

# Management's Discussion and Analysis

As management of Charleston County, South Carolina, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Charleston County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 18 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## Financial Highlights

- The assets of Charleston County exceeded its liabilities at June 30, 2004, by \$181,901 (net assets). Of this amount, \$71,705 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$8,821 during the fiscal year ended June 30, 2004, with a \$5,534 increase resulting from governmental activities and a \$3,287 increase resulting from business-type activities.
- As of the close of the current fiscal year, Charleston County's governmental funds reported combined ending fund balances of \$97,118. Approximately forty-two percent of this total amount, \$40,958, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$28,453 or twenty-three percent of the total general fund expenditures.
- Charleston County's long-term debt decreased by \$13,825 (five percent) during the current fiscal year. A full discussion of the County's changes in long-term debt can be found on pages 89 - 103.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Charleston County's basic financial statements which are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other supplementary financial information in addition to the basic financial statements.

**Government-wide financial statements.** Government-wide financial statements are designed to provide readers with a broad overview of the financial position of Charleston County and are similar to private sector financial statements. They include a statement of net assets and a statement of activities. These statements appear on pages 39 and 40 of this report.

Component units, which are other governmental units over which the County (the County Council, acting as a group) can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as combining statements of net assets and of

activities in the fund financial statements. The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component units. For those readers interested in more information on the component units, contact information is provided in Note I. B. on pages 62 through 64 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2004. The difference between these assets and liabilities 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 follows the statement of net assets and presents information showing how the County's net assets changed during the fiscal year. The statement presents all underlying events, which give rise to the change, regardless of the timing of related cash flows. Some included items, such as accounts payable or earned but unused vacation leave, will produce changes in cash in future fiscal periods.

Both statements attempt to distinguish functions of Charleston County that are principally supported by taxes and inter-governmental 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, public safety, judicial, public works, health and welfare, economic development, culture and recreation, and education. Major business activities include parking garages and solid waste (recycling and waste disposal). Other business activities include the Department of Alcohol and Other Drug Abuse Services (DAODAS) and a countywide E-911 communication system.

**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, Charleston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Charleston County government can be divided into three categories: governmental, proprietary, and fiduciary.

**Governmental funds.** Governmental funds, presented on pages 41 through 47, essentially account for the same functions as those reported under the government-wide statement of net assets and statement of activities. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide financial statements. Such information may be useful in evaluating Charleston County's near-term financing requirements and available resources.

By comparing functions between the two sets of statements for governmental funds and governmental activities, 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 statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Governmental funds individually presented in Charleston County's statements include four major funds: the General Fund, the Debt Service Fund, the 2004 General Obligation Bond Capital Project Fund, and the 2004 Certificates of Participation Capital Project Fund. Although there are many smaller governmental funds in Charleston County Government, they have been presented in a total column termed as "other governmental funds". Combining statements for these other governmental funds have been presented on pages 115 through 131 of this report.

**Proprietary funds.** Charleston County maintains and presents two different types of proprietary funds, enterprise and internal service, shown on pages 48 through 53 of this report.

Enterprise funds report in greater detail, the same information presented as business-type activities in the government-wide financial statements for solid waste and parking garages. DAODAS and E-911 Communications are presented in one total column but may be separately reviewed in the combining statements on pages 150 through 155.

Internal service funds (ISFs) are an accounting mechanism to accumulate and allocate costs internally for Charleston County Government. The County uses internal service funds to account for fleet management, office support services, workers' compensation, and the employee benefits trust. See pages 156 through 161 of this report. ISFs have been eliminated on the statement of net assets.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Charleston County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 162 through 165 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages 60 through 113 of the report.

**Other information.** Individual statements, which present more detailed views of non-major funds used in governmental funds begin on page 133. Additional trend information about the County, which may be of interest to the reader, is found under the Statistical section of this report, starting on page 169.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Charleston County, assets exceeded liabilities by \$181,901 at the close of the 2004 fiscal year.

