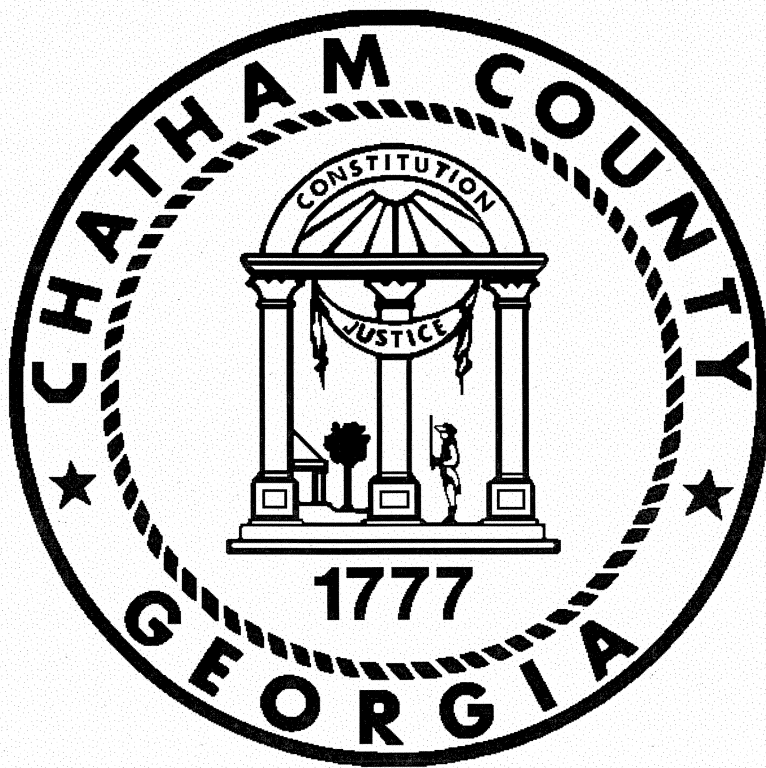


**INDEPENDENT AUDITORS' REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS**



KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Commissioners of
County of Chatham, Georgia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Chatham County, Georgia (County), as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Chatham Area Transit Authority Enterprise Fund, which represent 44.3%, 36.4% and 67.0% respectively, of the assets, net assets and revenues of the Business-type Activities - Enterprise Funds, or the Chatham County Health Department and Live Oak Public Libraries, which represent 100% of the assets, net assets and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chatham Area Transit Authority Enterprise Fund, the Chatham County Health Department and Live Oak Public Libraries 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 basic 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 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 a report dated October 6, 2006, on our consideration of the County's internal control over financial reporting and 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 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.

Required Supplementary Information

The Management's Discussion and Analysis and the required supplementary information other than Management's Discussion and Analysis beginning on page C-1 and E-1, respectively, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Supplementary Data - Combining Fund Financial Statements and Schedules and State Mandated Program Information

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the County's basic financial statements. The supplementary data and state mandated program information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Schedule of Expenditures of Federal Awards

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 awards is presented for purposes of additional analysis as required by the 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 of the County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Introductory and Statistical Sections

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Karp, Ronning & Tindol, P.C.

October 6, 2006

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) section offers you, the reader, a narrative overview and analysis of the financial activities of Chatham County, Georgia for the fiscal year ended June 30, 2006. Please consider the information presented herein with the additional information furnished in the letter of transmittal that can be found beginning on page A-1 of this report.

The MD&A presents both current year and prior year financial information for comparative purposes.

