

# 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, 2002. 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 27 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars. Because this is the first year information has been reported in government-wide financial statements, minimum comparative analysis has been provided. It will be provided in future years.

## Financial Highlights

- The assets of Charleston County exceeded its liabilities at June 30, 2002 by \$210,836 (net assets). Of this amount, \$72,639 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$23,148 during the fiscal year ended June 30, 2002 with \$15,953 of the increase resulting from governmental activities and \$7,195 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 \$102,489. Approximately one third of this total amount, \$33,539 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 \$20,143, or 19 percent of the total general fund expenditures.
- Charleston County's long-term debt decreased by \$8,171 (3 percent) during the current fiscal year. The key factor in this decrease was that the County did not issue any new bonds during the fiscal year while continuing to make payments on existing bonds.
- County Council imposed a mid-year budget freeze in the General fund of \$1.7 million to compensate for projected economic downturns both in the current fiscal year and in fiscal year 2003.
- The County instituted an early retirement incentive program that resulted in the reduction in the work force of 20 full-time equivalents (FTE's) and a projected savings of \$1,750 (net of the cost of the program) over the next three years.

## 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 themselves.

**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 47 and 48 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 70 through 72 of this report.

The Statement of Net Assets shows the County's assets less its liabilities at June 30, 2002. 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 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 a future fiscal period.

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 alcohol and drug abuse services (DAODAS) and a county-wide 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 49 through 52, 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 1999 General Obligation (G.O.) Bond Capital Project Fund, and the 2001 General Obligation Bond 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 119 through 137 of this report.

**Proprietary funds.** Charleston County maintains and presents two different types of proprietary funds, enterprise and internal service, shown on pages 155 through 167 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 156 through 161.

Internal service funds (ISF) 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 162 through 167 of this report. ISF's 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 168 through 171 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 68 through 118 of the report.

**Other information.** Individual statements, which present more detailed views of non-major funds used in governmental funds begin on page 138. 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 176.

### **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 \$210,836 at the close of June 30, 2002 fiscal year.

Of this amount \$59,357 (28 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 \$58,263 (28 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, \$20,577 (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$72,639 (34 percent) may be used to meet the government's ongoing obligation 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, 2002  
(Recapped from page )

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 243,905	\$ 62,667	\$ 306,572
Capital assets	222,852	42,936	265,787
<b>Total assets</b>	<b>466,757</b>	<b>105,603</b>	<b>572,359</b>
Long-term liabilities outstanding	173,729	45,185	218,914
Other liabilities	137,233	5,376	142,609
<b>Total liabilities</b>	<b>310,962</b>	<b>50,561</b>	<b>361,523</b>
Net Assets:			
Invested in capital assets, net of related debt	38,881	20,476	59,357
Restricted for future construction	41,130	17,133	58,263
Restricted - other	10,227	10,350	20,577
Unrestricted	65,557	7,082	72,639
<b>Total net assets</b>	<b>\$ 155,795</b>	<b>\$ 55,041</b>	<b>\$ 210,836</b>

The County's net assets increased by \$23,148 during the current fiscal year. Approximately one-third of this amount represents the principal on bonds budgeted and paid in the governmental funds but not expensed in the government-wide financial statements. An additional 15 percent 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. An additional 5 percent resulted from a budget freeze imposed by County Council in January 2002 in response to deteriorating economic conditions. The remainder of the increases represent the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

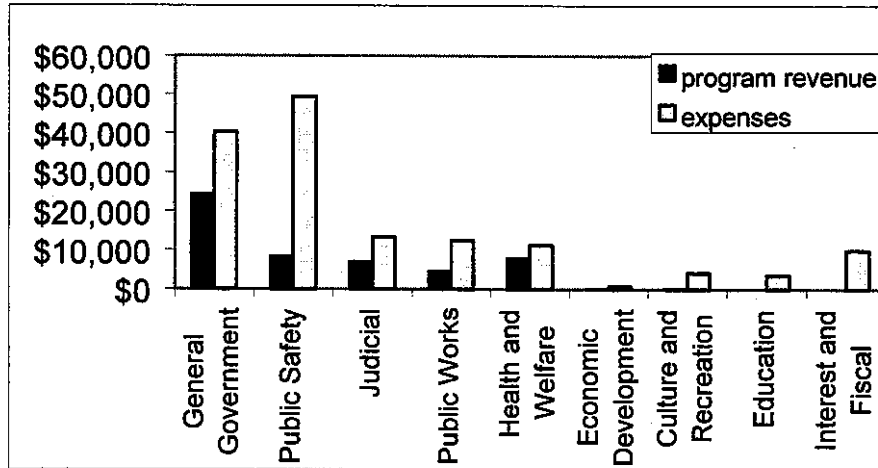
**Governmental activities.** Governmental activities increased the County's net assets by \$15,953, thereby accounting for 69 percent of the total growth in the net assets of Charleston County. Key elements of this increase are as follows:

