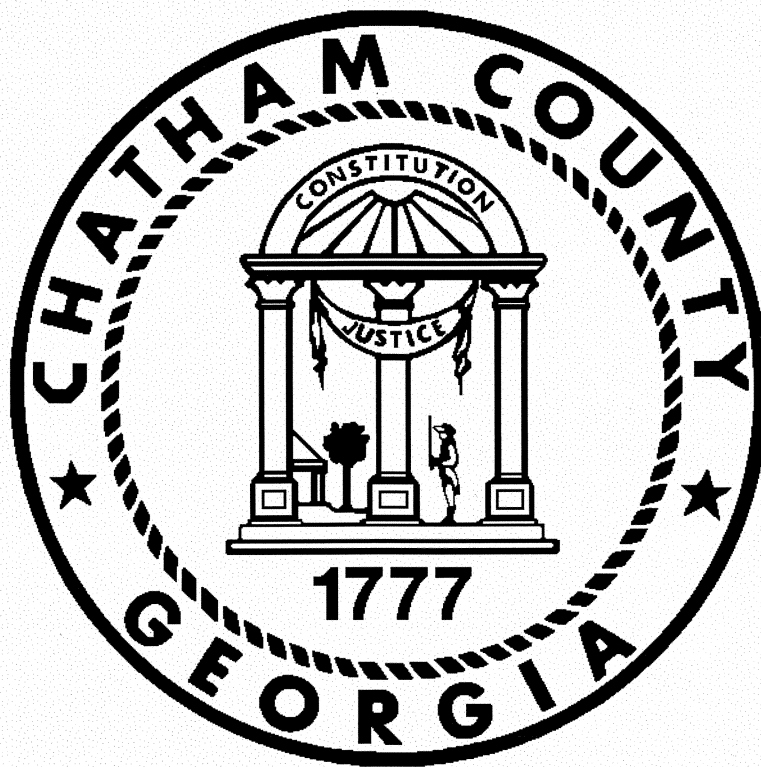


**INDEPENDENT AUDITORS' REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS**



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, 2007, 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 40.7%, 35.7% and 68.9% 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, 2007, 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 November 21, 2007, 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.

Kauf, Renning & Tindal, P.C.

November 21, 2007

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, 2007. 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, 2007 by \$974,681,953 (net assets). Of this amount, \$57,374,218 (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 \$45 million. Net assets of governmental activities increased \$44,153,342 while net assets from business-type activities increased by \$950,530.
- At June 30, 2007, Chatham County's governmental funds balance sheet reports combined ending fund balances of \$240,761,746, an increase of \$22,633,288 over the previous fiscal year. Of this amount, \$236,282,189 remains in the various fund types of the County as unreserved. \$11,292,137 of this amount has been designated for capital projects or other significant organizational expenditures.
- The General Fund reported an unreserved fund balance of \$20,173,244, an annual increase of \$5,672,411. \$8,407,528 of the unreserved fund balance was designated for capital projects or other significant organizational expenditures. Total fund balance increased by \$6,284,687 to \$22,987,647 in 2007.
- Total long-term liabilities of Chatham County decreased by \$3,243,326 from the previous fiscal year as a result of scheduled debt service payments.

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, building safety & regulatory services).

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 and 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 \$974,681,953 as of June 30, 2007.

The County implemented the retroactive infrastructure reporting requirements on GASB Statement 34 in fiscal 2006. In the June 30, 2006 Comprehensive Annual Financial Report, prior year capital assets and net asset balances were restated within the MD&A to recognize the infrastructure and facilitate comparative review.