Financial Highlights

- Chatham County's assets exceeded its liabilities at June 30, 2006 by \$929,578,081 (net assets). Of this amount, \$48,666,207 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased from the previous year by over \$33.1 million. Net assets of governmental activities increased \$32,304,488 while net assets from business-type activities increased by \$885,108.
- At June 30, 2006, Chatham County's governmental funds balance sheet reports combined ending fund balances of \$218,128,458, an increase of \$26,366,781 over the previous fiscal year. Of this amount, \$214,516,593 remains in the various fund types of the County as unreserved. \$6,495,242 million of this amount has been designated for capital projects or other significant organizational expenditures.
- The General Fund reported an unreserved fund balance of \$14,500,833, an annual increase of \$4,317,536. \$3,765,094 of the unreserved fund balance was designated for capital projects or other significant organizational expenditures. Total fund balance increased by \$2,759,322 to \$16,702,960 in 2006.
- Total long-term liabilities of Chatham County decreased by \$5,095,896 from the previous fiscal year. During the year the County issued the Downtown Savannah Authority (Georgia), Revenue Refunding Bonds (Chatham County Projects), Series 2005A that partially refunded a 1999 bond issue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Chatham County's basic financial statements. The basic financial statements include government-wide and fund financial statements as well as notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These statements are described herein:

Government-wide Financial Statements

Government-wide financial statements are designed to provide a broad overview of the finances of Chatham County, Georgia, in a manner similar to a private-sector business. The government-wide statements include a Statement of Net Assets and a Statement of Activities. These statements appear on pages D-1 to D-3 of the report.

The Statement of Net Assets shows information about all of the County's assets and liabilities, and the difference between the two is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position.

The Statement of Activities presents information showing how the net assets changed during the fiscal year. The statement presents all underlying events that gave rise to the change, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow changes in futures fiscal periods, such as uncollected taxes and earned but unused vacation leave.

Both statements distinguish functions of Chatham County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Governmental activities reported in the statements include general government, judiciary, public safety, public works, health and welfare, culture and recreation, housing and development, and interest on long-term debt. Business-type activities in Chatham County include environmental services (solid waste), transportation services (Chatham Area Transit Authority), and other services (water & sewer utility, parking garage, Henderson Golf Course).

The government-wide statements include the activities of the County and its component units. The Chatham Area Transit Authority is a legally separate, component unit of the County included within the County's business-type activities as an integral part of the primary government. Financial information for two non-major component units is reported separately from the primary government. The non-major component units are the Chatham County Health Department and the Live Oak Public Library.

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. Like other state and local governments, Chatham County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Chatham County can be divided into three categories: governmental, proprietary and fiduciary.

Governmental Funds – Governmental funds, presented on pages D-4 to D-9, essentially account for the same functions as those reported as governmental activities in the Government-wide Financial Statements. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating Chatham County's near-term financing requirements.

Since 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 the governmental activities found in the Government-wide Financial Statements. This will help you better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Governmental funds individually presented in Chatham County's statements include six major funds: General Fund, Special Service District Fund, Sales Tax I Fund, Sales Tax II Fund, Sales Tax III Fund, and Sales Tax IV Fund. Chatham County's smaller governmental funds are combined for presentation in a total column termed "Other Governmental Funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

Chatham County adopts annual budgets for its General Fund, special revenue funds and debt service fund. Budgetary comparison schedules are provided within the report for these funds. Budgetary comparison schedules for the General Fund and the Special Service District Fund are provided as required supplementary information while schedules for the nonmajor funds are found elsewhere in the report.

Proprietary Funds – Chatham County maintains and presents two different types of proprietary funds, enterprise and internal service, on pages D-10 to D-12 of this report.

Enterprise funds report, in greater detail, the same information presented as business-type activities in the Government-wide Financial Statements. Major funds include Chatham Area Transit Authority and the Solid Waste Fund. Details of other enterprise fund transactions are shown in combining statements presented elsewhere in the report.