Of this amount, \$68,800 (38 percent) reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. An additional \$27,366 (15 percent) is being held by the County as cash and investments to be used for the planned purchase/construction of additional capital assets already approved by County Council. Charleston County uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its 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 the capital assets themselves cannot be used to liquidate those liabilities. An additional portion of the County's net assets, \$14,029 (8 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$71,705 (39 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Charleston County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Charleston County's Net Assets  
June 30, 2004  
(Recapped from page 39)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 241,246	\$ 230,482	\$ 75,349	\$ 69,144	\$ 316,595	\$ 299,626
Capital assets	218,536	216,900	31,438	41,642	249,974	258,542
<b>Total assets</b>	<u>\$ 459,782</u>	<u>\$ 447,382</u>	<u>\$ 106,787</u>	<u>\$ 110,786</u>	<u>\$ 566,569</u>	<u>\$ 558,168</u>
Long-term liabilities						
Outstanding	\$ 204,627	\$ 208,544	\$ 35,588	\$ 43,870	\$ 240,215	\$ 252,414
Other liabilities	138,960	128,305	5,493	4,475	144,453	132,780
<b>Total liabilities</b>	<u>\$ 343,587</u>	<u>\$ 336,849</u>	<u>\$ 41,081</u>	<u>\$ 48,345</u>	<u>\$ 384,668</u>	<u>\$ 385,194</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 49,999	\$ 40,126	\$ 18,802	\$ 22,346	\$ 68,801	\$ 62,472
Restricted for future construction	20,437	19,671	6,929	12,366	27,366	32,037
Restricted - other	12,496	8,750	1,533	2,052	14,029	10,802
Unrestricted	<u>33,263</u>	<u>41,987</u>	<u>38,442</u>	<u>25,677</u>	<u>71,705</u>	<u>67,664</u>
<b>Total net assets</b>	<u>\$ 116,195</u>	<u>\$ 110,534</u>	<u>\$ 65,706</u>	<u>\$ 62,441</u>	<u>\$ 181,901</u>	<u>\$ 172,975</u>

The County's net assets increased by \$8,821 during the current fiscal year. This compares favorably to the fiscal year 2003 gain of \$8,344 before the special item loss of \$7,574 resulting from the incorporation of the Town of James Island and the resulting transfer of infrastructure assets from the County to the Town. Approximately sixty-four percent of the gain came from planned revenues in excess of expenditures in the solid waste business-type activities, where the County has large balloon payments starting in 2006 and has been placing the savings from the 1997 refinancing of the Foster Wheeler Solid Waste Bonds in a debt service reserve since that time to apply to these balloon payments. The remainder of the increases represents the degree to which increases in ongoing revenues have outpaced similar increases in ongoing expenses.

