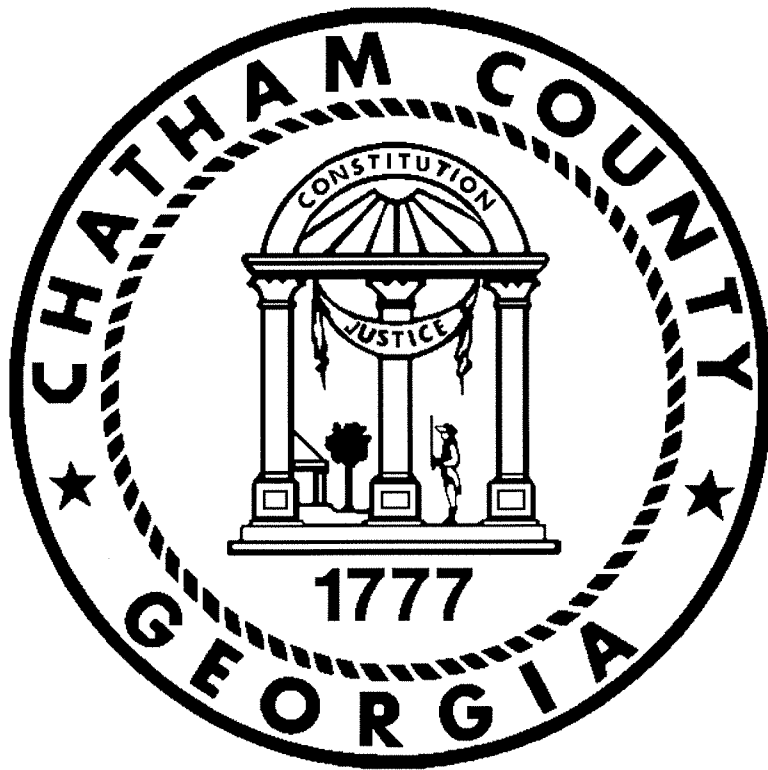


**INDEPENDENT AUDITORS' REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS**



KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

RICHARD D. TINDOL, CPA
DERRICK A. COWART, CPA
CHRISTOPHER T. LIGHTLE, CPA
MARTIN L. KARP, CPA
DENNIS W. RONNING, CPA
A.L. KARP (1925-1969)

123 ABERCORN STREET • P.O. BOX 9550
SAVANNAH, GEORGIA 31412
912-232-0475 TEL • 912-232-0478 FAX
888-261-8702 TOLL FREE
krt@krtcpa.com • www.krtcpa.com

BRADLEY A. LUCAS, CPA, CVA
ANDREW W. BRODMANN, CPA
FRANK A. SLOTIN, CPA
DANIEL J. MAHFET, CPA
CAROL L. DRAKE, CPA

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, 2008, 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 39.7%, 32.6% and 66.2% 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, 2008, 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 December 10, 2008, 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.

Introductory and Statistical Sections

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

Karp, Renning & Tundal, P.C.

December 10, 2008

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, 2008. 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, 2008 by \$1,017,778,686 (net assets). Of this amount, \$66,253,321 (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 \$43 million. Net assets of governmental activities increased \$44,514,506 while net assets from business-type activities decreased by \$1,417,771.
- At June 30, 2008, Chatham County's governmental funds balance sheet reports combined ending fund balances of \$261,931,953, an increase of \$21,170,207 over the previous fiscal year. Of this amount, \$256,996,664 remains in the various fund types of the County as unreserved with \$8,460,312 designated for capital projects or other significant organizational expenditures.
- The General Fund reported an unreserved fund balance of \$20,643,756, an annual increase of \$470,512. Of the unreserved fund balance, \$8,197,515 was designated for capital projects or other significant organizational expenditures. Total fund balance increased by \$867,723 to \$23,855,370 in 2008.
- Total long-term liabilities of Chatham County decreased by \$2,033,489 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 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 flow. Consequently, 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, and building safety and 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 Board of Health and the Live Oak Public Libraries.

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 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 give you a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the statement 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 County'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 pension and other post-employment benefits to employees and/or retirees. 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 \$1,017,778,686 as of June 30, 2008.