Internal service funds represent an accounting mechanism used to accumulate and allocate costs internally for Chatham County government. The County has three internal service funds: Health Insurance Fund, Catastrophic Claims Fund and Risk Management Fund. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. Because these funds predominately benefit governmental activities rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds – Chatham County uses fiduciary funds to account for resources held for the benefit of parties outside county government. Although these funds are presented in the fund set of statements, they do not appear in the Government-wide Financial Statements because their resources are not available to support the government’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds are presented on pages D-13 to D-14 of this report.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in both Government-wide and Fund Financial Statements. Notes are presented beginning on page D-15 of the report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County’s budget process and the County’s progress in funding its obligation to provide pension benefits to employees. This information begins on page E-1.

The combining statements referred to earlier in connection with nonmajor funds begin on page F-1. This section includes individual budget to actual schedules for non-major special revenue funds and the debt service fund. Also included are statements for internal service and agency funds. Additional information about the County, which may be of interest to the reader, is found under the Statistical and Single Audit sections of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. The County’s combined net assets (governmental and business-type activities) totaled \$929,578,081 as of June 30, 2006.

The County implemented the retroactive infrastructure reporting requirements on GASB Statement 34 in fiscal 2006. Prior year capital assets and net asset balances have been restated within the MD&A to recognize the infrastructure and facilitate comparative review.

The largest portion of Chatham County’s net assets (76%) reflects its investment in capital assets such as land, building, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending needs. Any resources needed to repay the debt associated with capital assets must be provided from sources other than the capital assets themselves since the capital assets cannot be liquidated to pay the related liabilities. In recent years, the County has benefited from Special Purpose Local Option Sales Tax referendums to fund many of its capital assets.

Restricted net assets (19%) represent resources that are subject to external restrictions on use. A significant portion of the County’s restricted net assets relate to funds restricted by law for the construction of certain capital projects as authorized by public referendum. The remaining category, unrestricted net assets, may be used to meet the County’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the County reports positive balances in all three categories of net assets for the government as a whole. Unrestricted net assets total \$48,666,207, a 31% increase over the prior year. Total net

assets increased by approximately \$33.2 million over the prior year. Positive balances are also reported for the County's separate governmental and business-type activities.

Summary data on net assets for the current and prior fiscal year are:

Chatham County's Net Assets (in \$)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	246,213,572	222,624,247	18,900,482	19,582,223	265,114,054	242,206,470
Capital assets, net	709,664,783	708,245,067	35,244,930	31,996,986	744,909,713	740,242,053
Total assets	955,878,355	930,869,314	54,145,412	51,579,209	1,010,023,767	982,448,523
Current and other liabilities	12,695,637	15,959,767	4,879,134	2,133,460	17,574,771	18,093,227
Noncurrent liabilities	52,162,703	56,194,020	10,708,212	11,772,791	62,870,915	67,966,811
Total liabilities	64,858,340	72,153,787	15,587,346	13,906,251	80,445,686	86,060,038
Net assets:						
Invested in capital assets,						
net of related debt	678,740,933	680,133,252	28,911,730	24,881,272	707,652,663	705,014,524
Restricted	169,451,499	150,477,644	3,807,712	3,726,855	173,259,211	154,204,499
Unrestricted	42,827,583	28,104,631	5,838,624	9,064,831	48,666,207	37,169,462
Total net assets	891,020,015	858,715,527	38,558,066	37,672,958	929,578,081	896,388,485

Governmental Activities - Governmental activities increased the County's net assets by \$32,304,488, accounting for 97% of the total growth in the County's net assets. Key components of the increase were:

- Revenues outpaced spending. The County collects a special purpose local option sales tax (1%) that is used to fund a variety of capital projects. Spending for the projects lags behind the initial revenue collections as many of the projects may take several years to complete.
- Higher tax revenues in 2006. Tax revenues overall increased by over \$23 million from the prior year. Revenues from the sales and use taxes increased by \$9.4 million. Property tax revenues increased by \$13.7 million.
- Higher investment earnings. Higher interest rates and cash levels resulted in a \$2.4 million increase in investment earnings.
- An increasing level of capital assets. Construction activity added \$4.6 million in construction in progress projects funded either by sales tax and general revenues.