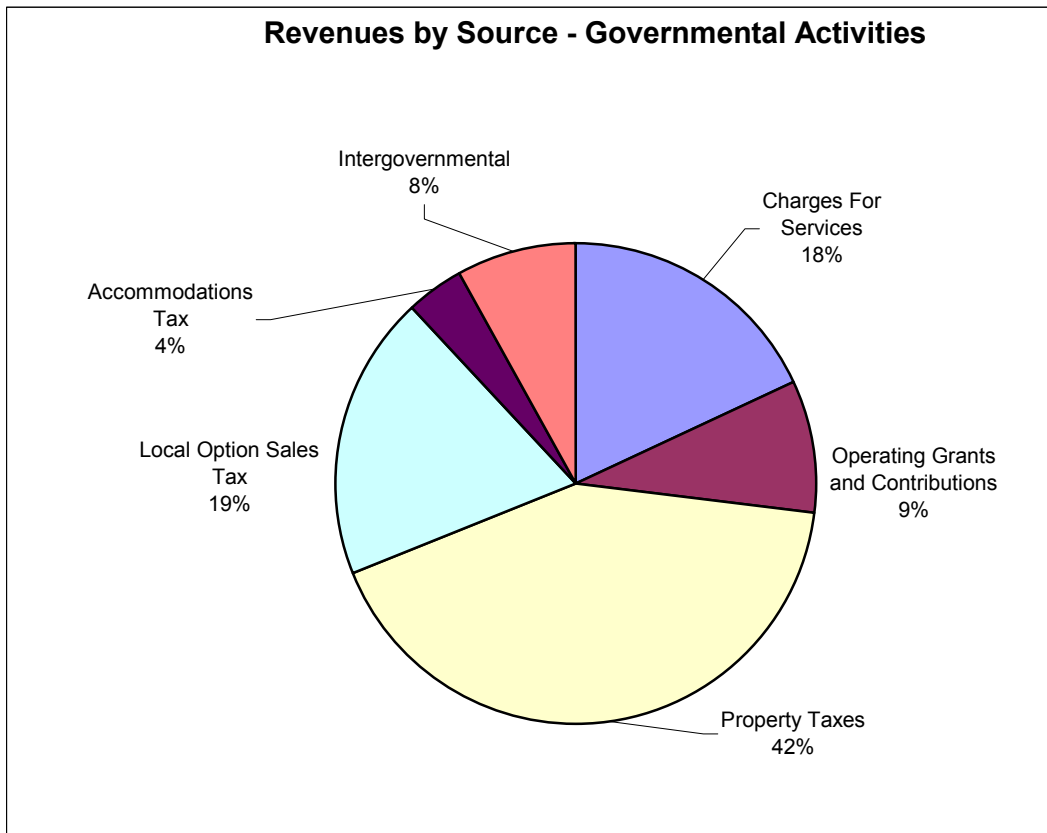
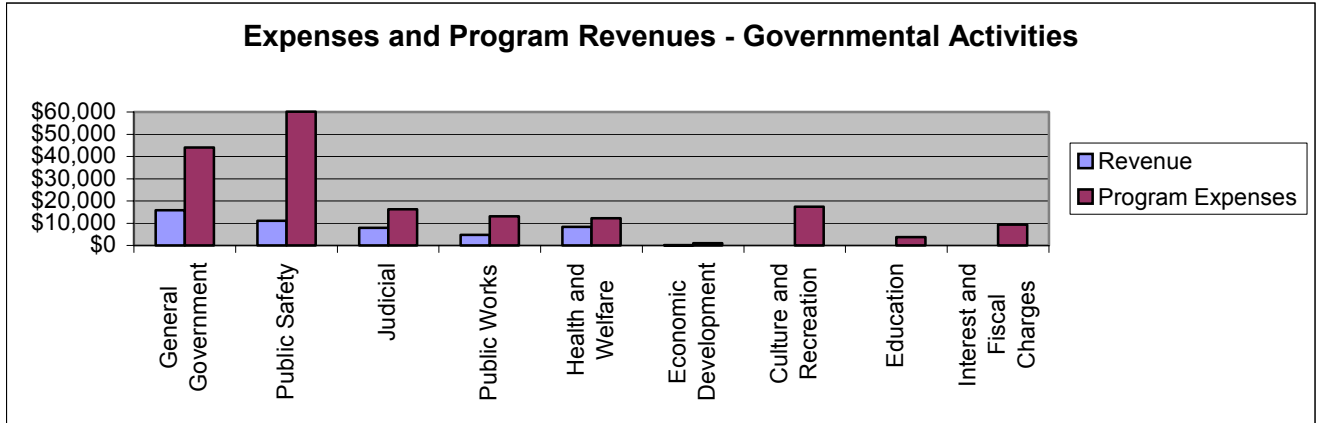
**Governmental activities.** Governmental activities increased the County's net assets by \$5,534. Key elements of the increase:

- Charges for services increased by \$4,110 (15 percent) during the year. This was offset by a reduction in investment earnings of \$258 (35 percent).
- Local option sales tax increased by \$3,184 (10 percent) during the year.
- In fiscal year 2003 accrued interest on the Arthur Ravenel, Jr. Bridge was recognized for six months in the amount of \$1,127. In fiscal year 2004 this expense was \$2,250, an increase of \$1,123.