The largest portion of Chatham County's net assets (74%) 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 (19.7%) 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 \$57,374,218, a 17.8% increase over the prior year. Total net assets increased by approximately \$45 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	275,719,569	246,213,572	17,376,010	18,900,482	293,095,579	265,114,054
Capital assets, net	727,099,321	709,664,783	34,485,887	35,244,930	761,585,208	744,909,713
Total assets	1,002,818,890	955,878,355	51,861,897	54,145,412	1,054,680,787	1,010,023,767
Current and other liabilities	17,735,449	12,695,637	2,635,796	4,879,134	20,371,245	17,574,771
Noncurrent liabilities	49,910,085	52,162,703	9,717,504	10,708,212	59,627,589	62,870,915
Total liabilities	67,645,534	64,858,340	12,353,300	15,587,346	79,998,834	80,445,686
Net assets:						
Invested in capital assets,						
net of related debt	696,028,733	678,740,933	28,956,177	28,911,730	724,984,910	707,652,663
Restricted	189,088,649	169,451,499	3,234,176	3,807,712	192,322,825	173,259,211
Unrestricted	50,055,974	42,827,583	7,318,244	5,838,624	57,374,218	48,666,207
Total net assets	935,173,356	891,020,015	39,508,597	38,558,066	974,681,953	929,578,081

Governmental Activities - Governmental activities increased the County's net assets by \$44,153,342, accounting for 98% 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 2007. Tax revenues overall increased by over \$17.3 million from the prior year. Revenues from the sales and use taxes increased by \$3 million. Property tax revenues increased by \$13 million.
- Higher investment earnings. Higher interest rates and cash levels resulted in a \$4.1 million increase in investment earnings.
- Increased capital grants and contributions. Donated land and accepted subdivisions increased this revenue by over \$10 million from the prior year.
- An increasing level of capital asset construction. Construction activity added almost \$5 million to construction in progress projects funded either by sales tax and general revenues.

Tax revenue provided 78% of the County's total revenues while charges for various goods and services provided 7.7%. Unrestricted investment earnings represented 4.5% of total revenues. The County's expenses cover a range of services. Public safety expenses, the largest category of expenses, were \$63.5 million, a \$4.9 million increase over the prior year. Within this category, police costs increased \$1.9 million over the prior year to \$17 million. Also, the detention center's costs showed an annual increase of \$2.8 million to \$28.7 million. Public works expenses were \$59.5 million. Public works expenses include \$15 million in municipality distributions of special purpose local option sales taxes (SPLOST), classified to Public works in accordance with 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. Homeowners Tax Relief Grant (HTRG) revenues received from the State of Georgia are shown as Grants and contributions not restricted to specific programs. Total excess revenues over expenses before transfers amounted to \$48 million. Transfers out of \$3.9 million resulted in a total change in net assets of \$44.1 million.

Business-type Activities - Business-type activities net assets increased \$950,530 for the fiscal year ended June 30, 2007 after transfers in from governmental activities of \$3.9 million. Key components of the increase were:

- Higher property tax revenue which increased by \$801,808, driven by growth in the County's tax digest.
- Overall decreases in grants and contributions due to lower federal grant funding levels in the Chatham Area Transit Fund.
- A decrease of over \$600,000 for Solid Waste Fund expenses. The fund had an unusual expense in 2006 related to solid waste surcharge refunds.

