

**Sample County, Tennessee
Management's Discussion and Analysis
For the Year Ended June 30, 2007**

This discussion and analysis of Sample County's financial performance provides an overall view of the county's financial activities for the year ended June 30, 2007. In addition, this discussion and analysis includes an overall view of the Discretely Presented Component Unit (DPCU) Sample County School Department. A separate set of financial statements is not issued for the Sample County School Department. The intent of this discussion and analysis is to look at the county's and the DPCU School Department's financial performance as a whole. Readers should also review the notes to the basic financial statements to enhance their understanding of the county's financial performance as well as the DPCU School Department's financial performance.

FINANCIAL HIGHLIGHTS FOR FY 2007

Key financial highlights for 2007 are as follows:

In total, net assets of the primary government increased by \$3.2 million and net assets of the DPCU School Department increased by \$700,000. In the primary government, most of the negative unrestricted net assets balance (\$29.3 million) is related to the fact that school buildings constructed with county debt are recorded as an asset for the DPCU School Department while the debt issued to fund those capital assets is recorded as a liability for the primary government. All net assets of the primary government and the DPCU School Department are related to governmental activities.

General revenues of the primary government accounted for \$15 million in revenue or 59 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$10.3 million or 41 percent of total revenues of \$25.3 million. General revenues of the DPCU School Department were \$48.1 million.

Total assets of governmental activities in the primary government were \$53.2 million as net taxes receivable totaled \$12.7 million; cash totaled \$9.6 million; and capital assets, net of accumulated depreciation totaled \$28 million. Total assets in the DPCU School Department were \$81.7 million as taxes receivable totaled \$11.9 million; cash totaled \$9.6 million; and capital assets, net of accumulated depreciation totaled \$57.8 million.

The county had \$22.1 million in expenses related to governmental activities, with \$10.3 million of these expenses offset by program specific charges for services, grants, or contributions. General revenues (primarily property taxes of \$10.3 million) were adequate to provide current funding for these programs. The DPCU School Department had \$55.5 million in expenses related to governmental activities; \$8.1 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues of the DPCU School Department (primarily Basic Education Program revenues of \$26.8 million and property taxes and sales taxes of \$11.7 and \$6.3 million, respectively) were adequate to provide current funding for these programs.

Among major funds, the General Fund had \$11.4 million in revenues and \$13.3 million in expenditures. The Highway/Public Works Fund had \$3.3 million in revenues and \$2.9 million in expenditures. The General Debt Service Fund had \$1.4 million in revenues and \$2.4 million in expenditures. The Rural Debt Service Fund had \$2.1 million in revenues and \$1.8 million in expenditures. Fund balances for the General Fund and the General Debt Service Fund decreased by \$1.1 million and \$.6 million, respectively. Fund balances increased for the Highway/Public Works Fund and the Rural Debt Service Fund by \$.3 million each.

Using this Annual Financial Report (AFR)

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Sample County as a financial whole (and entire operating entity). The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and the Statements of Activities present an aggregate view of the entire county's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the county's most significant funds with all other nonmajor funds presented in total in one column. In the case of Sample County, the General Fund is by far the most significant fund. Other major funds include the Highway/Public Works Fund, General Debt Service Fund, and the Rural Debt Service Fund. In the case of the DPCU School Department, the General Purpose School Fund is the only major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the county and the DPCU School Department to provide programs and activities financially during 2007, the Statement of Net Assets and the Statement of Activities provide a broader picture of the financial activities during 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the county's net assets and changes in those assets as well as those of the county's discretely presented component units. This change in assets is important because it tells the reader that, for the county and its discretely presented component units as a whole, whether their financial position has improved or diminished. The cause of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, the county reports its activities as governmental activities. The county's programs and services reported here include: general government; finance; administration of justice; public safety; public health and welfare; social, cultural, and recreational services; highways; and other operations.

These services are funded primarily by taxes and intergovernmental revenues, including federal and state grants and other shared revenues. For the DPCU School Department, its activities are also reported as governmental activities. The DPCU School Department's programs and services are reported there. These services are also funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting on the County's Most Significant Funds

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. The county and its DPCU School Department, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the county and the DPCU School Department can be divided into three categories: governmental, proprietary, and fiduciary.

Fund financial reports provide detailed information about the county's major funds. The county uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the county's most significant funds. The county's major governmental funds are the General Fund, Highway/Public Works Fund, General Debt Service Fund, and Rural Debt Service Fund. The DPCU School Department's major governmental fund is the General Purpose School Fund.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The county and the DPCU School Department maintain many individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. Please refer to the Table of Contents to locate these statements.