County of Charleston, South Carolina  
Changes in Net Assets (Recapped)  
For the Fiscal Year Ended June 30, 2004

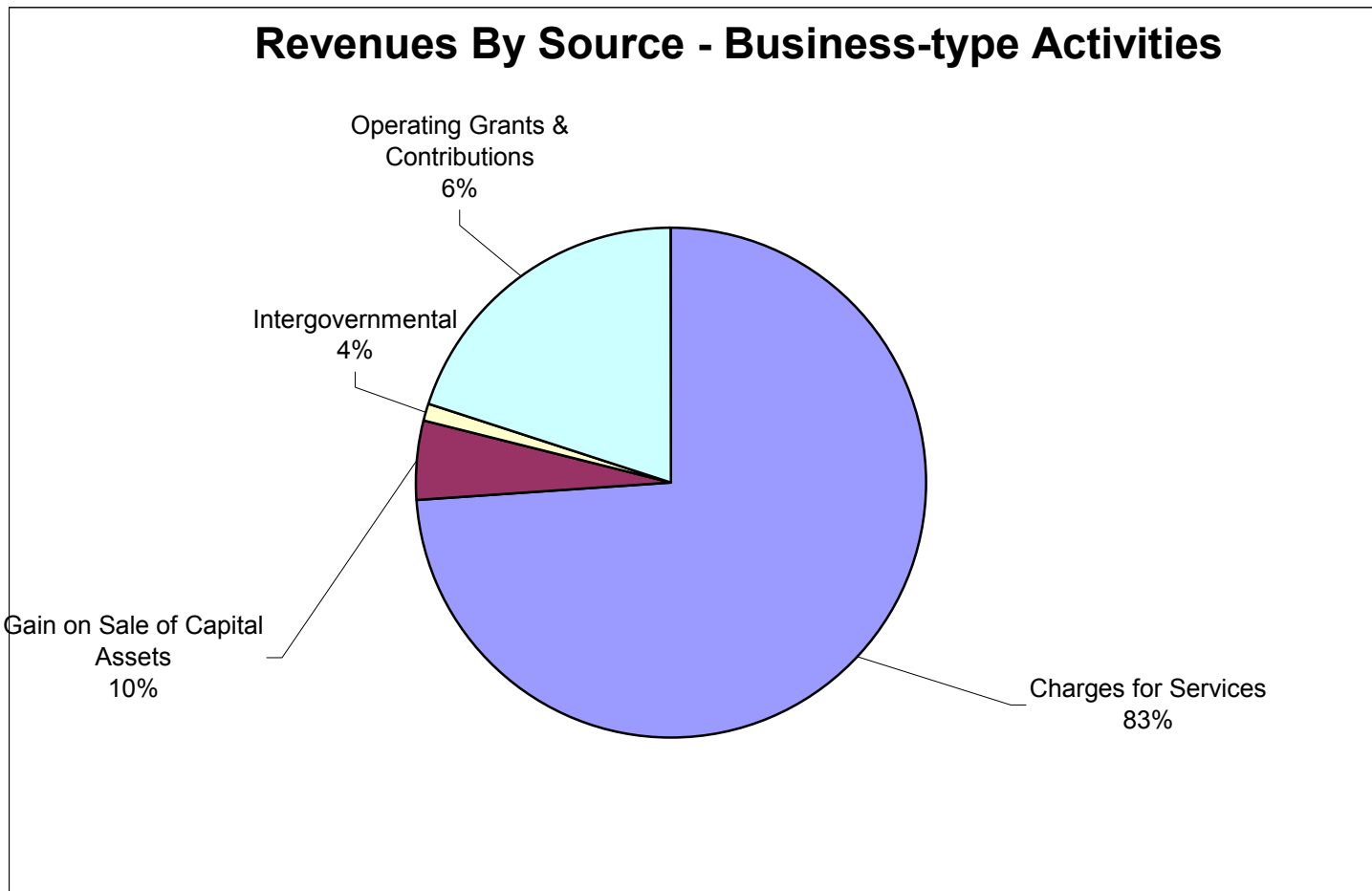
	<u>Governmental Activities</u>		<u>Business –Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 31,390	\$ 27,407	\$ 46,077	\$ 37,070	\$ 77,467	\$ 64,477
Operating grants and contributions	16,593	17,389	3,092	3,629	19,685	21,018
<b>General Revenues:</b>						
Property taxes	76,422	76,262	-	-	76,422	76,262
Other taxes and fees	44,939	41,490	539	525	45,478	42,015
State aid to political subdivisions	13,781	13,655	-	-	13,781	13,655
Unrestricted investments earnings	470	728	396	640	866	1,368
Gain (Loss) on sale of capital assets	387	(215)	-	(23)	387	(238)
<b>Total Revenue</b>	<b><u>183,982</u></b>	<b><u>176,716</u></b>	<b><u>50,104</u></b>	<b><u>41,841</u></b>	<b><u>234,086</u></b>	<b><u>218,557</u></b>
<b>Program Expenses:</b>						
<b>Governmental Activities:</b>						
General government	44,074	42,031	-	-	44,074	42,031
Public safety	60,200	57,667	-	-	60,200	57,667
Judicial	16,303	15,151	-	-	16,303	15,151
Public works	13,047	14,249	-	-	13,047	14,249
Health and welfare	12,259	13,699	-	-	12,259	13,699
Economic development	1,058	585	-	-	1,058	585
Culture and recreation	17,465	14,744	-	-	17,465	14,744
Education	3,736	3,593	-	-	3,736	3,593
Interest and fiscal changes	9,306	10,698	-	-	9,306	10,698
<b>Business-Type Activities:</b>						
E-911	-	-	905	924	905	924
Solid waste	-	-	27,253	26,266	27,253	26,266
Parking garages	-	-	2,323	2,705	2,323	2,705
DAODAS	-	-	8,185	7,796	8,185	7,796
<b>Total Expenses</b>	<b><u>177,448</u></b>	<b><u>172,417</u></b>	<b><u>38,666</u></b>	<b><u>37,691</u></b>	<b><u>216,114</u></b>	<b><u>210,108</u></b>
Excess of revenue over expenses	6,534	4,299	11,438	4,150	17,972	8,449
Transfers	8,151	(2,510)	(8,151)	2,510	-	-
Contribution to other municipalities to refund of 2001 property taxes	(9,151)	-	-	-	(9,151)	-
Transfers of infrastructure due to incorporation	-	(7,573)	-	-	-	(7,573)
<b>Increase (Decreases) in Net Assets</b>	<b><u>5,534</u></b>	<b><u>(5,784)</u></b>	<b><u>3,287</u></b>	<b><u>6,660</u></b>	<b><u>8,821</u></b>	<b><u>876</u></b>
Net assets, beginning	110,660	116,444	62,419	55,759	173,079	172,203
<b>Net Assets, ending</b>	<b><u>\$ 116,194</u></b>	<b><u>\$ 110,660</u></b>	<b><u>\$ 65,706</u></b>	<b><u>\$ 62,419</u></b>	<b><u>\$ 181,900</u></b>	<b><u>\$ 173,079</u></b>

