

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Chatham County, Georgia are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes mandated by the Statement include the following.

1. Incorporation of a Management Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
2. Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
3. A change in the fund financial statements to focus on the major funds.
4. Reporting of general infrastructure assets acquired after June 30, 1980.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The County implemented the general provisions of the Statement for the fiscal year ended June 30, 2002 and has retroactively reported infrastructure assets in the current fiscal year.

A. Reporting entity

The County is a political subdivision of the State of Georgia and is governed by a nine member Board of County Commissioners. Eight members represent a geographical district within the County while the Chairman represents the County at large. There are additional officials elected countywide. State law pertaining to county government provides for the independent election of these county officials. The officials are all part of the County's legal entity. These elected officials are the Sheriff, Tax Commissioner, State Court Judges, Magistrate Court Judge, Probate Court Judge and Superior Court Clerk. The offices of the independently elected officials are not separate from the County and therefore are reported as part of the primary government.

The State constitution and State law pertaining to County government provide for the independent election of the Superior Court Judges and the District Attorney. The cost of operations of the Superior Court Judges and the District Attorney Offices is shared with the State of Georgia. Only that portion of the cost for which the County is responsible is reported in these financial statements.

On January 31, 2005, the County entered into an intergovernmental agreement with the Georgia Circuit Public Defender Office of the Eastern Judicial Circuit to provide for criminal indigent defense. The County funds sixteen of the Public Defender's employees and its operating expenditures. It also supplements the salaries of the Chief Public Defender and four Level IV Public Defenders. Only the portion of the costs for which the County is responsible is reported in these financial statements.

Generally accepted accounting principles define the reporting entity and provide parameters to use in determining which potential component units should be included in a primary government's financial statements. Inclusion is based on financial accountability or the fact that exclusion would make the financial statements misleading or incomplete. The financial reporting entity consists of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government; however, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or another stand alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

The County has met the criteria for classification as a primary government. The County has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. All funds, organizations, institutions, agencies, departments, and officials that are not legally separate of the primary government, for financial reporting purposes, are part of the primary government and are included in the financial statements of the County.

1. Blended Component Unit

Chatham Area Transit Authority (Authority) - Financial information for the Authority is reported as part of the primary government as a component unit under the blending method. The Authority's governing body is substantially the same as the governing body of the primary government and meets the criteria for inclusion as a component unit. Complete financial statements of the Chatham Area Transit Authority can be obtained directly from the administrative offices at Chatham Area Transit Authority, P. O. Box 9118, Savannah, Georgia 31412.

2. Discretely Presented Component Units

Live Oak Public Libraries – The Libraries meet the requirements for inclusion as a discretely presented non major component unit; therefore, its financial information is reported together with, but separately from, the primary government in the government-wide financial statements. The County's Board of Commissioners appoints a majority of the Libraries' board members and provides a substantial majority of funding for the operations of the Libraries; therefore, the Libraries are deemed to have a financial benefit/burden relationship with the County. Complete financial statements can be obtained directly from Live Oak Public Libraries, 2002 Bull Street, Savannah, Georgia 31401.

Chatham County Board of Health - The Board of Health meets the requirements for inclusion as a discretely presented non major component unit under a determination made by the State of Georgia; therefore, its financial information is reported together with, but separately from, the primary government as a discretely presented component unit. The Board of Health is a legally separate entity with the County appointing a voting majority of the entity's Board and the ability to impose its will on the Board. Complete financial statements can be obtained directly from Chatham County Board of Health, P.O. Box 14257, Savannah, Georgia 31416-1257.

3. Joint Venture

Under Georgia law, the County is a member of the Coastal Georgia Regional Development Center (RDC) and is required to pay annual dues. During the year ending June 30, 2006, the County paid \$71,381 in such dues. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The total board membership is 40, inclusive of 5 members from Chatham County. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Coastal Georgia Regional Development Center, P.O. Box 1917, Brunswick, Georgia 31521.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. Government-wide statements focus on the County as a whole, and primary activities are categorized as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, incorporating 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 by functional category (general government, judiciary, public safety, public works, etc.). Gross expenses (including depreciation) are reduced by related program revenues, charges for services, and operating and capital grants. Program revenues are directly associated with the source function or business-type activity. Program revenues include i) charges for services, ii) operating grants and contributions, and iii) capital grants and contributions. Operating grants include operating-specific and discretionary grants while the capital grants reflect capital-specific grants. Charges for services include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment. The net cost (by function or business-type activity) is normally covered by general revenue (property, sales and other taxes, intergovernmental revenues, investment income, etc.).

While activities of discretely presented component units are reported in the County's government-wide financial statements, separate columns are utilized so that the activities of these component units can be viewed independently from those of the primary government.

The government-wide focus is more on the sustainability of the County as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds are eliminated or reclassified in the government-wide financial statements. Eliminations have been made in the Statement of Activities to remove the "doubling-up" effect of internal service fund activity. Interfund services provided and used are not eliminated in the process of consolidation. Also, the County allocates indirect cost to each of its funds. The indirect costs are eliminated in the government-wide financial statements.

Fund financial statements focus on individual major funds in either the governmental or business-type categories. Non-major funds (by category or fund type) are summarized into a single column.

Major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are 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 government-wide statements, a reconciliation is presented following each statement. The reconciliation briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Internal service funds (which traditionally provide services primarily to other funds of the government) are presented in summary form as part of proprietary fund financial statements. 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 column when presented at the government-wide level. To the extent possible, the cost of these services is reflected in the appropriate functional activity (general government, judiciary, public safety, public works, etc.).

The County's fiduciary funds 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 address activities or obligations of the government,

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

these funds are not incorporated into the government-wide statements.

C. Basis of Presentation

The financial transactions of the County are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

Major funds are separately presented within the basic financial statements. Major funds represent the government's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. Governments may also choose to report other funds as major funds if the fund is particularly important to financial statement users. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The County uses the following fund types:

1. Governmental Funds:

The focus of governmental fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the County:

a. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The major fund (Special Service District) is used to account for special levy ad valorem taxes and other activities for the unincorporated area of the County.

c. Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on governmental contractual obligations.

d. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Business-type/Proprietary Funds). The County displays four major funds, Sales Tax I, Sales Tax II, Sales Tax III, and Sales Tax IV. These funds account for the proceeds of a special one cent sales tax adopted by referendum and related expenditures for roads, drainage and other improvements. Although the Sales Tax I and Sales Tax II funds did not meet the fiscal criteria for a major fund in 2006, the County chose to continue their presentation as major funds due to the high level of public interest in their activities.

2. Proprietary Funds:

Proprietary Funds are reported using the economic resources measurement focus. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the County:

a. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The major funds (Chatham Area Transit Authority and Solid Waste Management Fund) account for business-type activities for transportation services and solid waste collection and disposition.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

b. Internal Service Funds are used to account for the financing of goods or services provided by an activity to other departments or funds of the County on a cost-reimbursement basis. The County's internal service funds are used to account for the financing of certain risk management services, such as health insurance claims, workers compensation claims and catastrophic claims that are not covered by insurance.