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.

In its June 30, 2008 Comprehensive Annual Financial Report, the County has implemented GASB Statement 45 relating to the reporting of other post-employment benefits. The County is reporting a net OPEB obligation (NPO) as a noncurrent liability on its government-wide statements.

The largest portion of Chatham County's net assets (72.7%) reflects its investment in capital assets such as land, building, equipment and infrastructure, less any related outstanding debt used to acquire those assets. 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 (20.72%) represent resources that 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 \$66,253,321, a 15.5% increase over the prior year. Total net assets increased by approximately \$43 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	298,435,922	275,719,569	18,804,636	17,376,010	317,240,558	293,095,579
Capital assets, net	742,361,592	727,099,321	32,386,700	34,485,887	774,748,292	761,585,208
Total assets	1,040,797,514	1,002,818,890	51,191,336	51,861,897	1,091,988,850	1,054,680,787
Current and other liabilities	12,553,259	17,735,449	4,062,805	2,635,796	16,616,064	20,371,245
Noncurrent liabilities	48,556,393	49,910,085	9,037,707	9,717,504	57,594,100	59,627,589
Total liabilities	61,109,652	67,645,534	13,100,512	12,353,300	74,210,164	79,998,834
Net assets:						
Invested in capital assets, net of related debt	713,145,139	696,028,733	27,537,903	28,956,177	740,683,042	724,984,910
Restricted	207,390,200	189,088,649	3,452,123	3,234,176	210,842,323	192,322,825
Unrestricted	59,152,523	50,055,974	7,100,798	7,318,244	66,253,321	57,374,218
Total net assets	979,687,862	935,173,356	38,090,824	39,508,597	1,017,778,686	974,681,953

Governmental Activities - Governmental activities increased the County's net assets by \$44,514,506, accounting for 103% 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 2008. Tax revenues overall increased by over \$12.2 million from the prior year. Revenues from the sales and use taxes increased by almost \$1 million. Property tax revenues increased by over \$11 million.
- An increasing level of capital asset construction. Construction activity added over \$18 million to construction in progress projects funded either by sales taxes or general revenues.

Tax revenue provided 83% of the County's total revenues while charges for various goods and services provided 7.7%. Unrestricted investment earnings represented 4% of total revenues. The County's expenses cover a range of services. Public safety expenses, the largest category of expenses, were \$69.9 million, an increase of over \$6.4 million from the prior year. Within this category, police costs increased \$1.4 million over the prior year to \$17.8 million. Also, the detention center's costs showed an annual increase of \$3.9 million to \$32.6 million. Public works expenses were \$45.9 million. Public works expenses include \$24 million for municipality distributions of special purpose local option sales taxes (SPLOST), classified to Public works in accordance with the Georgia Uniform Chart of Accounts. Homeowners Tax Relief Grant (HTRG) revenues of approximately \$4 million 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 almost \$49 million. Transfers out of \$4.5 million resulted in a total change in net assets of \$44.5 million.

Business-type Activities - Business-type activities net assets decreased \$1,417,771 for the fiscal year ended June 30, 2008 after transfers in from governmental activities of \$4.5 million. Key components of the change were:

- Higher property tax revenue which increased by \$828,317, driven by growth in the Chatham Area Transit Authority's tax digest.
- Overall decreases in operating grants and contributions due to lower federal grant funding levels for Chatham Area Transit Fund.
- Expense increases for various business-type activities related to vehicle repairs and maintenance costs, fuel costs, higher costs for contractual services, and accruals for net OPEB obligations.

