenty-second consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The County believes that the 2006 comprehensive annual financial report continues to meet the program's requirements, and is submitting the report to the GFOA to determine its eligibility for another certificate. In addition, the County also received the GFOA's Award for Distinguished Budget presentation for its Adopted Annual Budget for the fiscal year July 1, 2005 – June 30, 2006. The County's budget document was judged proficient in several categories including policy documentation, financial planning and organization.

I would like to extend my thanks and appreciation to all parties who have provided their support and encouragement to the Finance Department throughout the past year. This includes the County Manager, the County Board of Commissioners, the Director of Human Resources and Services, and the Fixed Assets Coordinator. In addition my thanks and appreciation go out to those members of the Finance Department who were in some way involved in the audit. The hard work and dedication of Finance Staff is reflected each year in the final report document and in any subsequent awards received.

Sincerely,



Linda B. Cramer
Finance Director

**CHATHAM COUNTY, GEORGIA
DEPARTMENT OF FINANCE**

Finance Director Linda B. Cramer
Assistant Finance Director Cheryl N. Deariso
Chief Accountant Tom Drane
Financial Services Manager..... Lesha Lanier
Senior Accountant..... Roger Deschenes
Budget Officer Read DeHaven
Special Projects Accountant Vida Hill
Special Projects Accountant Joyce Prescott
Special Projects Accountant Gina Stewart
Payroll Administrator Sherri Cadman
Risk Manager Chuck Voelker
Administrative Assistant Delores Stokes
Special Projects Management Technician Rhonda McCullough

**CHATHAM COUNTY, GEORGIA
PURCHASING DEPARTMENT**

Fixed Asset Coordinator.Syrina Mitchell

**CHATHAM COUNTY, GEORGIA
BOARD OF COMMISSIONERS**

2005-2008

CHAIRMAN	Pete Liakakis
VICE-CHAIRMAN	Dr. Priscilla D. Thomas
CHAIRMAN PRO-TEM	Dean Kicklighter
DISTRICT ONE	Helen L. Stone
DISTRICT TWO	James J. Holmes
DISTRICT THREE	Patrick Shay
DISTRICT FOUR	Patrick K. Farrell
DISTRICT FIVE	Harris Odell, Jr.
DISTRICT SIX	David M. Gellatly
DISTRICT SEVEN	Dean Kicklighter
DISTRICT EIGHT	Dr. Priscilla D. Thomas

**Independent Auditor
Karp, Ronning, & Tindol, P.C.
Certified Public Accountants**

**Russell E. Abolt
County Manager**

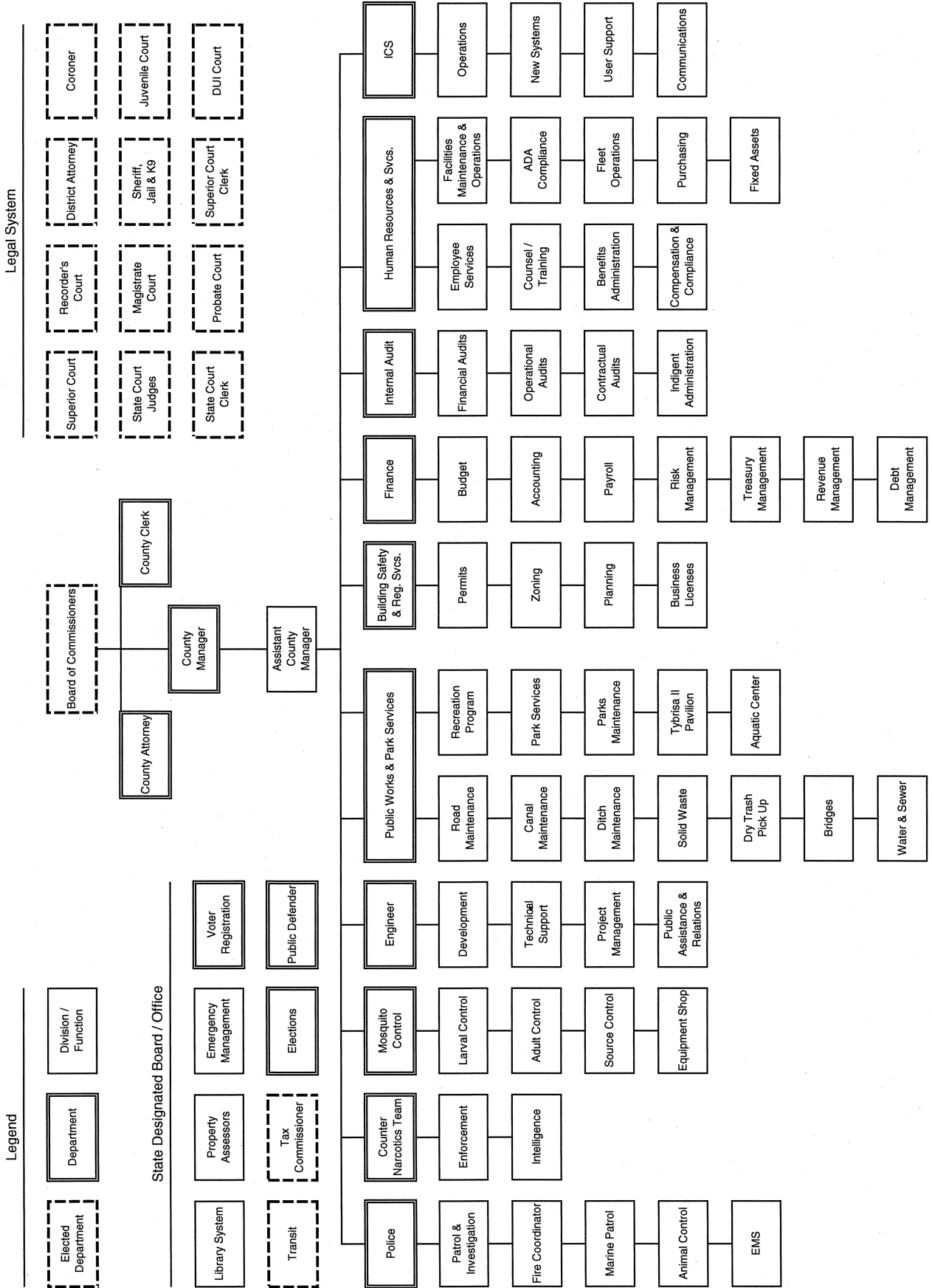
**Patrick C. Monahan
Assistant County Manager**

**R. Jonathan Hart
County Attorney**

**Sybil E. Tillman
Clerk of Commission**

CHATHAM COUNTY ORGANIZATIONAL CHART

By Department / Function



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Chatham County,
Georgia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla

President

Jeffrey R. Enos

Executive Director