3. Fiduciary Funds:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus (economic resources measurement focus) of fiduciary funds is upon net assets and changes in net assets. The funds employ accounting principles similar to proprietary funds. Trust and Agency Funds are used to account for the activities that are custodial in nature. The County has one pension trust fund that accounts for the retirement benefits of the County's employees. There are eight agency funds, seven of which account for the receipts and disbursements of funds by the tax commissioner and various clerks of court, and the eighth is the flex benefit plan, which accounts for employee withholdings for dependent and medical care under section 125 of the IRS code.

4. Non-Current Governmental Assets/Liabilities:

Information on the County's capital assets and long-term debt is incorporated into the Statement of Net Assets and also disclosed within these notes.

D. 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

1. Accrual:

All proprietary, internal service, pension trust, and agency funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. 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. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, usually 60 days. Revenues considered susceptible to accrual are property taxes, charges for services, and investment income. In applying the "susceptible to accrual" concept to intergovernmental revenues, 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. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient. 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 is recognized when due.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

The County has defined Cash and Cash Equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Additionally, each fund's equity in the County's investment pool is considered to be a cash equivalent since the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Investments are stated at fair value (quoted market price or the best estimate thereof).

The County operates a linked zero balance cash system with five zero balance accounts. All deposits are made in the collection account, and all disbursements are made from the accounts payable account, the jurors account, insurance account and the payroll account. The bank each day automatically moves all funds from the collection account to an interest bearing super NOW account (master funding account). The County allocates investment earnings of the cash and investment pool to each participating fund on a monthly basis in accordance with the funds' average equity balance in the pool for the month.

2. Receivables

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes, grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

The major receivable for the County is property taxes receivable. Property taxes are levied on all taxable real, public utilities and personal property (including vehicles) located within the County. Assessed values for property tax purposes are determined by the Chatham County Board of Tax Assessors for all property except public utilities and motor vehicles. Assessed value is set at 40% of market value. Public utility and motor vehicle assessed values are established by the State of Georgia. Property taxes are levied by the last quarter of the year in which they are assessed, or as soon after as deemed practical. Taxes are due and payable when levied. Chatham County may place liens on property once the related tax payments become delinquent. A lien on such property becomes enforceable 60 days after final notification on delinquency of property taxes. Property tax millage rates are usually adopted in August and tax bills are rendered by September 15.

The property tax calendar is as follows:

Beginning of fiscal year for taxes	January 1, 2006
First installment real property tax bills rendered (based on prior year digest)	April 1, 2006
First installment real property tax payment due	June 1, 2006
Millage rate adopted by resolution	July 8, 2006
County tax digest approved by the State of Georgia	July 29, 2006
Second installment real and personal property tax bills rendered	September 15, 2006
Second installment real property tax payment due	November 15, 2006
Tax sales 1998-2005 delinquent real property tax and other assessments	Various

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

3. Inventories and Prepaid Items

Inventories are stated at cost on the basis of "first in, first out" (FIFO) method of accounting. Inventory in the General and Enterprise Funds consists of expendable supplies held for consumption. Costs are recorded as expenditures at the time inventory is used (consumption method). Reported inventories in the General Fund are equally offset by a fund balance reserve, which indicates that the inventories do not constitute "available spendable resources" even though they are a component of net current assets.

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

4. Restricted Assets

Special Revenue Funds - Chatham Emergency Management Agency Fund restricted funds were generated from contributions by private industry for use in a separate local emergency planning commission.

Enterprise Funds - The Water and Sewer Fund maintains a separate account for the purpose of segregating funds received for customers' security deposits. Refunds of customer deposits are paid from this account. Liabilities payable from restricted assets are reported separately to indicate that the source of payment is the restricted assets. The Solid Waste Management Fund maintains a separate fund to account for the provision of solid waste collections, transportation and disposal for the residents of the unincorporated area of Chatham County. This fund provides for the operation of the County landfills, which were separated from the Public Works Department in 1992 to comply with state accounting and reporting requirements. Solid Waste Fund cash has been restricted for education and recycling activities of the County, and for financial assurance of closure and postclosure costs.

Trust and Agency Funds - Restricted cash and investments are held by various financial institutions in the County's name for the County's Pension Trust Fund.

Additional data on the County's cash and investment policies and risk concentrations is found in Note III. A.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Infrastructure assets are capitalized at cost starting at \$50,000. Significant interest costs incurred during construction are recorded as part of the asset's cost. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the County included all such items regardless of their acquisition date or amount. The County was able to estimate the historical cost for the initial reporting of those assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the County constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

The County has capitalized networks/subsystems for the following major infrastructure groups: roads, right of ways, bridges, drainage (open systems), drainage (closed systems) and sidewalks. A capitalization threshold of \$21 million was used to determine whether a network/subsystem would be incorporated for retroactive infrastructure reporting.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Building	10-50
Building Improvements	10
Public Domain Infrastructure	30-50
System Infrastructure	20-50
Vehicles	5
Office Equipment	4-40
Furniture and Fixtures	5-10

6. Long-Term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Claims, Judgments, and Compensated Absences

The liability for claims and judgments and compensated absences has been accrued. The total liability for proprietary funds is recorded in the proprietary fund type.

The County's policy is to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time. The accumulated benefits will be liquidated in future years as employees elect to use them. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations in the year they are to be paid. All compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

In accordance with the Fair Labor Standards Act, employees may receive compensatory time off in lieu of overtime pay. Unused compensatory time may be banked up to 480 hours for law enforcement and emergency response personnel and 240 hours for other personnel. Non-exempt employees will be paid for accumulated compensatory time at separation. The potential liability for compensatory time at June 30, 2006 is \$157,100.

8. Equity Classifications

Equity is classified as net assets and displayed in three components in the government-wide financial statements.

- a. **Invested in capital assets, net of related debt** consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

- b. **Restricted net assets** consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted net assets** consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

F. Revenues, Expenditures and Expenses

1. Operating and Non-operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and or services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. For the County's blended component unit, grants for specific transit activities are reported as operating revenues. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, the County's policy is to use restricted resources first, then unrestricted resources as needed.

2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. Administrative overhead charges are made to various functions and are included in direct expenses. In the fund financial statements, governmental fund expenditures are classified by character i.e. current (further classified by function), debt service, and capital outlay. Proprietary fund expenses are classified as operating and non-operating.

In the fund financial statements, governmental funds report expenditures of current financial resources. Proprietary funds report expenses relating to use of economic resources.

3. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursement or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

4. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from these estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balances/Net Assets

The Land Bank Fund has a fund deficit of \$68,173. The fund's main revenue source is real property sales. Anticipated property sales in fiscal year 2007 should eliminate the deficit.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

The Building Safety and Regulatory Services Fund experienced a deficit net assets balance of \$253,287. Elimination of the deficit may be achieved by a combination of rate increases and interfund transfers. The Risk Management Fund experienced a deficit net assets balance of \$96,716 due to full recognition of claims liabilities in fiscal year 2006, the fund's first year of operation.

B. Budget Variances by Department

<u>Fund</u>	<u>Department</u>	<u>Unfavorable Variance</u>
Special Service District	Reimbursable Expenses	25,262
Debt Service Fund	Transfers Out	1,211

Budget to actual expenditures are monitored by the County on an ongoing basis. Biweekly agenda items and quarterly financial reports are presented to the Board of Commissioners. Budget transfers or amendments related to cost overruns may be proposed, up to the amount of available contingency funds; however, year-end accruals may result in unfavorable budget variances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

General: The County maintains a cash and investment pool utilized by the majority of the County's funds. The four major capital project funds – Sales Tax I, Sales Tax II, Sales Tax III and Sales Tax IV – maintain their own individual bank accounts and investments. The cash and investments of the Chatham County Employees Retirement Plan (CCERP) are also held separately and reported within the Pension Trust Fund.

Deposits:

Custodial Credit Risk for deposits is the risk that, in the event of bank failure, a government's deposits may not be returned to it. At June 30, 2006 all of the County's deposits were either covered by federal depository insurance or collateralized through the Georgia Public Funds Pledging Pool, a multiple financial institution collateral pool administered by the Georgia Bankers Association for the State of Georgia.

Georgia law governs collateral requirements and forms of collateral under O.C.G.A. Section 45-8-12 which is incorporated by reference within the County's Investment Policy. The County has no custodial credit risk policies requiring additional collateral. In summary, Georgia law states:

- All deposits shall be collateralized within 10 days of deposit by a surety bond, a guarantee of insurance, or collateral.
- The face value of any surety bond, guarantee of insurance or collateral shall be at least 110% of the public funds being secured, net of deposit insurance.
- If a depository elects the pooled method (O.C.G.A. Section 45-8-13.11), the aggregate market value of pledged securities may not be less than 110% of the daily pool balance.

Authorized security for deposits enumerated under law includes surety bonds, FDIC insurance, obligations of the United States or the State of Georgia, obligations of Georgia counties or municipalities, bonds of any Georgia public authority, industrial revenue bonds of any Georgia development authority, and obligations of any subsidiary corporation of the United States government fully guaranteed by the United States (such as Federal Home Loan Bank, Federal National Mortgage Association, etc).

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Investments:

In its investment of both public and pension trust funds, the County follows state statutes and adopted investment policies. As of June 30, 2006 the investments of the Primary Government and the CCERP were:

		Maturities in Years				
Type of Investment	Average Credit Rating	Fair Value	Less than 1	1-3	4-5	Greater than 5
Primary Government:						
Georgia Fund I	Aaa	\$ 131,457,500	\$ 131,457,500	\$ -	\$ -	\$ -
Money Market Portfolio	NR	515,846	515,846			
US Government/Agency Sec	Aaa	62,395,143	18,605,887	43,789,256		
Pension Trust Fund:						
US Government/Agency Sec	Aaa	9,602,970		914,025	1,458,742	7,230,203
Asset Backed Securities	Aaa	464,041		367,213		96,828
Mortgage Backed Securities	Aaa	2,650,976				2,650,976
Corporate Bonds						
Various	A	14,823,535	1,201,394	4,558,725	2,693,523	6,369,893
Various	Aa	6,735,511	1,525,563	2,232,664	1,049,908	1,927,376
Various	Aaa	1,291,464			445,696	845,768
Various	Baa	1,621,372	-	135,012		1,486,360
Domestic Stock	NR	45,579,572	45,579,572			
Real Estate Investment Trust	NR	1,676,253	1,676,253			
Short-Term	NR	1,217,241	1,217,241			
International Equity Funds	NR	10,397,835	10,397,835			
Total Investments		\$ 290,429,259	\$ 212,177,091	\$ 51,996,895	\$ 5,647,869	\$ 20,607,404

Under state law, investments of the County's public funds may be placed in obligations of (or obligations guaranteed by) the U.S. government, obligations of agencies of corporations in the U.S. government, obligations of any state or any political subdivision of any state, certificates of deposit or time deposits of financial institutions with deposits insured by FDIC, prime bankers acceptances, repurchase agreements, and the Georgia Fund 1. During the year the County invested public funds in certificates of deposits and time deposits of local banks, U.S. Government obligations, obligations of agencies guaranteed by the U.S. Government, repurchase agreements through local banks, and the Georgia Fund 1.

State law also governs the investment of retirement funds (O.C.G.A. 47-20-84) and limits investments to maximum concentrations by investment category (at cost). The County's defined benefit plan qualifies as a "large retirement system", a designation which allows the plan additional investments in equity securities.

The Georgia Fund 1 is considered to be a 2a7-like-pool that operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Georgia Fund 1 was created under O.C.G.A. 36-83-8 and is managed by the State of Georgia's Office of Treasury and Fiscal Services. The pool is not registered with the SEC as an investment company. The fair value of the pool is the same as the value of the pool shares. As a public fund, Georgia Fund I is exempt from any disclosure of custodial credit risk.

Deposit and investment transactions are subject to a variety of risks. The County's adopted investment policies seek to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform with legal requirements.

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The County's Investment Policy states that the County will structure its portfolio to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to their maturity. The Policy also emphasizes the purchase of shorter term or more liquid investment. The Policy does not place formal limits on investment maturities.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Policies of the CCERP limit short-term investments to specified securities: money market accounts, direct obligations of the U.S. Government with maturities of 1 year or less, and commercial paper maturing within 270 days that are rated A-1 or higher by Standard & Poor's or P-1 by Moody's Investor Services.

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County's Investment Policy seeks to minimize credit risk through diversification of investments within the choices allowed under state statutes. CCERP policies minimize credit risk by setting a target average credit quality of "A" or higher for the bond portfolio. Investments in all corporate fixed income securities are limited to an investment grade of "BAA" or higher as rated by Moody's or "BBB" or higher as rated by Standard & Poor's.

All of the County's investments in U.S. Treasury and Agency securities carry the explicit guarantee of the U.S. government. U.S. Agency securities underlie repurchase agreements.