Tax revenue provided 82% of the County's total revenues while charges for various goods and services provided 8.3%. Unrestricted investment earnings represented 3.4% of total revenues. The County's expenses cover a range of services. The largest expenses were for public safety and public works. The \$8.8 million increase in public safety costs resulted from higher population and operating costs at the detention center and increased police activity costs. Public works expenses include distribution of special purpose local option sales taxes (SPLOST) to municipalities in accordance with classification requirements of the Georgia Uniform Chart of Accounts. SPLOST distributions to non-profit entities have been classified in accordance with the actual nature of the entity's programs. Effective for the current fiscal year, Homeowners Tax Relief Grant (HTRG) revenues are shown as Grants and contributions not restricted to specific programs. Total excess revenues over expenses before transfers amounted to \$35.6 million. Transfers out of \$3.28 million resulted in a total change in net assets of \$32.3 million.

Business-type Activities - Business-type activities net assets increased \$885,108 for the fiscal year ended June 30, 2006 after transfers in from governmental activities of \$3.28 million. Key components of the increase were:

- Higher charges for services which showed a \$1.2 million increase.

- Higher property tax revenue which increased by \$496,000, driven by growth in the County's tax digest.
- Expenditure growth of \$2.4 million over the prior year. Almost \$1.2 million of the increase came from the Chatham Area Transit Authority Fund. The Solid Waste Fund's expenditures increased by almost \$1 million due to higher operating costs and surcharge refunds expensed as a result of a legal action.

The following table presents a comparative summary of the changes in net assets for the past two fiscal years:

Chatham County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
- Charges for services	\$ 18,510,030	\$ 16,359,414	\$ 9,106,853	\$ 7,881,352	\$ 27,616,883	\$ 24,240,766
- Operating grants and contributions	4,930,727	5,317,329	1,410,159	4,498,703	6,340,886	9,816,032
- Capital grants and contributions	1,233,710	1,078,832	4,015,642		5,249,352	1,078,832
General Revenues:						
- Property taxes	104,165,430	90,412,938	5,608,939	5,113,079	109,774,369	95,526,017
- Sales and use taxes	71,259,158	61,876,359			71,259,158	61,876,359
- Other taxes	7,551,652	8,203,505			7,551,652	8,203,505
- Grants and contributions not restricted to specific programs	3,931,963				3,931,963	0
- Unrestricted investment earnings	7,520,599	5,107,224	648,245	274,369	8,168,844	5,381,593
- Miscellaneous	2,691,205	2,670,074	18,731	(767,012)	2,709,936	1,903,062
Total Revenues	<u>221,794,474</u>	<u>191,025,675</u>	<u>20,808,569</u>	<u>17,000,491</u>	<u>242,603,043</u>	<u>208,026,166</u>
Expenses:						
General Government	26,628,117	24,180,621			26,628,117	24,180,621
Judiciary	22,706,196	20,283,800			22,706,196	20,283,800
Public Safety	58,527,308	49,643,795			58,527,308	49,643,795
Public Works	47,283,087	36,984,517			47,283,087	36,984,517
Health and welfare	12,715,744	10,035,030			12,715,744	10,035,030
Culture and recreation	13,069,470	9,661,726			13,069,470	9,661,726
Housing and development	2,888,091	1,758,770			2,888,091	1,758,770
Interest on long-term debt	2,391,033	2,915,656			2,391,033	2,915,656
Environmental services-Solid Waste			3,013,304	2,090,871	3,013,304	2,090,871
Transportation services-Bus System			15,820,334	14,601,618	15,820,334	14,601,618
Recreational services-Golf			859,989	946,652	859,989	946,652
Other services-Water & Sewer			1,829,210	1,691,215	1,829,210	1,691,215
Other services-Parking			220,922	215,646	220,922	215,646
Other services-Building Safety & Reg Services			1,460,642	1,213,503	1,460,642	1,213,503
Total Expenses	<u>186,209,046</u>	<u>155,463,915</u>	<u>23,204,401</u>	<u>20,759,505</u>	<u>209,413,447</u>	<u>176,223,420</u>
Excess (deficiency) before transfers	35,585,428	35,561,760	(2,395,832)	(3,759,014)	33,189,596	31,802,746
Transfers	(3,280,940)	(3,232,719)	3,280,940	3,232,719	0	0
Total transfers	<u>(3,280,940)</u>	<u>(3,232,719)</u>	<u>3,280,940</u>	<u>3,232,719</u>	<u>0</u>	<u>0</u>
Change in net assets	32,304,488	32,329,041	885,108	(526,295)	33,189,596	31,802,746
Net assets - beginning	858,715,527	826,386,486	37,672,958	38,199,253	896,388,485	864,585,739
Net assets - ending	<u>\$ 891,020,015</u>	<u>\$ 858,715,527</u>	<u>\$ 38,558,066</u>	<u>\$ 37,672,958</u>	<u>\$ 929,578,081</u>	<u>\$ 896,388,485</u>