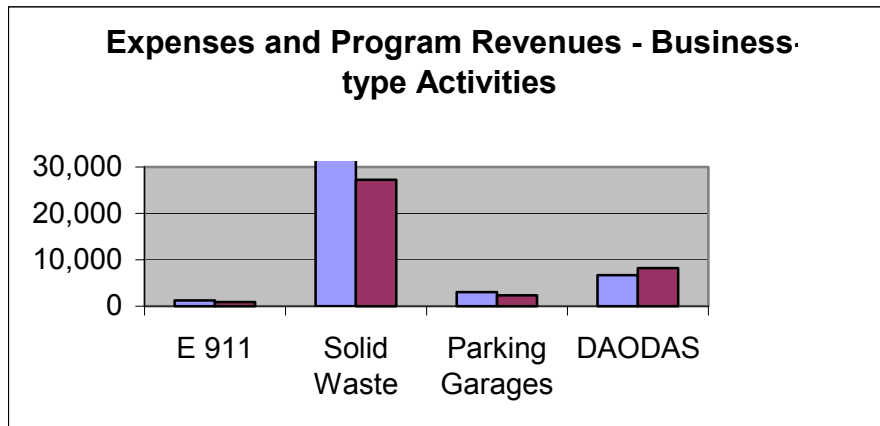
- The increase in expenses of \$6,006 (3 percent) reflect both inflation and the growth in the demand for services.