Foreign currency risk is the risk that exchange rates may effect the valuation of an investment. The Pension Plan has investments in two international equity funds (various currencies) subject to foreign currency risk. The fair value of these funds as of June 30, 2006 was \$10,397,835. State law limits the Pension Plan's investment in foreign equities 10% of cost. No additional policies have been adopted.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Disclosures are required for any issuer that represents 5% or more of total investments, exclusive of mutual funds, external investment pools and investments issued or guaranteed by the U.S. government. The County's Investment Policies places maximum limits on investment of public funds as follows:

Bankers' Acceptances maturing within 270 days and eligible for purchase by the Federal Reserve	20%
Certificates of Deposit	20%
U.S. Treasury Obligations	100%
OTFS-Georgia Fund 1 (liquidity pool)	80%
OTFS-GEAP (intermediate pool)	50%
Obligations of Georgia and its political subdivisions	25%
Repurchase agreements collateralized by US Government Securities	25%
Collateralized instruments offered by approved County depository bank(s)	100%
Interests or securities in no-load, open-end mutual funds as provided for in OCGA 36-82-7 (bond proceeds only)	100%
Mortgage pass-throughs/REMICs/CMOs/other mortgage-backed Securities (other than high-risk* derivatives) issued by a US Government Agency or Instrumentality	25%
U.S. Government agencies or instrumentalities	100%
Local community investment opportunities	10%

*CMOs must pass the FFIEC (or surviving and mutually agreed upon equivalent) tests one and two.

In addition, the CCERP's Investment Policy seeks a diversified portfolio of fully negotiable, equity, fixed income, and money market securities, with the following maximum investment limits, stated at cost:

Equity securities	60%
Foreign equity assets	10%
Small or Mid-Cap Stocks	30%
Single Corporate Issuer	5%
Collateralized Mortgage Obligations	15%

There are no limits on fixed income securities issued directly by the U.S. government or any agency thereof. Prohibited investments are also specified in the policy.

Deposits and investments are reconciled between the financial statements and note disclosure as follows:

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Basic financial statements:

Cash and investments	\$ 227,667,847
Restricted cash	6,520,993
Pension and agency funds	117,620,086
Total	<u>\$ 351,808,926</u>

Notes to financial statements:

Cash on hand	\$ 29,327
Deposits	61,350,340
Investments	290,429,259
Total	<u>\$ 351,808,926</u>

B. Receivables

Receivables as of year end for the government's individual major funds and non-major, internal service, and fiduciary funds in the aggregate including the applicable allowance for uncollectible accounts, are as follows:

Receivables:	Taxes	Accounts	Inter- governmental	Gross Receivables	Allowance for Uncollectibles	Net Receivables
General	\$ 8,455,271	\$ 20,035	\$ 2,867,895	\$ 11,343,201	\$ (273,973)	\$ 11,069,228
Special Service District	999,958	4,542	573,800	1,578,300	(18,000)	1,560,300
Sales Tax I	0	0	108,753	108,753	0	108,753
Sales Tax II	0	0	1,268,645	1,268,645	0	1,268,645
Sales Tax III	0	36,851	209,236	246,087	0	246,087
Sales Tax IV	0	0	7,973,020	7,973,020	0	7,973,020
Chatham Area Transit Authority	893,006	243,019	3,016,151	4,152,176	0	4,152,176
Solid Waste	0	48,496	0	48,496	(500)	47,996
Nonmajor Governmental	4,569	430,483	1,029,377	1,464,429	(1,000)	1,463,429
Internal Service	0	120,880	0	120,880	0	120,880
Nonmajor Enterprise	0	1,191,885	0	1,191,885	(115,681)	1,076,204
Fiduciary Fund	0	1,205,708	0	1,205,708	0	1,205,708
Total	<u>\$ 10,352,804</u>	<u>\$ 3,301,899</u>	<u>\$ 17,046,877</u>	<u>\$ 30,701,580</u>	<u>\$ (409,154)</u>	<u>\$ 30,292,426</u>

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

C. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows (see note I for explanation of beginning balance differences):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<i>Non-Depreciable Assets:</i>				
Land	\$ 22,687,187	\$ 359,689	\$ -	\$ 23,046,876
Right of Ways	333,356,362			333,356,362
Construction in Progress	7,727,500	4,613,256	-	12,340,756
<i>Depreciable Assets:</i>				
Buildings and Improvements	122,359,178	5,067,617	-	127,426,795
Machinery and Equipment	36,164,053	4,474,197	1,311,217	39,327,033
Infrastructure	390,741,549	0		390,741,549
Total	913,035,829	14,514,759	1,311,217	926,239,371
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	(24,288,615)	(2,473,474)	0	(26,762,089)
Machinery and Equipment	(28,248,793)	(2,609,343)	(1,275,353)	(29,582,783)
Infrastructure	(152,253,354)	(7,976,362)	-	(160,229,716)
Total Accumulated Depreciation	(204,790,762)	(13,059,179)	(1,275,353)	(216,574,588)
Total Governmental Activities	708,245,067	1,455,580	35,864	709,664,783
Business-Type Activities:				
<i>Non-Depreciable Assets:</i>				
Land	9,106,506	187,888	-	9,294,394
Construction in Progress	12,942	419,842	12,942	419,842
<i>Depreciable Assets:</i>				
Buildings and Improvements	10,965,410	57,816	-	11,023,226
Plant	10,616,794	1,204,695	-	11,821,489
Machinery and Equipment	21,633,310	3,634,080	157,033	25,110,357
Total	52,334,962	5,504,321	169,975	57,669,308
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	(4,389,315)	(334,872)	-	(4,724,187)
Plant	(5,613,513)	(326,687)	-	(5,940,200)
Machinery and Equipment	(10,335,150)	(1,581,874)	(157,033)	(11,759,991)
Total Accumulated Depreciation	(20,337,978)	(2,243,433)	(157,033)	(22,424,378)
Total Business-Type Activities	31,996,984	3,260,888	12,942	35,244,930
Total Capital Assets	\$ 740,242,051	\$ 4,716,468	\$ 48,806	\$ 744,909,713

Depreciation expense was charged to governmental activities as follows:

General government	\$ 1,942,598
Judiciary	376,725
Public safety	1,906,933
Public works	8,056,371
Culture and recreation	327,567
Health and welfare	448,985
Total depreciation expense	\$ 13,059,179

The County has active construction projects as of June 30, 2006. At year-end the government's major commitments are as follows:

	Contract Balance June 30, 2006
Sales Tax I	\$ 1,354,319
Sales Tax II	722,771
Sales Tax III	5,984,142
Sales Tax IV	3,076,822
Total	\$ 11,138,054

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

The Chatham Area Transit Authority had outstanding at June 30, 2006 contract commitments totaling approximately \$370,800 related to the proposed Centre Station and modifications to the current facility. These projects are to be funded through matching federal and state grants.

D. Interfund receivables, payables and transfers

Interfund receivable and payable balances at June 30, 2006 are as follows:

Receivable Fund	Payable Fund	Amount
General	Sales Tax I	\$ 76,363
	Sales Tax II	18,816
	Sales Tax III	94,181
	Sales Tax IV	92,532
	Nonmajor Governmental	1,083,573
Special Service District	Nonmajor Enterprise	818,338
	General Fund	81,863
	Nonmajor Governmental	100,000
Sales Tax IV	Sales Tax II	45,839
	Nonmajor Governmental	102,822
	Solid Waste Fund	53,798
Nonmajor Governmental	General Fund	1,317,673
	Special Service District	47,000
	Nonmajor Governmental	14,302
	Sales Tax IV	205,458
Internal Service	Sales Tax I	1,545
	Sales Tax II	540
	Sales Tax III	1,680
Fiduciary	Sales Tax I	1,609
	Sales Tax II	550
	Sales Tax III	1,394
Total		<u>\$4,159,876</u>

These balances represent loans between the borrower fund and the lender fund. These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Interfund receivables and payables are reported in the fund financial statements; however, they are eliminated in the government-wide financial statements if the interfund loan is between governmental funds.