Financial Analysis of Chatham County's Funds

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

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

As of June 30, 2006, the County's governmental funds reported combined ending fund balances of \$218,128,458, an increase of \$26,366,781 in comparison to the previous year. Approximately 98% of the fund balance (\$214,516,593) is classified as unreserved. Of this amount, \$17,184,352 is available for spending in future years without restrictions that are more limited than the purpose of the fund. \$6,495,242 is shown as unreserved but designated. Other unrestricted portions of fund balance are also available for spending in future years but are earmarked, but not legally restricted, for capital projects from the County's construction-in-progress funds (\$190,836,999). The remainder of the fund balance is reserved to indicate that it is not available for future spending because it has already been committed for the following purposes:

- Liquidation of contracts and purchase orders of prior periods (\$1,035,037)
- Payment of debt service (\$98,377)
- Public safety purposes, reserved due to legal restrictions on the use of funds (\$1,095,560)
- Funds that were generated through the County's court system with use restricted by law for certain County programs (\$737,923)
- Various restricted amounts (\$644,968)

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, total fund balance in the General Fund was \$16,702,960 of which \$14,500,833 was unreserved. Unreserved fund balance increased by \$4,317,536 over the prior year amount. Fund balance reserved for encumbrances decreased by \$1.8 million. The County's General Fund has met its adopted policy goal of achieving an unreserved fund balance equal to one month's expenditures. Amounts in excess of this level (\$3,765,094) were designated for capital project needs as identified in the Capital Improvement Program or other significant organizational expenditures.

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 13.5 percent of fiscal 2006 fund expenditures (excluding transfers out), as compared to 10.2 percent in 2005. Total fund balance represents 15.6 percent of that same amount, compared to 15 percent in the prior year.

Chatham County's General Fund showed a fund balance increase of \$2,759,322 for the current fiscal year. Key factors in the fund balance increase were:

- Favorable revenues trends exceeded prior year levels by over \$18 million. 73% of the revenue growth was in the Property Taxes category. Growth in the 2005 tax digest of 10.78% was realized. A property tax increase of .67 mills increased the millage rate to 11.037, adding to the growth in revenues.
- Expenditures increased by \$19 million over prior year levels. However, the increase included fund balance appropriations for capital needs. Overall departmental spending was 95% of budgeted amounts.

Special revenue funds are used to account for specific revenue sources and expenditures. The Special Service District Fund (SSD) reports the operations and activities of Chatham County's unincorporated area. Total fund balance of the SSD Fund was \$8,804,479, a decrease of \$3,032,618 over the prior year. Unreserved fund balance decreased \$2,568,669 over the prior year amount. Management designated a portion of the unreserved fund balance, \$2,730,148, for capital project needs or other significant organizational expenditures. An analysis of this fund reveals the following factors:

- Revenues increased \$2.5 million from 2005 levels and expenditures increased by \$2.4 million.
- Property taxes increased by over \$1.1 million as a result of higher digest levels. Investment income increased by \$230,413 while Fines and fees declined \$253,513.
- During the fiscal year the fund transferred out \$4.1 million to the Capital Improvement Program Fund to meet public safety vehicle needs and to provide funding for items listed in the Capital Improvement Program.
- Activities of the Metropolitan Planning Commission were reclassified to the Housing and Development function. Overall the cost of these activities increased \$211,705 from the prior year. Public Works expenditures showed an annual increase of \$629,023.