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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
- Charges for services	\$ 19,790,365	\$ 19,760,105	\$ 9,263,770	\$ 8,846,553	\$ 29,054,135	\$ 28,606,658
- Operating grants and contributions	4,718,898	4,655,009	1,288,094	3,135,668	6,006,992	7,790,677
- Capital grants and contributions	1,165,703	11,483,299	1,130,809	1,396,623	2,296,512	12,879,922
General Revenues:						
- Property taxes	128,541,648	117,172,970	7,239,064	6,410,747	135,780,712	123,583,717
- Sales and use taxes	75,248,035	74,261,102	-	-	75,248,035	74,261,102
- Other taxes	8,678,131	8,837,226	-	-	8,678,131	8,837,226
- Grants and contributions not restricted to specific programs	4,000,200	3,996,029	-	-	4,000,200	3,996,029
- Unrestricted investment earnings	10,373,448	11,683,260	560,859	712,810	10,934,307	12,396,070
- Miscellaneous	3,412,435	4,601,500	-	4,375	3,412,435	4,605,875
Total revenues	255,928,863	256,450,500	19,482,596	20,506,776	275,411,459	276,957,276
Expenses:						
General government	36,273,315	31,378,123	-	-	36,273,315	31,378,123
Judiciary	27,166,934	24,177,726	-	-	27,166,934	24,177,726
Public safety	69,967,038	63,510,567	-	-	69,967,038	63,510,567
Public works	45,916,050	59,577,210	-	-	45,916,050	59,577,210
Health and welfare	11,009,709	9,510,033	-	-	11,009,709	9,510,033
Culture and recreation	10,893,167	14,430,717	-	-	10,893,167	14,430,717
Housing and development	3,966,632	3,893,952	-	-	3,966,632	3,893,952
Interest on long-term debt	1,744,059	1,853,056	-	-	1,744,059	1,853,056
Environmental services-solid waste	-	-	2,716,415	2,386,961	2,716,415	2,386,961
Transportation services-bus system	-	-	17,542,383	16,800,605	17,542,383	16,800,605
Recreational services-golf	-	-	845,951	944,428	845,951	944,428
Other services-water & sewer	-	-	2,332,897	1,734,867	2,332,897	1,734,867
Other services-parking	-	-	280,300	282,492	280,300	282,492
Other services-building safety & reg services	-	-	1,659,874	1,372,667	1,659,874	1,372,667
Total expenses	206,936,904	208,331,384	25,377,820	23,522,020	232,314,724	231,853,404
Excess (deficiency) before transfers	48,991,959	48,119,116	(5,895,224)	(3,015,244)	43,096,735	45,103,872
Transfers	(4,477,453)	(3,965,774)	4,477,453	3,965,774	-	-
Total transfers	(4,477,453)	(3,965,774)	4,477,453	3,965,774	-	-
Change in net assets	44,514,506	44,153,342	(1,417,771)	950,530	43,096,735	45,103,872
Net assets – beginning	935,173,356	891,020,014	39,508,595	38,558,067	974,681,951	929,578,081
Net assets - ending	\$ 979,687,862	\$ 935,173,356	\$ 38,090,824	\$ 39,508,597	\$ 1,017,778,686	\$ 974,681,953

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, 2008, the County's governmental funds reported combined ending fund balances of \$261,931,953, an increase of \$21,170,207 in comparison to the previous year. Approximately 98% of the fund balance or \$256,996,664 is classified as unreserved. Of this amount, \$23,196,071 is available for spending in future years without restrictions that are more limited than the purpose of the fund. Of the unreserved amount, \$8,460,312 is not designated. Other unrestricted portions of fund balance totaling \$225,340,221 are also available for spending in future years but are earmarked, but not legally restricted, for capital projects in the County's construction-in-progress funds. 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 - \$1,985,465
- Payment of debt service - \$102,896
- Public safety purposes, reserved due to legal restrictions on the use of funds - \$1,532,037
- Funds that were generated through the County's court system with use restricted by law for certain County programs - \$919,848
- Various restricted amounts - \$395,043

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 \$23,855,370 of which \$20,643,756 was unreserved. Unreserved fund balance increased by \$470,512 over the prior year amount. Fund balance reserved for encumbrances increased by \$397,211. The County's General Fund has met its adopted policy goal of achieving an unreserved fund balance equal to one month's expenditures. Amounts held in excess of the reserve requirement are 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 15.8% of fiscal 2008 fund expenditures (excluding transfers out), as compared to 17.4% in 2007. Total fund balance represents 18.3% of that same amount, compared to 19.8% in the prior year.