Although in the past the County has issued short-term tax anticipation notes to finance its general operations, in September 2005 the County's General Fund instead borrowed \$6 million from the Sales Tax III Fund for cash flow needs. The General Fund repaid the \$6 million and interest of \$48,127 to Sales Tax III in December 2005. In October 2005, the County's General Fund borrowed \$2 million from the Sales Tax III Fund for cash flow needs. The General Fund repaid the \$2 million and \$9,526 in interest to Sales Tax III in December 2005.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

A summary of interfund transfers by fund type is as follows:

Receiving Fund:	Paying Fund:	Amount
Major Funds		
General	Special Service District	\$ 312,267
General	Nonmajor Enterprise Funds	48,000
Special Service District	General	87,000
Special Service District	Nonmajor Governmental	668,708
Special Service District	Nonmajor Enterprise Funds	27,000
Chatham Area Transit Authority	General	1,276,920
Solid Waste	General	390,660
Solid Waste	Special Service District	1,338,360
Nonmajor Funds		
Special Revenue	General	515,439
Special Revenue	Nonmajor Governmental	125,000
Special Revenue	General	67,715
Special Revenue	Special Service District	60,000
Debt Service	General	5,177
Capital Project	General	9,790,867
Capital Project	Special Service District	4,384,130
Capital Project	Nonmajor Governmental	31,092
Enterprise Fund	Internal Service Fund	350,000
Internal Service Fund	General	2,386,000
Internal Service Fund	Nonmajor Governmental	200,000
Internal Service Fund	Special Service District	868,662
Total		<u>\$ 22,932,997</u>

Interfund transfers are used to 1) move revenues from the fund where they are authorized for collection by statute or budget to the fund where statute or budget requires expenditure, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group.

E. Short-term Debt

Chatham Area Transit Authority has a \$1,000,000 operating line of credit agreement with a bank that expires October 30, 2006. The bank made advances on the line of credit to provide the Authority with operating funds throughout the year.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

A schedule of changes in short-term debt follows:

Fund:	Beginning Balance	Increases	Decreases	Ending Balance
Chatham Area Transit	-			-
Authority Enterprise Fund	-	\$ 500,000	\$ 500,000	-
Total	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>

F. Capital Leases

The County and its agencies have entered into lease agreements as lessee for financing the acquisition of machinery and equipment for various County offices. The County has also financed the acquisition of maintenance equipment and golf carts for the Henderson Golf fund by means of a lease. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of fixed assets leased under capital leases as of June 30, 2006:

	Governmental Activities	Business-Type Activities
Machinery and Equipment	\$ 7,112,815	\$ 547,351
Less: Accumulated depreciation	(5,430,977)	(421,586)
Total	<u>\$ 1,681,838</u>	<u>\$ 125,765</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006 were as follows:

Year Ending June 30	Governmental Activities	Business-Type Activities
2007	\$ 660,333	\$ 42,488
2008	407,954	35,406
2009	407,954	
2010	407,954	
2011	376,522	
2012	143,787	
Total minimum lease payments	<u>2,404,504</u>	<u>77,894</u>
Less: amount representing interest	(224,984)	(2,873)
Present value of minimum lease payments	<u>\$ 2,179,520</u>	<u>\$ 75,021</u>

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

G. Long-term debt

Schedule of Contractual Obligations

Purpose	Issue Date	Average Interest Rates	Original Amount	Amount Outstanding
Governmental Activities:				
(1) Downtown Savannah Authority (Chatham County Projects) Series 2005	June 2005	3.00 - 4.25%	\$ 29,055,000	\$ 26,550,000
(2) Chatham County Hospital Authority Revenue Bonds	April 1993	3.50 - 5.70%	2,245,000	1,165,000
(3) Downtown Savannah Authority Revenue Bonds Series 1999	November 1999	5.10 - 5.75%	9,300,000	1,605,000
(4) Downtown Savannah Authority Series 2005A	November 2005	3.00 - 5.00%	6,075,000	6,075,000
(5) Mosquito Control Facility	January 2003	6.08%	4,596,057	4,385,760
Business-Type Activities:				
(1) Chatham Area Transit Authority	August 2002	5.12%	8,023,916	6,258,179
Total			<u>\$ 59,294,973</u>	<u>\$ 46,038,939</u>

Information on each of these contractual obligations is shown below:

Governmental Activities:

(1) Downtown Savannah Authority Revenue Refunding and Improvement Bonds (Chatham County Projects), Series 2005:

In June 2005 the County issued bonds through the Downtown Savannah Authority in the amount of \$29,055,000. The bonds bear interest ranging between 3% and 4.25% with final maturity in 2024. Proceeds of the bond issue were used to i) currently refund and redeem all of the outstanding Downtown Savannah Authority Refinanced Courthouse Improvement Detention Bonds, Series 1993A in the amount of \$17,404,290, ii) provide new facilities funding of \$12,000,000, and iii) pay related costs of issuance. The bonds were issued at a premium of \$717,431.

The refunding provided a reduction in total future debt service payments of \$742,116 with most of the savings occurring within the first year. The transaction generated an economic gain (difference between the present values of the old and new debt service payments) of \$710,522. On June 29, 2005 all of the Series 1993 bonds were called for redemption. Thus, none of the 1993 bond series remain outstanding.

Proceeds from the bond sale will be applied to the following projects, i) renovation of health facilities for the Chatham County Board of Health, ii) conversion of an existing facility into a behavioral health facility, iii) replacement of a dome roof on the Chatham County Aquatic Center, iv) replacement of the Chatham County Animal Control Shelter, v) construction of a 5th floor addition on the South Annex for county offices, and vi) construction or purchase of a facility for the Chatham County Counter Narcotics Team.

Pursuant to the bond issue, the County entered into an intergovernmental contract with the Downtown Savannah Authority whereby the County has an unconditional obligation to provide sufficient funds for debt service payments and related paying agent or bond registrar fees. The County is authorized to exercise its powers of taxation to the extent necessary to pay the amounts required by the contract.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

(2) Chatham County Hospital Authority Revenue Bonds:

On April 28, 1993, the Chatham County Hospital Authority (Georgia) issued \$2.245 million Revenue Bonds. The bonds were issued by the Chatham County Hospital Authority to provide funds for the purpose of acquiring land and constructing improvements and/or making renovations to existing improvements thereon, in order to provide additional and enhanced public health facilities in Chatham County.