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	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
- Charges for services	\$ 19,760,105	\$ 18,510,030	\$ 8,846,553	\$ 9,106,853	\$ 28,606,658	\$ 27,616,883
- Operating grants and contributions	4,655,009	4,930,727	3,135,668	1,410,159	7,790,677	6,340,886
- Capital grants and contributions	11,483,299	1,233,710	1,396,623	4,015,642	12,879,922	5,249,352
General Revenues:						
- Property taxes	117,172,970	104,165,430	6,410,747	5,608,939	123,583,717	109,774,369
- Sales and use taxes	74,261,102	71,259,158			74,261,102	71,259,158
- Other taxes	8,837,226	7,551,652			8,837,226	7,551,652
- Grants and contributions not restricted to specific programs	3,996,029	3,931,963			3,996,029	3,931,963
- Unrestricted investment earnings	11,683,260	7,520,599	712,810	648,245	12,396,070	8,168,844
- Miscellaneous	4,601,500	2,691,205	4,375	18,731	4,605,875	2,709,936
Total Revenues	256,450,500	221,794,474	20,506,776	20,808,569	276,957,276	242,603,043
Expenses:						
General Government	31,378,123	26,628,117			31,378,123	26,628,117
Judiciary	24,177,726	22,706,196			24,177,726	22,706,196
Public Safety	63,510,567	58,527,308			63,510,567	58,527,308
Public Works	59,577,210	47,283,087			59,577,210	47,283,087
Health and welfare	9,510,033	12,715,744			9,510,033	12,715,744
Culture and recreation	14,430,717	13,069,470			14,430,717	13,069,470
Housing and development	3,893,952	2,888,091			3,893,952	2,888,091
Interest on long-term debt	1,853,056	2,391,033			1,853,056	2,391,033
Environmental services-Solid Waste			2,386,961	3,013,304	2,386,961	3,013,304
Transportation services-Bus System			16,800,605	15,820,334	16,800,605	15,820,334
Recreational services-Golf			944,428	859,989	944,428	859,989
Other services-Water & Sewer			1,734,867	1,829,210	1,734,867	1,829,210
Other services-Parking			282,492	220,922	282,492	220,922
Other services-Building Safety & Reg Services			1,372,667	1,460,642	1,372,667	1,460,642
Total Expenses	208,331,384	186,209,046	23,522,020	23,204,401	231,853,404	209,413,447
Excess (deficiency) before transfers	48,119,116	35,585,428	(3,015,244)	(2,395,832)	45,103,872	33,189,596
Transfers	(3,965,774)	(3,280,940)	3,965,774	3,280,940	0	0
Total transfers	(3,965,774)	(3,280,940)	3,965,774	3,280,940	0	0
Change in net assets	44,153,342	32,304,488	950,530	885,108	45,103,872	33,189,596
Net assets - beginning	891,020,014	858,715,526	38,558,067	37,672,959	929,578,081	896,388,485
Net assets - ending	\$ 935,173,356	\$ 891,020,014	\$ 39,508,597	\$ 38,558,067	\$ 974,681,953	\$ 929,578,081

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, 2007, the County's governmental funds reported combined ending fund balances of \$240,761,746, an increase of \$22,633,288 in comparison to the previous year. Approximately 98% of the fund balance (\$236,282,189) is classified as unreserved. Of this amount, \$19,498,702 is available for spending in future years without restrictions that are more limited than the purpose of the fund. \$11,292,137 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 (\$205,491,350). 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 (\$1,819,562)
- Payment of debt service (\$101,146)
- Public safety purposes, reserved due to legal restrictions on the use of funds (\$1,411,201)
- Funds that were generated through the County's court system with use restricted by law for certain County programs (\$793,960)
- Various restricted amounts (\$353,688)

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 \$22,987,647 of which \$20,173,244 was unreserved. Unreserved fund balance increased by \$5,672,411 over the prior year amount. Fund balance reserved for encumbrances increased by \$843,489. 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 (\$8,407,528) 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 17.4 percent of fiscal 2007 fund expenditures (excluding transfers out), as compared to 13.5 percent in 2006. Total fund balance represents 19.8 percent of that same amount, compared to 15.6 percent in the prior year.

Chatham County's General Fund showed a fund balance increase of \$6,284,687 for the current fiscal year. Key factors in the fund balance increase were:

- Favorable revenues trends exceeded prior year levels by over \$11.7 million. 89% of the revenue growth was in the Property Taxes category. Growth in the 2006 tax digest of 14.41% was realized. Due to the high digest growth rate, the Board of Commissioners had decreased the property tax rate .2 mills to a 10.837 millage rate.
- Expenditures increased by \$8.5 million over prior year levels. However, expenditures showed an overall favorable budget variance of \$7.4 million as departmental spending was 94.6% of budgeted amounts.
- The fund transferred out \$14.3 million to other County funds. Due to favorable revenue variances, the fund was able to transfer \$8.5 million to the Capital Improvement Fund. The fund also transferred \$2.7 million to the Risk Management Internal Service Fund.