**Business-type activities.** Business-type activities increased the County's net assets by \$3,287. The key elements of this increase are:

- The solid waste fund had an increase in net assets of \$5,349. This is primarily the result of a decision made by County Council to bank the savings from a refinancing of the bonded debt on the incinerator in 1997. Because of the substantial total balloon payments of \$33,000 starting in 2006 and running through 2010 that would result in significant user fee increases, County Council decided to hold the user fee level in 1997 instead of decreasing it, therefore resulting in a much smaller increase in the years 2006 through 2010.
- The parking garage fund had a decrease in net assets of \$4,342 that resulted from two significant one-time events occurring during the fiscal year. First the Health Complex Garage was sold resulting in a gain on disposal of assets of \$5,267. Then \$9,151 was transferred out to the general fund to make the contribution to other municipalities to cover their cost to make the refund of 2001 property taxes ordered by the state supreme court.





### Financial Analysis of the Government's Funds

As noted earlier, Charleston County uses 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 financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Charleston County's governmental funds reported combined ending fund balances of \$97,118, a decrease of \$1,819 in comparison with the prior year. Of this amount, \$8,489 resulted from decreases in the various capital projects funds as a result of the expenses incurred in the County's on-going facilities replacement and rejuvenation program. The major increases occurred in the general fund, \$5,608 and in the debt service fund \$2,740. Approximately forty-two percent of this ending fund balance, \$40,958 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$9,040), 2) to pay debt service (\$11,952), or 3) to pay for capital projects as restricted by bond covenants (\$34,782).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$28,453 while total fund balance reached \$30,510. 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 23 percent of total general fund expenditures, while total fund balance represents 24 percent of that same amount. The net increase in the fund balance of the general fund was \$5,608 during the current year. Highlights in the general fund were as follows:

- An increase in property taxes of \$1,809. This resulted primarily from an increase in the assessment base of two percent. \$1,649 of 2001 property tax refunds was off-set against this amount leaving a balance of \$160.
- An increase of \$3,184 in local option sales tax which is 10 percent over the previous year.

The debt service fund has a total fund balance of \$11,952, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$2,740.

Capital projects funds have a combined total fund balance of \$37,130. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. These funds are all nonmajor ones and are shown on pages 117 through 118, 124 through 125, and 130 through 131.

The special revenue funds have a combined total fund balance of \$17,525. Of this amount, \$12,505 is undesignated fund balance and, of the balance, \$4,815 is reserved for encumbrances and \$205 is reserved for inventory. All of the special revenue funds are shown as nonmajor governmental funds on pages 115 through 117, 120 through 124 and 126 through 130.

**Proprietary funds.** The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. See pages 48 through 53, 149 through 155, and 156 through 161.

### General Fund Budgetary Highlights

There was a \$9,428 increase in appropriations between the original budget and the final amended budget shown on pages 45 through 47 of this report. This was to adjust the County Council budget to make reimbursements to municipalities for tax refunds related to the reassessment cap implemented in 2001.

### Capital Asset and Debt Administration

**Capital assets.** Charleston County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$249,974 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges and drainage easements. The total decrease in the County's investment in capital assets for the current fiscal year was 3.3 percent (a 0.7 percent increase for governmental activities and a 24.5 percent decrease for business-type activities).

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 5,854	\$ 6,313	\$ 3,951	\$ 4,009	\$ 9,805	\$ 10,322
Buildings	141,155	146,793	20,070	30,782	161,225	177,575
Improvements other than buildings	1,985	2,109	809	642	2,794	2,751
Machinery and equipment	20,465	19,749	5,549	5,531	26,014	25,280
Infrastructure	25,854	26,379	-	-	25,854	26,379
Construction in progress	23,222	15,565	1,060	678	24,282	16,243
Total	<u>\$ 217,535</u>	<u>\$ 216,908</u>	<u>\$ 31,439</u>	<u>\$ 41,642</u>	<u>\$ 249,974</u>	<u>\$ 258,550</u>

Major capital asset events during the current year included the following:

- Renovations continued on the County Office Building, which resulted in an additional \$2,654 being added to governmental activities construction in progress.

- The sale of the Medical Complex Parking Garage resulted in the reduction of \$9,969 in the business-type activities.
- Construction in progress was increased by the following:
  - John's Island Branch Library - \$2,050
  - Emergency Medical Stations - \$1,655
- 39 Miles of paved roads were added to infrastructure - \$750.

Additional information on the County's capital assets can be found in Note III. C. on pages 82 through 86 of this report.