The Bonds are limited obligations of the Authority, payable from payments made by the County to the Authority under the Lease with respect to the Project costs and from other revenues and funds pledged to the payment thereof as described herein. The obligation of the County pursuant to the Lease is to make payments sufficient to pay the principal of, absolute and unconditional within the seven mill limitation prescribed by the Hospital Authorities Law of Georgia, and the County has covenanted to annually levy a tax, within said seven mill limitation, on all property subject to taxation within the County to enable it to make such payments. However, the Bonds do not constitute direct obligations of the County and are not themselves secured by the general credit of taxing power of the County.

(3) Downtown Savannah Authority (Chatham County Projects), Series 1999:

In November 1999, Chatham County issued \$9.3 million revenue bonds to finance certain capital improvements and construction through the Downtown Savannah Authority (DSA). The bonds are limited obligations of the DSA, payable from payments made by the County to the DSA under the provisions of an intergovernmental contract between the County and the DSA dated November 1, 1999. Under the terms of the contract, the County covenants to include in each of its annual budgets an amount sufficient to make the contract payment each year and to levy and collect taxes from year to year in an amount sufficient to fulfill and fully comply with the terms of the contract. The Bonds pay interest between 5.1% and 5.75%, depending on the maturity date, with a final maturity on January 1, 2020. These bonds were partially refunded in November 2005 with the issuance of the Downtown Savannah Authority Bonds Series 2005A. Proceeds from the sale of those bonds will be used to advance refund and redeem on January 1, 2010 the Series 1999 bonds maturing on January 1, 2011 and thereafter, which are outstanding in the aggregate principal amount of \$5,845,000. The remaining balance for the 1999 Series at June 30, 2006 was \$1,605,000.

(4) Downtown Savannah Authority Revenue Refunding Bonds (Chatham County Projects), Series 2005A:

In November 2005 the County issued bonds through the Downtown Savannah Authority in the amount of \$6,075,000. The bonds bear interest ranging between 3.00% and 5.00% with final maturity in 2020. Proceeds of the bond issue were used to i) partially refund and redeem the outstanding Downtown Savannah Authority Revenue Bonds, Series 1999 in the amount of \$5,845,000 and ii) pay related costs of issuance. The bonds were issued at a premium of \$221,126. Remaining balance for the 2005A Series at June 20, 2006 was \$6,075,000.

The refunding provided a reduction in total future debt service payments of \$322,407 with most of the savings occurring within the first year. The transaction generated an economic gain (difference between the present values of the old and new debt service payments) of \$243,373.

Pursuant to the bond issue, the County entered into an intergovernmental contract with the Downtown Savannah Authority whereby the County has an unconditional obligation to provide sufficient to provide sufficient funds for debt service payments and related paying agent or bond registrar fees. The County is authorized to exercise its powers of taxation to the extent necessary to pay the amounts required by contract.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

(5) Mosquito Control Facility:

On February 2001, the County entered into an intergovernmental agreement with the Savannah Airport Commission (SAC). Under terms of the agreement the County contracted to reimburse the SAC for the design and construction costs of a Mosquito Control Facility. The County occupied the Mosquito Control Facility on January 1, 2003. The County will repay SAC \$4,596,057 over thirty years at an interest rate of 6.08%. Monthly payments of \$27,793 began January 1, 2003 and will conclude on December 1, 2032.

The County is also leasing an approximately 7.7 acre site (land lease) where the facility was built for fifty years with annual rental based on the appraised value of the land multiplied by a 12% factor. Rental rates for the land lease will be amended and modified every five years based upon a reappraisal of the value of the land. At inception, the agreement specifies an annual land rental of \$36,342.

Business-type Activities:

(1) Chatham Area Transit Authority:

In August 2002, the Authority signed an agreement for \$8,023,916 with Municipal Services Group (MSG) to finance the purchase of thirty-one (31) low floor 35' buses. This loan is to be repaid with matching funds from federal (80%) and state (10%) grants along with local (10%) funds over a ten-year period. The debt service requirements provide for quarterly payments of \$267,585, including interest at an effective rate of 5.12%, beginning in August of 2003.

A summary of annual debt service requirements to maturity for contractual obligations follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 3,248,751	\$ 1,829,704	\$ 763,242	\$ 307,100
2008	3,383,050	1,692,641	802,522	267,820
2009	3,527,617	1,549,684	845,237	225,105
2010	3,687,470	1,400,201	889,500	180,842
2011	3,852,626	1,209,527	936,081	134,261
2012-2016	7,072,490	4,513,637	2,021,597	119,086
2017-2021	7,384,341	2,895,660	-	-
2022-2026	5,837,382	1,408,734	-	-
2027-2031	1,310,057	357,494	-	-
2032-2033	476,977	23,287	-	-
Total	<u>\$ 39,780,761</u>	<u>\$ 16,880,569</u>	<u>\$ 6,258,179</u>	<u>\$ 1,234,214</u>

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Other Long Term Liabilities:

Governmental Activities:

(1) Pollution Control Facilities Financing

Chatham County, under court order, had agreements with various county municipalities regarding the financing of pollution control facilities. The only outstanding agreement is with the City of Pooler which began in 1984 for \$349,230. Annual payments and the schedule by years for the future minimum payments under this agreement are:

Fiscal Year	City of Pooler
2007	9,978
2008	9,978
2009	9,978
2010	9,978
2011	9,978
2012-2016	49,890
2017-2018	19,956
Total	<u>\$ 119,736</u>

(2) Future General Obligation Debt

In September 2006, Chatham County voters approved the future issuance of general obligation debt for a detention facilities expansion project, in an amount not to exceed \$103,200,000. Debt has not been issued.

Business-type Activities:

(3) Closure and Postclosure Care Cost for Solid Waste Enterprise Fund:

The Georgia Comprehensive Solid Waste Management Act effective January 1, 1992 requires the County to strengthen solid waste management practices and to achieve a 25 percent reduction in the amount of solid waste disposed of in landfills and by thermal combustion units by the year 1996. This act requires the County to further comply with the cost reporting mandate in capturing and reporting costs for local solid waste operations, direct costs for solid waste collecting, handling and disposal, indirect administrative costs, such as for shared central services, billable cost, (external and internal) and costs for debt retirement and interest expenses. State and federal laws and regulations require the County to place a final cover on the Wilmington Island landfill, Dillion landfill, Chevis landfill, Sharon Park landfill and Thomas Avenue landfill sites when each stops accepting waste and to perform certain maintenance and monitoring functions at these sites for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that these landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity of the landfills. The \$3,813,174 reported as the landfill closure and postclosure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of the percentage of the estimated capacity of the landfills. The percentage of landfill capacity used at June 30, 2006 is estimated to be 100%. The County has closed all the landfills. The actual cost of closure and postclosure care may fluctuate annually due to inflation, changes in technology, or changes in environmental laws and regulations. The County has set aside \$2,471,741 for financial assurance of closure and postclosure.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Changes in Long-Term Liabilities