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 \$10,579,346, an increase of \$1,774,867 over the prior year. Unreserved fund balance increased \$1,455,901 over the prior year amount. Management designated a portion of the unreserved fund balance,

\$2,884,609, for capital project needs or other significant organizational expenditures. An analysis of this fund reveals the following factors:

- Revenues increased \$2.8 million from 2006 levels and expenditures increased by \$1.5 million.
- Property taxes increased by over \$1.3 million as a result of higher digest levels. Other taxes, which included cable franchise fees and business licenses, rose by \$976,217.
- Expenditures for Public safety increased \$1.3 million to \$11,330,492.
- During the fiscal year the fund transferred \$3.5 million to other County funds. The most significant expenditure was a \$1.3 million transfer out to the Solid Waste Fund. The fund also transferred \$517,182 to the Emergency Telephone System fund and \$704,513 to the Building Safety & Regulatory Services enterprise fund.

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 2006 levels by approximately \$14.8 million. Expenditures in all four sales tax capital project funds increased during 2007 as construction on projects continued. In its fourth year, the Sales Tax IV fund realized expenditures of over \$48 million of which 31% 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 \$64.3 million during fiscal 2007, an increase of \$4.3 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:

- August 2006: approved transfer out to CIP Fund of \$245,000 for a mosquito control airplane
- August 2006: approved appropriation of \$881,661 for lease of modular units to the Detention Center for inmate housing needs
- September 2006: approved appropriation of \$2,692,445 for additional staff and operating expenditures at the Detention Center
- September 2006: approved appropriation \$300,000 for pensioner cost-of-living adjustment
- January 2007: approved appropriation of \$250,000 for additional staff and equipment for the Tax Assessor department
- June 2007: approved transfer out to CIP Fund of \$232,530 from the Detention Center department for vehicles and equipment
- August 2007: approved transfer out to CIP Fund of \$250,000 from Recreation & Parks Services department for recreation projects and equipment
- August 2007: approved transfer out to CIP Fund of \$5,000,000 for capital project needs listed in the CIP Plan
- September 2007: approved increase to local option sales tax revenue of \$1,000,000 and transfer out to the CIP Fund of \$1,000,000 for the animal control facility project
- September 2007: approved transfer out of \$500,000 to the CIP Fund for capital project needs listed in the CIP Plan

Departmental budgets were also amended during the year to recognize 2006 encumbrance carryforwards 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 million.
- Digest-based property tax collections varied by \$3.7 million above budgeted amounts. Prior year real property collections varied by approximately \$1 million and prior year personal property collections varied by \$1.9 million. Motor vehicle taxes were \$1 million higher than anticipated. Budgets are developed based on the current year tax digest (values as of January 1) and millage rate. The Tax Assessor estimates that personal property discoveries and audits added \$956,573 to the General Fund in 2007 with over \$123 million in value under appeal or pending discovery. As the County's millage rate decreases, collection of prior year taxes may incorporate higher millage rates. Higher values for new motor vehicles increase the assessed value of the motor vehicle digest during the year, leading to higher revenues.
- Within the Other Taxes category, Superior Court collections for intangible recording tax and real estate transfer tax exceeded estimates by \$508,195. These revenues are indicative of the healthy real estate market in the area during fiscal 2007, and follow the trend of upward digest growth.
- Investment income exceeded budget estimates by approximately \$625,000. Increasing cash balances allowed for greater investment opportunities.
- Several categories of the Tax Commissioner's revenues showed favorable variances including Property Tax Commissions (\$207,109) and Penalties and Interest on delinquent taxes (\$199,921). Commissions are a set percentage of collections; therefore, higher collections mean higher commissions.
- Departmental savings produced a positive appropriations variance for the General Fund of \$7.4 million. Of this amount, \$1.6 million was encumbered. The Detention Center experienced a favorable variance of \$1.4 million. After encumbrances, the majority of the variance can be attributed to vacancies and hiring delays of 39 new positions approved during the fiscal year. At the Elections Board, the variance can be attributed to a lower number of elections than anticipated. Favorable variances at the District Attorney, Tax Assessor and Tax Commissioner were related to staff vacancies or delays in hiring of new positions.
- Two departments showed unfavorable variances at year end. Due to year end accruals, the County Manager's department experienced an unfavorable variance of \$391. Court expenditures also had an unfavorable variance of \$26,139 as a result of increased costs associated with the court reporter.
- During the year fund balance appropriations of \$7.1 million were budgeted. Of this amount, \$828,177 was for prior year encumbrances, \$737,923 for restricted fees, and \$127,852 for a revenue decrease. In addition \$5.5 million represented transfers to the Capital Projects Fund.