Proprietary Funds – The county maintains two proprietary funds, both internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the county’s various functions. Specifically, the Workers’ Compensation Fund and the Employee Dental Insurance Fund account for risk management activities related to workers’ compensation risks and dental insurance provided to county employees and their dependents. Please refer to the Table of Contents to locate these statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the county. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the county’s own programs. The accounting used to report fiduciary funds is much like that used to report proprietary funds. Please refer to the Table of Contents to locate these statements.

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Please refer to the Table of Contents to locate these notes.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules. Please refer to the Table of Contents to locate these statements and schedules.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the county, liabilities exceeded assets by \$3.9 million at the close of the most recent fiscal year. For the DPCU School Department, assets exceeded liabilities by \$68.8 million at the close of the most recent fiscal year.

A large portion of the county’s net assets reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), 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. The same holds true for the DPCU School Department. A large portion of its net assets reflects its investment in capital assets as described above.

Although the county’s and the DPCU School Department’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities.

Table 1 provides a summary of the county’s and the DPCU School Department’s net assets for 2007, as well as a comparison to the prior year.

An additional portion of the county’s net assets, \$8.4 million, represents resources that are subject to external restrictions on how they may be used. In the DPCU School Department, \$2.6 million of net assets are subject to external restrictions.

Table 2 shows the changes in net assets for fiscal year 2007, and a comparison to the changes in net assets of the prior year for the primary government and the discretely presented School Department.

Table 1

Sample County Government and DPCU School Department Net Assets
Governmental Activities

	<u>Sample County Government</u>		<u>DPCU School Department</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:				
Current and Other Assets	\$ 25,276,260	\$ 23,046,115	\$ 23,931,475	\$ 20,505,415
Capital Assets	27,969,417	25,728,870	57,753,860	59,331,051
Total Assets	\$ 53,245,677	\$ 48,774,985	\$ 81,685,335	\$ 79,836,466
Liabilities:				
Long-term Liabilities Outstanding	\$ 43,309,107	\$ 45,280,284	\$ 142,666	\$ 146,338
Other Liabilities	13,880,258	10,591,063	12,734,687	11,558,265
Total Liabilities	\$ 57,189,365	\$ 55,871,347	\$ 12,877,353	\$ 11,704,603
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 16,998,609	\$ 14,473,359	\$ 57,741,352	\$ 59,315,543
Restricted	8,377,264	8,182,108	2,558,514	2,469,866
Unrestricted	(29,319,561)	(29,751,829)	8,508,116	6,346,454
Total Net Assets	\$ (3,943,688)	\$ (7,096,362)	\$ 68,807,982	\$ 68,131,863

Table 2

Sample County Government and DPCU School Department Changes in Net Assets
Governmental Activities

	<u>Sample County Government</u>		<u>DPCU School Department</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 6,580,644	\$ 5,826,758	\$ 1,823,606	\$ 1,859,257
Operating Grants and Contributions	2,871,058	3,346,049	5,651,241	4,605,631
Capital Grants and Contributions	802,377	904,152	581,577	419,817

Table 2Roane County Government and DPCU School Department Changes in Net Assets
Governmental Activities (Cont.)

	<u>Sample County Government</u>		<u>DPCU School Department</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues (Cont.):				
General Revenues:				
Property Taxes	\$ 10,312,826	\$ 9,435,525	\$ 11,669,568	\$ 10,858,390
Sales Taxes	588,433	555,959	6,316,889	5,768,115
Other Taxes	1,310,119	1,092,693	7,943	8,497
Grants and Contributions Not Restricted to Specific Programs	2,259,469	1,862,142	29,399,337	28,733,534
Unrestricted Investment Earnings	497,180	425,185	714,466	404,685
Gain on Disposal of Capital Assets	30,184	0	0	0
Other	10,430	1,241	1,399	3,323
Total Revenues	\$ 25,262,720	\$ 23,449,704	\$ 56,166,026	\$ 52,661,249
Expenses:				
General Government	\$ 1,439,711	\$ 1,269,271	\$ 0	\$ 0
Finance	1,383,966	1,338,040	0	0
Administration of Justice	1,189,257	1,145,391	0	0
Public Safety	3,728,191	3,888,970	0	0
Public Health and Welfare	5,150,542	4,954,309	0	0
Social, Cultural, and Recreation Services	118,735	114,529	0	0
Agriculture and Natural Resources	105,539	105,686	0	0
Other Operations	3,683,362	4,834,517	0	0
Highways	2,361,414	3,005,992	0	0
Education	438,839	289,165	55,489,907	54,389,939
Interest on Long-term Debt	1,745,349	1,914,996	0	0
Other Debt Service	765,141	261,206	0	0
Total Expenses	\$ 22,110,046	\$ 23,122,072	\$ 55,489,907	\$ 54,389,939
Increase (Decrease) in Net Assets	\$ 3,152,674	\$ 327,632	\$ 676,119	\$ (1,728,690)
Net Assets, July 1	(7,096,362)	(7,423,994)	68,131,863	69,334,094
Restatement of Beginning Net Assets	0	0	0	526,459
Net Assets, June 30	\$ (3,943,688)	\$ (7,096,362)	\$ 68,807,982	\$ 68,131,863