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Capital Leases	\$ 2,999,419	\$ 265,000	\$ 1,084,899	\$ 2,179,520	\$ 582,631
Contractual Obligations	42,595,466	6,075,000	8,889,705	39,780,761	3,248,751
Pollution Control Facilities	129,714	-	9,978	119,736	9,978
Compensated Absences	8,239,355	5,965,945	5,264,144	8,941,156	1,251,762
Claims & Judgements	268,000	122,000	-	390,000	-
Deferred Amounts:					
Issuance cost/Loss on Early Retirement	(794,551)	(131,796)	(118,298)	(808,049)	-
Discounts	(64,525)		(5,147)	(59,378)	-
Premium	717,431	221,126	127,649	810,908	
Total Governmental Activities	\$ 54,090,309	\$ 12,517,275	\$ 15,252,930	\$ 51,354,654	\$ 5,093,122
Business-Type Activities:					
Capital Leases	\$ 132,273	\$ -	\$ 57,252	\$ 75,021	\$ 36,833
Contractual Obligations	6,983,441	-	725,262	6,258,179	763,242
Closure and Postclosure Cost	4,169,235	-	356,061	3,813,174	-
Compensated Absences	160,027	129,008	55,012	234,023	32,763
Deferred Rebates to Developers	327,815	-	-	327,815	-
Total Business-Type Activities	\$ 11,772,791	\$ 129,008	\$ 1,193,587	\$ 10,708,212	\$ 832,838

Capital leases, contractual obligations, pollution control facilities, compensated absences, and claims & judgments are generally liquidated by the general and special service district funds, except for the Chatham County Hospital Authority Revenue Bonds contractual obligation that is liquidated by the debt service fund. Bond Issuance costs are reported as an asset in the Statement of Net Assets.

H. Reserved Fund Balances/Restricted Net Assets/Designated Fund Balances

Reserves are used to indicate that a portion of the fund balance or net assets is legally segregated for a specific future use. The County uses the following reserves:

Reserved for Inventory and Prepaid Items - General Fund - The reserve is used to segregate a portion of fund balance to indicate that, using the consumption method, inventories of supplies do not represent "available spendable resources" even though they are a component of net current assets.

Reserved for Debt Service - Debt Service Fund - The reserve is used for future debt service on revenue bonds. This amount is also shown as Restricted Net Assets on the government-wide statements.

Reserved for Encumbrances - General and Special Revenue Fund - The reserve is used to segregate a portion of fund balance for expenditure for contracts and open purchase orders.

Reserved for Restricted Fees - General Fund - The reserve is composed of juvenile court supervision fees and surcharges collected by the Courts for the victim assistance program and for drug abuse and treatment. Due to

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

legal restrictions on their use, these fees are also shown as restricted net assets on the government-wide statements.

Reserved for Public Safety - Special Revenue Fund - The reserve is restricted for payment of complex investigations, to purchase emergency communications equipment and for other law enforcement purposes deemed appropriate including the local emergency planning committee (LEPC). Due to legal restrictions on their use, all of the reserve except for the LEPC is also shown as restricted net assets on the government-wide statements.

Reserved for Retirement Benefits - Trust and Agency Fund - The reserve is restricted for payment of retirement benefits.

Restricted for Capital Projects - Capital Project Funds - The restriction represents amounts to be used for capital project expenditures as legally restricted through public referendum.

Restricted for Debt Service - Enterprise Fund - The restriction represents amounts to be used for future debt service payments on Chatham Area Transit obligations.

Restricted for Education and Recycling - Enterprise Fund - These amounts are legally restricted for certain uses as specified by State statutes.

Designated - General and Special Revenue Fund - The designation represents portions of fund balance in excess of recommended reserve levels stated in adopted financial policies. Designated funds may be considered for capital projects funding or other significant organizational expenditures, subject to Board approval.

I. Restatement of Beginning Net Assets

For the year ending June 30, 2006, the County implemented the retroactive infrastructure reporting portion of GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

To comply with the requirements of this statement, certain beginning net asset balances were restated, as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2005</u>	<u>Change</u>	<u>Restated Balance June 30, 2005</u>
Total Net Assets	\$ 318,085,039	\$ 540,630,488	\$ 858,715,527

Infrastructure increased by \$718,746,335 with a portion of it being reported as Right of Ways, a non-depreciable asset. The depreciation for infrastructure increased by \$151,857,442. Construction in Progress decreased by \$26,258,405 as assets were reclassified from CIP to Infrastructure.

J. Negative Capital Outlay Expenditure

During the year, a Sales Tax project expenditure was reclassified from one fund to another. Right of Way purchase in the amount of \$849,234 was reclassified from Sales Tax II to Sales Tax I, resulting in a negative capital outlay expenditure for Sales Tax II.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

IV. OTHER INFORMATION

A. Pension - The Chatham County Employees' Retirement Plan (CCERP)

Chatham County administers a defined benefit pension plan. The plan assets shall be used only for the payment of benefits to the members of the plan, in accordance with the terms of the plan.

1. Summary of Significant Accounting Policies:

Basis of Accounting - CCERP financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

2. Plan Description and Contribution Information

Plan Description

The Chatham County Employees' Retirement Plan is a single-employer defined benefit pension plan that covers all County employees and former employees now employed within the Savannah-Chatham Metropolitan Police Department. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Article IX of the Chatham County Employees' Retirement Plan defines the authority of the Pension Board including their ability to establish and amend the benefit provisions of the plan.

Benefits vest after five years of service. For general employees normal retirement age is 62 and for peace officer's employee's normal retirement age is 55. County employees who retire at normal retirement age are entitled to 2 percent of the final average earnings for each of the first 30 years of credited service plus one percent of final average earnings for the remaining number of years of credited service. Employees who are age 55 with 25 or more years of service have the reduced benefit from 30 years of service in lieu of age. The plan also provides for occupational and non-occupational disability. Members may also retire with unreduced benefits with 25 years of credited service. The plan also provides incentives for early retirements with reduced benefits of a 3 percent per year penalty for early retirement. Full benefits are equal to the average of the highest three years of covered earnings. Cost-of-living adjustments (COLA) are provided at the discretion of the Pension Board.