There are four capital project funds presented as major funds in this report. All the major capital project funds were the result of voter-approved referendums, the most recent being a referendum held on March 13, 2003 that led to the creation of the Sales Tax IV Capital Project Fund. The March 2003 referendum authorized the imposition and collection of a 1% special purpose local option sales tax beginning October 2003. Tax collections will be used to retire debt, fund various capital projects, and provide distributions to municipalities.

The capital project expenditures in the major funds increased from 2005 levels by approximately \$2.7 million. While spending decreased in the Sales Tax I, II and III Funds, spending increased in the Sales Tax IV Fund. In its third year, the Sales Tax IV fund realized expenditures of over \$40.5 million of which 87% were municipality distributions. Capital projects in the sales tax funds often take several years to complete and involve a variety of phases so that expenditures in these funds may, by their nature, vary widely from year to year. The Sales Tax IV fund collected sales tax revenue of \$60 million during fiscal 2006, an increase of \$7.6 million over the prior year. Schedules detailing SPLOST project expenditures are located in the Statistical Section.

General Fund Budgetary Highlights

Budget to actual schedules are provided in the required supplementary information other than MD&A for the General Fund and other major governmental funds. Individual columns are provided for both the adopted and amended budgets. A column for actual expenditures and a column for differences between final budget and actual expenditures follow these columns. These schedules can be found beginning on page E-1.

Throughout the year Board approval is obtained for any budget adjustments at the department level as well as any adjustments to salaries and wages within the department. Significant budget adjustments made during the year included:

- A \$164,160 transfer in October 2005 from General Fund – Fund Balance to Transfers Out to the CIP Fund for Charlie Brooks Park.
- A \$100,000 transfer in October 2005 from the General Fund to Transfers Out to the CIP Fund for the Skidaway Narrows Emergency Crossing, funded by increased interest revenue.
- A \$125,000 transfer in November 2005 from the General Fund – Board of Elections Department to Contingency Department.
- A \$208,850 transfer in March 2006 from the General Fund – Fuel Contingency Department to various County departments due to rising fuel costs.
- A \$262,968 transfer in March 2006 from the General Fund – Contingency Department to the Sheriff's Department (\$105,438) and to the Special Appropriations Department/Public Safety (\$157,530) for overtime and fuel needs.
- A \$500,000 transfer in April 2006 from the General Fund – Contingency Department to Transfers Out to the CIP Fund for the relocation of the Chatham County Emergency Operations Center.
- A \$127,000 transfer in May 2006 from the General Fund – Contingency Department to Transfers Out to the CIP Fund for repairs to the Causton Bluff Bridge.
- A \$798,000 transfer in June 2006 to the General Fund - Detention Center Department to meet operating costs increases due to high inmate populations. Funding was provided from increased revenue collections.
- A \$167,000 transfer in June 2006 from General Fund - Panel of Attorneys Department to the Sheriffs Department for overtime and other expenditure needs.

- A \$420,000 transfer in June 2006 from General Fund - Mosquito Control Department, Tax Assessors Department and Restricted Contingency to Transfers Out to the CIP Fund for equipment needs and beach renourishment.
- A \$180,000 transfer to the General Fund - Reimbursable Expenses Department funded by corresponding reimbursable revenues.
- A \$6,000,000 transfer to Transfer Out to the CIP Fund funded by General Fund – Fund Balance for projects identified in the County’s Capital Improvement Program.
- A \$711,000 transfer to Transfer Out to the CIP Fund for vehicle replacement funded by an increase in Local Option Sales Tax collections.