Public Health and Welfare of \$5.2 million, consisting primarily of the Ambulance Service's and Sanitation Department's operations, accounted for approximately 23 percent of the \$22.1 million total expenses for governmental activities. Of that \$22.1 million in governmental activities expenses, \$6.6 million was covered by direct charges to users of the services. A significant portion of those charges is for constitutional officers' fees and commission and for Ambulance Service patient charges.

Financial Analysis of the Government's Funds

As noted earlier, the county and DPCU School Department use fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the county's governmental funds reported combined ending fund balances of \$9.7 million. Approximately \$8.4 million of this total constitutes unreserved fund balance, which is available for appropriation at the government's discretion within certain legal constraints and purpose restrictions. The remainder of fund balance is reserved to indicate that it is not available for new spending. In the DPCU School Department's governmental funds, combined ending fund balances were \$10.3 million. Approximately \$9.3 million of this total constitutes unreserved fund balance.

Financial Comparisons - Primary Government

The General Fund is the chief operating fund of the county. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$.5 million, while total fund balance was \$.9 million. 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 approximately three percent of total General Fund expenditures, while total fund balance represents seven percent of that same amount.

The fund balance of the county's General Fund decreased by \$1.1 million during the current fiscal year. This decrease is primarily due to capital expenditures made during the year, for which the corresponding debt was not drawn down until subsequent to year end.

The Highway/Public Works Fund continues to hold its own in terms of funding the needs of the department. Revenues exceeded expenditures and other uses by \$.3 million, bringing the ending fund balance to \$.8 million.

The General Debt Service Fund had a net decrease of \$.6 million in fund balance, and the Rural Debt Service Fund finished with a fund balance of \$2.7 million, an increase of \$.3 million.

Sample County's budgeting process is prescribed by Tennessee Code Annotated. Essentially the budget is the county's appropriations that are restricted by the amounts of anticipated revenues, therefore the county's plans and desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity, then the appropriations can be adjusted accordingly.

Proprietary Funds. The financial statements of the Internal Service Funds reflect the operations of the county's dental and workers' compensation self-insured risk financing activities. These activities have been consolidated under the revenues and expenses for governmental activities on the government-wide financial statements.

Financial Comparison - DPCU School Department

The General Purpose School Fund is the chief operating fund of the DPCU School Department. At the end of the current fiscal year, unreserved fund balance of the General Purpose School Fund was \$7.2 million, while total fund balance reached \$8 million. As a measure of the General Purpose School 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 approximately 16 percent of total General Purpose School Fund expenditures, while total fund balance represents 18 percent of that same amount.

Capital Assets and Debt Administration

Capital Assets. The county's investment in capital assets for its governmental activities as of June 30, 2007, totals \$17 million (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings and systems, improvements, equipment, roads, highways, and bridges. The DPCU School Department's investment in capital assets for its governmental activities as of June 30, 2007, totals \$57.7 million (net of accumulated depreciation and related debt). The Notes to the Financial Statements provide additional information on capital assets activity for the year.

Long-term Debt. At the end of the 2007 fiscal year, the county had total long-term debt obligations outstanding of \$43.1 million. Of this amount, all is backed by the full faith and credit of the county. The county maintains an A2 rating for Moody's and an A rating for Standard and Poor's for general obligation debt.

In addition to the debt noted above, county long-term obligations include compensated absences and landfill postclosure care costs. Additional information on the county's long-term obligations can be found in the Notes to the Financial Statements.

Interest and fiscal charges, net of a \$370,000 internal capital outlay note loaned to the DPCU School Department, amounted to 9.7 percent of the total expenses for governmental activities.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the county is currently 4.1 percent compared to 5.5 percent a year ago. The state's average unemployment rate is currently 4.3 percent and the national average is 4.4 percent. Inflationary trends in the region compare favorably to national indices. All of these factors were considered in preparing the county's budget for the 2008 fiscal year. At the end of the 2007 fiscal year, unreserved fund balance in the General Fund was \$.5 million. The county has budgeted to add \$86,309 to this fund balance for fiscal year 2008.

Request for Information

This financial report is designed to provide a general overview of the county's finances for all those with an interest in the government's finances. For questions concerning any of the information provided in this report, please contact the Accounting and Budgeting Office at 200 East Race Street, Suite 1, Typical, Tennessee 77777.