Chatham County's General Fund showed a fund balance increase of \$867,723 for the current fiscal year. Key factors in the fund balance increase were:

- Favorable revenues trends exceeded prior year levels by over \$10.3 million. Revenue growth of 79% occurred within the Property Taxes category. Growth in the 2007 tax

digest of 13.77% was realized. In July 2007, due to the high digest growth rate, the Board of Commissioners decreased the property tax rate .3 mills to a 10.537 millage rate.

- Expenditures increased by \$14.2 million over prior year levels. However, expenditures showed an overall favorable budget variance of \$7.3 million as departmental spending was 94.6% of budgeted amounts.
- The fund transferred out almost \$15.9 million to other County funds. During the year the General Fund transferred over \$8.8 million to the Capital Improvement Fund for projects listed in the CIP Plan. The fund also transferred \$2 million to the OPEB Trust Fund to assist in establishing the fund, and \$3.1 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 \$10,729,787, an increase of \$150,441 over the prior year. Unreserved fund balance increased \$49,506 over the prior year amount. Management designated a portion of the unreserved fund balance, \$262,797, for capital project needs or other significant organizational expenditures. An analysis of this fund reveals the following factors:

- Revenues experienced a marginal increase of \$85,043 from 2007 levels while expenditures increased by \$2.7 million.
- Property taxes increased by over \$1.2 million as a result of higher digest levels. Most other revenue categories were below 2007 levels. Fees and fines from Recorders Court decreased by over \$463,000. Intergovernmental revenues were below prior year amounts by over \$469,000.
- Expenditures for public safety increased over \$1 million to \$12,357,209 while judicial expenditures rose over \$576,000 for Recorders Court activities. Housing and development expenditures rose \$588,317 as a result of a new department within this category for SAGIS (Savannah Area Geographical Information System).
- During the fiscal year the fund transferred \$2.6 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 \$458,470 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 have been used to retire debt, fund various capital projects, and provide distributions to municipalities.

The capital project expenditures in the major funds decreased from 2007 levels by approximately \$8.2 million due to fluctuations in construction schedules. However, project construction continued during the year. In its fifth year, the Sales Tax IV fund realized expenditures of over \$37 million of which 65% 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 \$63.7 million during fiscal 2008, a slight decrease of \$600,000 from 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:

- July 2007: approved appropriations totaling \$1,384,639 for various budget decision packages
- September 2007: approved appropriation of \$181,914 for Chatham Area Transit for the Teleride program
- January 2007: approved appropriation of \$250,000 for additional staff and equipment for the Tax Assessor department
- June 2008: approved fund balance appropriation from designated fund balance of \$2 million for the establishment of the OPEB Trust Fund
- June 2008: approved transfer out to CIP Fund from designated fund balance of \$3.4 million for various capital project needs listed in the CIP Plan
- October 2008: approved transfer out to CIP Fund from designated fund balance of \$4,000,000 for various capital project needs listed in the CIP Plan

Departmental budgets were also amended during the year to recognize 2007 encumbrance carry-forwards 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 over \$5.2 million.
- Digest-based property tax collections varied favorably by \$2.5 million above budgeted amounts. In 2008, property tax billings were delayed until mid-November due to required system changes. Real property tax collections experienced an unfavorable variance of \$642,406. Personal property tax collections experienced a favorable variance of \$3 million as resolution was reached with industrial clients who had challenged their assessed values. Also within the personal property tax category, motor vehicle taxes were \$1 million higher than indicated by the digest.
- Investment income exceeded budget estimates by over \$1.4 million. Increasing cash balances and more favorable interest rates allowed for greater investment opportunities.
- Local option sales tax had a favorable budget variance of over \$460,000 although on an annual basis, actual collections were flat in comparison to fiscal 2007.