Departmental budgets were also amended during the year to recognize 2005 encumbrances and transfer budgeted benefit costs, including cost of living increases back to departmental budgets.

Significant variances between the final budget and actual amounts are discussed herein:

- Overall, revenues exceeded budget estimates by \$6.1 million.
- Digest-based property tax collections were \$3.9 million above budgeted amounts. Some of the variance can be attributed to revised billing of the May 2005 first installment collection at the higher property tax rate in November 2005.
- Local option sales tax collections showed a positive variance of \$328,405. Other general tax revenues also showed positive variances including intangible recording tax - Superior Court (\$261,941).
- Several categories of the Tax Commissioner’s revenues showed favorable variances including Property Tax Commissions (\$324,400) and Penalties and Interest on delinquent taxes (\$284,733).
- Departmental savings produced a positive appropriations variance for the General Fund of \$6.4 million. Despite budget transfers during the year, the Detention Center incurred a negative expenditure variance of \$12,829.
- During the year fund balance appropriations of \$9.8 million were made. \$6.1 million of the appropriation was transferred to the Capital Projects Fund while \$3.1 million was appropriated for the 2005 carryforward of encumbrances and restricted fees.

Capital Asset and Debt Administration

Capital Assets – At the conclusion of 2006, the County had invested more than \$740 million in a broad range of capital assets including land, buildings, infrastructure, system improvements, machinery, equipment, parks, roads, bridges and major drainage structures. Investment in capital assets, net of depreciation, increased overall by approximately \$5 million. The County’s financial statements present capital assets in two groups: those assets subject to depreciation such as equipment and operational facilities, and those assets not subject to depreciation such as land, right of ways and construction-in-progress.

The year’s major asset activities included:

- An increase in Buildings and Improvements due to the purchase and renovation of a headquarters facility for the Counter Narcotics Team at a cost of over \$1.7 million.
- Park facility improvements made at Charlie Brooks Park (\$1,061,417) and Tom Triplett Park (\$550,918) during the year. Recreational boat ramp improvements of over \$764,000 were also added.
- Upgrades to Health Department facilities of \$688,596, some related to the Series 2005 DSA bond issue.
- Additional transit vehicles for Chatham Area Transit Authority valued at over \$3.4 million added to the machinery and equipment accounts within Business-Type activities.

The County continues to expend funds as authorized by referendum for capital projects in the Sales Tax I, Sales Tax II, Sales Tax III and Sales Tax IV funds. At year end the County had outstanding construction commitments for related projects of \$11,138,054. Financing for these construction commitments will be from special purpose local option sales tax collections. Chatham Area Transit had outstanding construction commitments of \$370,800.

The results of the County’s infrastructure valuation are incorporated into the fiscal 2006 audit report with net infrastructure additions of \$540,630,488 added. Prior year numbers within this MD&A have been restated to reflect the infrastructure additions.

Additional information on the County’s capital assets can be found in Note III.C on page D-28.

A summary of the County’s capital assets is shown below:

**Capital Assets at Year-end
Net of Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 23,046,876	\$ 22,687,187	\$ 9,294,394	\$ 9,106,506	\$ 32,341,270	\$ 31,793,693
Right of Ways	333,356,362	333,356,362			333,356,362	333,356,362
Construction-in-progress	12,340,756	7,727,500	419,842	12,942	12,760,598	7,740,442
Buildings and improvements	100,664,706	98,070,563	6,299,039	6,576,095	106,963,745	104,646,658
Machinery and Equipment	9,744,250	7,915,260	13,350,366	11,298,161	23,094,616	19,213,421
Plant			5,881,289	5,003,280	5,881,289	5,003,280
Infrastructure	<u>230,511,833</u>	<u>238,488,195</u>			<u>230,511,833</u>	<u>238,488,195</u>
Totals	\$ <u>709,664,783</u>	\$ <u>708,245,067</u>	\$ <u>35,244,930</u>	\$ <u>31,996,984</u>	\$ <u>744,909,713</u>	\$ <u>740,242,051</u>