Capital Asset and Debt Administration

Capital Assets - 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	
	2007	2006	2007	2006	2007	2006
Land	\$ 27,623,596	\$ 23,046,876	\$ 9,405,111	\$ 9,294,394	\$ 37,028,707	\$ 32,341,270
Right of Ways	333,553,537	333,356,362			333,553,537	333,356,362
Construction-in-progress	17,295,512	12,340,756	352,612	419,842	17,648,124	12,760,598
Buildings and improvements	109,217,962	100,664,706	6,459,872	6,299,039	115,677,834	106,963,745
Machinery and Equipment	10,580,111	9,744,250	12,419,498	13,350,366	22,999,609	23,094,616
Plant			5,848,794	5,881,289	5,848,794	5,881,289
Infrastructure	228,828,603	230,511,833			228,828,603	230,511,833
Totals	\$ 727,099,321	\$ 709,664,783	\$ 34,485,887	\$ 35,244,930	\$ 761,585,208	\$ 744,909,713

At the conclusion of 2007, the County had invested more than \$761 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 \$16.7 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:

- Completion and capitalization of various improvement projects including tennis court resurfacing, improvements to the County's Eisenhower Drive facility, the Skidaway Narrows emergency crossing, the Highway 204 bridge project, improvements to the Health Department's buildings, and improvements and equipment at Charlie Brooks Park.
- Land donations were valued at over \$4 million.
- The Construction-in-progress account reflected activity for a number of projects including the S.A.B.H.C. facility, the Islands Police precinct, the Montgomery Street Courthouse, Tom Triplett Park, Truman Parkway Phase V, and the roof replacement at the Aquatics Center.

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 \$13,639,524. Financing for these construction commitments will be from special purpose local option sales tax collections. Chatham Area Transit had outstanding construction commitments of \$365,000.

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

Debt – The County's long-term liabilities at June 30, 2007 totaled \$59,627,589, a decrease of over \$3.2 million from 2006. There were no significant activities during fiscal 2007.

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:

- On January 1, 2005 Chatham County entered into an intergovernmental agreement with the City of Savannah for the merging of its police force into the Savannah-Chatham Police Department. 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 an estimated cost of \$625,000. The majority of police services are budgeted in the Special Service District. Almost since the inception of the merger agreement, revenue growth in the fund has struggled to keep pace with the cost increases in the agreement.
- The Adopted 2008 Budget included a tax reduction in the General Fund of .3 mills, but annual tax digest growth of 13.77% increased the property tax revenue budget overall. At budget adoption the Board incorporated additional revenue of \$1,596,414 into a contingency account for subsequent appropriation. On August 10, 2007 the Board approved related appropriations of \$1,429,639. 30% of the approved expenditures are anticipated to be recurring costs since they involve additional staff.
- 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.
- Health care costs continue to increase at 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. The County is working with its actuary to quantify plan design elements and design a health and welfare trust. The Adopted 2008 budget included \$1,400 per active employee for pre-funding of health care and

\$3.1 million for pay-as-you-go retiree health claims. Future budgets will need to consider increasing this appropriation level 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.