**Long-term debt.** At the end of the current fiscal year, Charleston County had total bonded debt outstanding of \$194,032. Of this amount, \$95,927 comprises debt backed by the full faith and credit of the government, \$83,941 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$14,164 is comprised of revenue bond debt secured solely by solid waste user fees.

In addition to the bonded debt Charleston County has signed a contract with the S.C. Infrastructure Bank to pay \$3,000 a year starting on January 1, 2004, for a period of 25 years as the County's commitment toward the new Arthur Ravenel, Jr. Bridge over the Cooper River. The County has recorded this obligation on its records at a net present value of \$38,609 using a discount rate of 5.73%. This is the same rate the Bank is repaying its loan from the federal government, using the money received from the County.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 95,927	\$ 101,745	\$ -	\$ -	\$ 95,927	\$ 101,745
Certificates of participation	71,304	71,417	12,637	19,520	83,941	90,937
Revenue bonds	-	-	14,164	15,752	14,164	15,752
Intergovernmental Note payable	<u>38,609</u>	<u>39,354</u>	<u>-</u>	<u>-</u>	<u>38,609</u>	<u>39,354</u>
<b>Total</b>	<u>\$ 205,840</u>	<u>\$ 212,516</u>	<u>\$ 26,801</u>	<u>\$ 35,272</u>	<u>\$ 232,641</u>	<u>\$ 247,788</u>

The County's total bonded debt decreased by \$14,402 (6.9 percent) during the current fiscal year.

Charleston County maintains a "Aa1" rating from Moody's Investors Service, a "AA+" from Standard & Poor's Rating Group and a "AA" from Fitch for its most recent general obligation bonds. The certificates of participation and revenue bonds are all insured issues and are rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Rating Group.

During April and May, 2004 Charleston County issued refunding bonds for all of the outstanding general obligation and revenue bonds and certificates of participation that were economically viable and legally eligible to be refunded. The combined refunding resulted in an economic gain of \$8,753,048 to the County. See Note III.I., page 101, for additional details on these refundings.

South Carolina statutes limit the amount of general obligation (G.O.) debt a governmental entity may issue (without referendum) to eight percent of its total assessed value. The current G.O. debt limit for Charleston County is \$144,634 which is significantly in excess of the County's current G.O. outstanding balance of \$78,559 subject to the debt limitations.

Additional information on the County's long-term debt can be found in Note III. I. on pages 89 through 103 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- The labor force grew by 2.1 percent the first five months of 2004.
- Unemployment rate at the close of 2003 was 4.5.
- Gross retail sales finished 5 percent higher in 2003 than 2002.
- There were 5,466 single-family housing starts for 2003, an increase of 9.3 percent over 2002.
- Port tonnage increased six percent in 2003 compared to 2003.
- Hotel room revenue in fiscal year 2004 increased 3.6 percent over 2003.

All of these factors were considered in preparing Charleston County's budget for the 2004 fiscal year.

The following actions Charleston County Council took during fiscal years 2003 and 2004 allowed it to pass a general fund budget for fiscal year 2005 without an increase in millage.

- Increases in fees:

Delinquent Tax – Levy Cost	-	\$250
RMC – Documentary Stamp Fees	-	\$500
Indirect Cost Reimbursement	-	\$550
- Growth in property tax base that generated \$3,250 without millage increases.
- Transfer-in from Debt Service Fund - \$1,250

The above revenue changes allowed County Council to adopt a general fund budget that increased by approximately \$6,000 in expenses and transfers out. The significant changes in budgeted expenditures are:

- An increase in thirty-six full-time equivalents (FTEs) in the detention center - \$2,200
- Salary adjustments for COLA - \$1,300
- Increases in health insurance and workers' compensation - \$650
- Addition in Emergency Medical Services of four FTEs (additional district supervisors) - \$220
- County Council Contingency - \$800
- Transfers out to the Library - \$1,000

There were no adoptions of rate increases for business-type activities.

### **Requests for Information**

This financial report is designed to provide a general overview of Charleston County's finances for all those with an interest in the government's financing. Questions concerning any of the information should be addressed to the Controller's Office, 4045 Bridge View Drive, North Charleston, SC 29405-7464.