Debt – The County’s long-term liabilities at June 30, 2006 totaled \$62,870,915, a decrease of over \$5 million from 2005. Significant activities included:

- In November 2005 the County issued bonds for \$6,075,000 through the Downtown Savannah Authority. The bonds partially refunded the Series 1999 Downtown Savannah Authority bonds and provided a reduction in future debt service of \$322,407.

Additional information on Chatham County’s long-term obligations can be found in Note III.G.

Currently Known Facts, Decisions, or Conditions

Currently known facts, decisions or conditions that are expected to have a significant effect on the financial position (net assets) or results of Chatham County’s operations (revenues, expenses and other changes in nets assets) include:

- Chatham County has entered into an intergovernmental agreement with the City of Savannah for the merging of its police force into the Savannah-Chatham Police Department. Full implementation occurred on January 1, 2005. Under the merger agreement, the County’s cost share will increase 2% a year from 22.6% in calendar year 2005 to 35.1% in calendar 2011. The agreement also requires the County to purchase 34 vehicles annually at a current year estimated cost of \$625,000. The majority of police services are budgeted in the Special Service District.
- The Adopted 2007 Budget included a tax reduction in the General Fund of .2 mills, but annual tax digest growth of 14.41% increased the property tax revenue budget overall. At budget adoption the Board incorporated the additional revenue into a contingency account for subsequent appropriation. To date the Board has utilized the additional revenue to i) lease temporary housing units for the County’s Detention Center (\$881,661), ii) fund additional positions and operating costs related to the temporary units (\$2,692,445), iii) provide funding for a fixed wing aircraft for Mosquito Control (\$245,000), iv) provide

retirees with a pension cost of living adjustment (\$300,000), v) fund a compensation study (\$250,000), and vi) provide funding for the Tybee Beach renourishment project (\$150,000).

- In September 2006 Chatham County voters approved a special purpose local option sales tax referendum that will become effective September 2008. The County included some significant items from its Capital Improvement Program as part of the referendum including a \$100 million Detention Center expansion (800 bed addition), \$29 million for courthouse improvements and \$10 million for Health Department administrative facility improvements. Other road, drainage and capital projects were also approved. In early 2007 the county will issue general obligation debt to fund early construction of the Detention Center expansion project. Early construction is necessary because of overcrowded conditions at the current facility. Once the Detention Center expansion is completed, additional staffing and operational costs will become significant, recurring expenditures in the County's annual budget.
- The County's Capital Improvement Program contains a number of unfunded projects, many of which are maintenance projects. Future budget appropriations from general revenue sources are anticipated to address capital needs.
- The Georgia Indigent Defense Act of 2003 became effective January 1, 2005. During 2005 the County budgeted \$632,956 for the program. The adopted 2007 budget provided annual funding of \$1,745,244. As Chatham County restructures the way it facilitates indigent defense representation, it is anticipated that additional recurring costs will be added to the General Fund for the Public Defenders Office.
- Health care costs continue to concern Chatham County. The County has historically provided a high level of benefits to its employees and retirees. In fiscal 2008 the County will implement *GASB Statement 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. Under current benefit levels, the County has a significant liability for postemployment healthcare benefits. In 2005 the County engaged a health care consultant to review the County's medical plan, provide plan design alternatives, and address funding concerns. The County is currently reviewing proposals submitted by health insurance providers. It is also working with its actuary to quantify plan design elements. Future budgets will need to consider appropriations to prefund retiree healthcare to better manage and offset future costs.

Requests for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Chatham County Finance Director, Chatham County, Georgia, P.O. Box 9297, Savannah, Georgia 31412.