- Superior Court collections for intangible recording tax and real estate transfer tax experienced unfavorable budget variances of \$729,447. The variance is indicative of slower real estate activity in the County.
- Several categories of the Tax Commissioner's revenues showed favorable variances including property tax commissions (\$268,070) and penalties and interest on delinquent taxes (\$416,545). 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. With few exceptions, departments returned funds at the end of the fiscal year. At year end, the encumbrances in the General Fund totaled \$1.9 million. Encumbrances in effect represent commitments by management for certain goods and services to be paid in a future fiscal period. Encumbrances are not included in the budget variances shown.
- Several departments showed unfavorable variances at year end. Due to higher professional service costs, the County Attorney experienced an unfavorable variance of \$63,953. Utilities were \$34,488 higher than budgeted. Panel Attorneys expenditures had an unfavorable variance of \$26,953 as a result of lingering costs with a death penalty trial. The Hazardous Materials Team experienced an unfavorable variance of \$33,566 due to higher program costs and year end accruals.
- During the year fund balance appropriations of \$11.8 million were budgeted. Of this amount, \$1,671,666 was for prior year encumbrances and \$793,960 for restricted fees. In addition \$7.4 million represented transfers to the Capital Projects Fund and \$2 million represented contributions to the OPEB Trust Fund.

Capital Asset and Debt Administration

Capital Assets - At the conclusion of 2008, the County had invested more than \$774 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 \$13 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 the Civil Rights Museum expansion of \$2.2 million, Aquatics Center roof replacement of \$3.8 million, bridge repairs for Old Highway 204 of 459,000, and purchase of an excavator for mosquito control activities of \$358,000.
- The Construction-in-progress account reflected activity for a number of projects. Major expenditures for the year were reflected in the following projects:
 - Truman Parkway Phase V - \$12.7 million expended
 - Montgomery Street Courthouse - \$3.1 million expended
 - Unincorporated county roads - \$1.4 million expended
 - Quacco Drainage restoration - \$1.2 million expended

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 \$10,818,727. Financing for these construction commitments will be from special purpose local option sales tax collections. Chatham Area Transit had outstanding construction commitments of \$74,000.

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	
	2008	2007	2008	2007	2008	2007
Land	\$ 27,656,839	\$ 27,623,596	\$ 9,658,612	\$ 9,405,111	\$ 37,315,451	\$ 37,028,707
Right of Ways	333,553,537	333,553,537			333,553,537	333,553,537
Construction-in-progress	36,745,252	17,295,512	100,000	352,612	36,845,252	17,648,124
Buildings and improvements	112,023,253	109,217,962	6,381,254	6,459,872	118,404,507	115,677,834
Machinery and Equipment	10,497,076	10,580,111	10,975,805	12,419,498	21,472,881	22,999,609
Plant			5,271,029	5,848,794	5,271,029	5,848,794
Infrastructure	221,885,635	228,828,603			221,885,635	228,828,603
Totals	\$ <u>742,361,592</u>	\$ <u>727,099,321</u>	\$ <u>32,386,700</u>	\$ <u>34,485,887</u>	\$ <u>774,748,292</u>	\$ <u>761,585,208</u>

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 debt at June 30, 2008 totaled \$55,756,529, a decrease of over \$3.8 million from 2007. There were no significant debt activities during the fiscal year. Debt payments continued to be made in accordance with contractual agreements.

Net OPEB Obligation – The County's net OPEB obligation increased by \$1.8 million from the prior year. Fiscal 2008 is the first year that this obligation has been recorded. This obligation is shown as a noncurrent liability on the government-wide financial statements.

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, creating a structural imbalance with the Special Service District Fund. During 2009 unreserved fund balance of \$2.6 million has been budgeted to bring the fund into balance.

- The County's Pension Trust Fund experienced a decline in investment fair market values of over \$24 million between June 30, 2008 and November 30, 2008. The decline is attributable to national economic instability impacting the stock markets worldwide. The fund seeks to minimize instability by maintaining a diversified portfolio; however, the losses have impacted all sectors of the portfolio. It is anticipated that the market declines will result in higher funding requirements within the next two years.
- The County's Capital Improvement Program contains a number of unfunded projects, many of which are maintenance projects. Future budget appropriations from general revenue sources are anticipated to address capital needs.
- The County is in the design phase of an expansion project for the Detention Center. Project completion is expected to occur in 2011. Upon completion, the General Fund will incur additional operating costs related to higher staffing needs and operating costs for the facility.
- The Adopted 2009 budget included \$2,000 per active employee for pre-funding of health care and \$3.6 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 other post employment benefits costs as quantified by the County's actuary.

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.