The County administers the Plan, and the County's responsibility includes pension disbursements and general administration of the Plan under the authority of the Chatham County Pension Board. The Pension Board has contracted with State Street Bank to act as custodian of the assets of the Plan. The accounting and financial reporting functions are performed by the County Finance Department and the Plan's audited financial statement is included in the County's Comprehensive Annual Financial Report as a Pension Trust Fund. The Plan does not issue a stand-alone financial report. The benefit provisions and all other related plan requirements are established and may be amended by County Ordinance. The Pension Plan is actuarially evaluated every year.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Membership of the plan consisted of the following as of June 30, 2005, the date of the last actuarial evaluation:

Disabled employees, retirees and beneficiaries receiving benefits	402
Terminated plan members entitled to but not yet receiving benefits	70
Active plan members	1,312
Total membership	<u><u>1,784</u></u>

Contributions

The annual contribution amounts are actuarially determined. The Plan requires contributions of 2.5 percent by the employee. The County contributes such additional amounts as are necessary, based on actuarial valuations, to provide the plan with sufficient assets to meet future benefit payments. In 2006 the County contributed \$4,887,876 (9.6% of covered payroll), and the contributions paid by employees totaled \$1,379,304. The total payroll for employees covered under the plan for the year ended June 30, 2006 was \$50.6 million.

Annual Pension Cost and Net Pension Obligation

The County has incurred and paid annual pension cost of \$4,887,876, \$3,076,345 and \$3,017,742 for the County's fiscal years 2006, 2005, and 2004 respectively. The County's actuarial required contribution equaled annual pension cost for these years. There is no net pension obligation at June 30, 2006 and none previously reported for the plan since 1996.

The annual required contribution for the current year was determined as part of the July 1, 2005 actuarial valuation using the entry age normal actuarial cost method. The Plan changed from the aggregate actuarial cost method to the entry age normal method on July 1, 2003. The Plan's amortization method is level dollar with closed amortization periods. The equivalent single amortization period is 16 years, based on all of the current amortizations. The actuarial assumptions include an 8.5% investment rate of return (net of administrative expenses). Prior to 1998, compensation was assumed to increase each year by an amount equal to 4% of the salary at the beginning of that year. Beginning with the 1998 plan year, salary progression rates were based on actual compensation increases during the 1994-1997 plan years. The assumptions do not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. An inflation factor of 3 percent is included in the assumptions for salary growth purposes.

B. Postretirement Health Care Benefits

In addition to providing pension benefits in accordance with the requirements of a local ordinance, the County makes health care benefits available for substantially all retired employees. Retirees enrolled in the health plan pay the insurance premiums. The County recognizes the cost of these benefits by expending insurance claims, which were \$2,710,000 in fiscal year 2006. Offsetting revenues of \$194,042 for 416 retirees are recognized at the time contributions are withheld from the retirement payroll checks.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

C. Risk Management

Chatham County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has established the Catastrophic Claims Fund, an internal service fund, and the Claims and Judgments account within the Risk Management Fund to account for and finance its uninsured risks of loss. The net assets of the Catastrophic Claims Fund at June 30, 2006 are \$1,592,919. The Risk Management Fund showed a deficit net asset balance of \$96,716 due to full recognition of claims in the first year of the fund's operation.

The claims liability is herein disclosed based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amounts of the loss can be reasonably estimated. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liability is reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Liabilities for incurred losses to be settled by fixed or reasonably determined payments over a long period of time are reported at their present value using expected future investment yield assumptions ranging from 4 to 6 percent. During 2006, there were no annuity contracts purchased.

Group Health:

The County has established a Health Insurance Internal Service Fund whereby premiums paid by other funds are available to pay health claims and administrative costs. Program reserves and Incurred But Not Reported (IBNR) claims of \$1,000,448 have been accrued as a liability in the Health Insurance Internal Service Fund based primarily upon the provider's projections. Interfund premiums are based upon the Health Insurance Fund's prior year's claims experience. The Group Health Internal Service Fund's total net assets as of June 30, 2006 are \$1,824,447. The County retains the first \$130,000 of each health claim. Specific Excess Insurance is purchased for each claim that exceeds the \$130,000 per claim retention, and Aggregate Excess Insurance is purchased for aggregate annual claims that exceed 125% of the TPA's annual projections.

Fiscal Year	Unpaid Claims Beginning of Year	Incurred Claims Including IBNRs	Actual Claim Payments	Unpaid Claims End of Year
2003 \$	1,564,857	\$ 8,485,969	\$ 8,887,695	\$ 1,163,131
2004	1,163,131	11,592,164	10,902,866	1,852,429
2005	1,852,429	10,398,302	11,080,351	1,170,380
2006	1,170,380	12,613,428	12,783,360	1,000,448

Workers Compensation:

Workers Compensation is administered in the Risk Management Fund. The Worker's Compensation program retains the first \$400,000 of each incurred claim. The County purchases Specific Excess Insurance for each individual claim that exceeds the \$400,000 retention. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years. The liability reported for Incurred But Not Reported (IBNR) claims and program reserves for June 30, 2006 totaled \$2,141,565.

CHATHAM COUNTY, GEORGIA
Notes to the Basic Financial Statements

Fiscal Year	Unpaid Claims Beginning of Year	Incurred Claims Including IBNRs	Actual Claim Payments	Unpaid Claims End of Year
2003	\$ 1,551,200	\$ 2,181,631	\$ 588,904	\$ 3,143,927
2004	3,143,927	41,456	836,397	2,348,986
2005	2,348,986	893,299	1,117,125	2,125,160
2006	2,125,160	2,483,887	2,467,482	2,141,565

D. Commitments and Contingencies

The County reviews all outstanding judgments to determine if any estimated liabilities should be accrued at year end. In the opinion of management, based on this review and on the advice of legal counsel, the ultimate disposition of claims and judgments will not have a material adverse effect on the financial position of the County.

The County participates in a number of Federal and State assisted grant programs. Grant amounts received and receivables are subject to audit by grantor agencies. The amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The County expects such amounts, if any, to be immaterial.

The Chatham Hospital Authority (Georgia) Revenue Anticipation Certificates were issued to provide funds for the purpose of acquiring land and construction improvements and making renovations to existing improvements, in order to provide additional and enhanced public health facilities in Chatham County, consisting of (i) a mid-town public health clinic, with adjoining parking facilities, (ii) a mental health, mental retardation and substance abuse treatment satellite facility and (iii) an adolescent residential substance abuse treatment facility. All of said facilities are leased to the County, a political subdivision of the State of Georgia, pursuant to a Lease Agreement, dated as of April 1, 1993, between the Authority and the County, and are subleased by the County to the Chatham County Board of Health, Gateway and the Savannah Area Behavioral Health Collaborative.

The Bonds are limited obligations of the Authority, payable from payments made by the County to the Authority under the Lease with respect to the Projects and from other revenues and funds pledged to the payment thereof as described above. The obligation of the County pursuant to the Lease to make payments sufficient to pay the principal of, redemption premium, if any, and interest due on the bonds is absolute and unconditional within the seven mill limitation prescribed by the Hospital Authorities Law of Georgia, and the County has covenanted to annually levy a tax, within said seven mill limitation, on all property subject to taxation within the County to enable it to make such payments. However, the Bonds do not constitute direct obligations of the County and are not secured by the general credit or taxing power of the County, the State of Georgia, or any political subdivision thereof.

At June 30, 2006, the Revenue Anticipation Certificates outstanding aggregated \$1,165,000.