County of Charleston, South Carolina  
 Changes in Net Assets (Recapped)  
 For the Fiscal year ended June 30, 2002

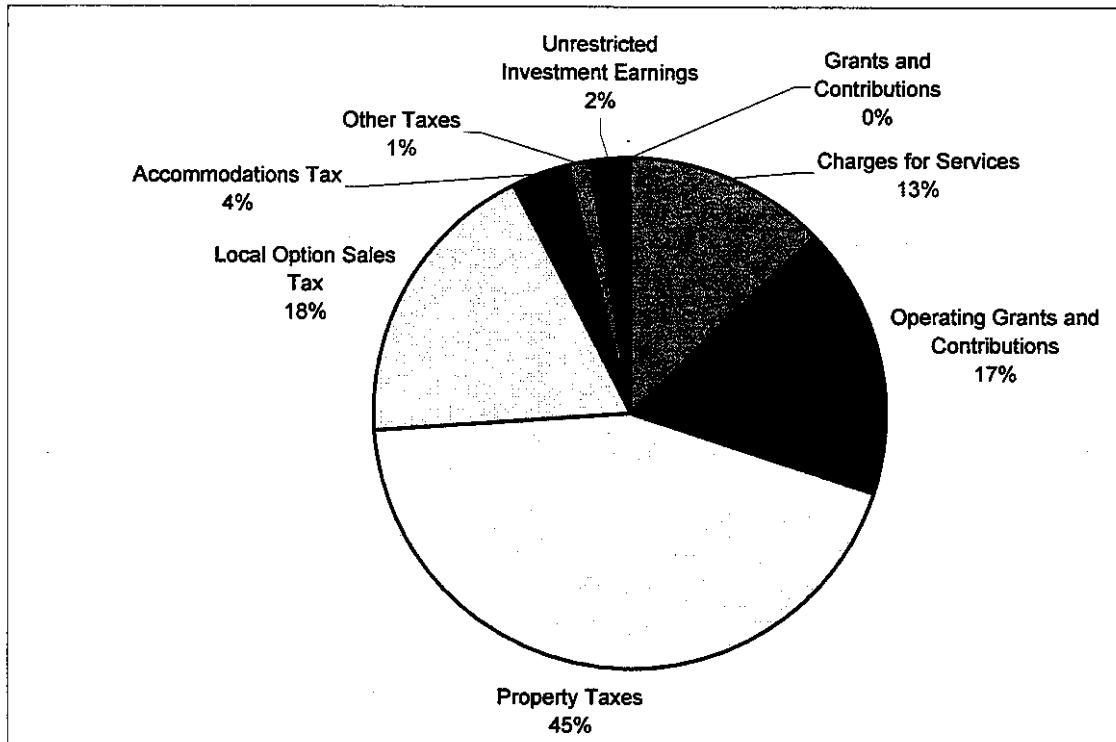
	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for services	\$22,364	\$37,443	\$59,807
Operating grants and contributions	15,694	4,173	19,867
<b>General Revenues:</b>			
Property taxes	76,672		76,662
Other taxes	41,093	492	41,585
State aid to political subdivisions	13,840		13,840
Grants and contributions not restricted to specific programs	217		217
Unrestricted investment earnings	3,958	1,155	5,113
Loss on sale of capital assets	(44)	(111)	(155)
<b>Total Revenue</b>	<u>173,793</u>	<u>43,152</u>	<u>216,945</u>
<b>Expenses:</b>			
<b>Program Activities:</b>			
<b>Governmental Activities:</b>			
General government	40,355		40,355
Public safety	49,425		49,425
Judicial	13,275		13,275
Public works	12,372		12,372
Health and welfare	11,240		11,240
Economic development	731		731
Culture and recreation	4,125		4,125
Education	3,549		3,549
Interest and fiscal changes	9,931		9,931
<b>Business-type Activities:</b>			
E-911		945	945
Solid waste		26,372	26,372
Parking garage		2,669	2,669
DAODAS		8,786	8,786
<b>Total Expenses</b>	<u>145,003</u>	<u>38,773</u>	<u>183,776</u>
Transfers	(2,816)	2,816	
Transfers to component units	(10,021)		(10,021)
<b>Increase in Net Assets</b>	15,953	7,195	23,148
Net assets 7/1/01	<u>139,842</u>	<u>48,008</u>	<u>187,850</u>
<b>Net Assets 6/30/02</b>	<u>\$155,795</u>	<u>\$55,203</u>	<u>\$210,998</u>

Property taxes increased by \$8,376 (12 percent) during the year. One-half of this amount represents true growth in the County's property base during the year. The balance is made-up of better collections of delinquent taxes, increases in fee-in-lieu payments from the businesses with which the County has developed new economic development partnerships, and millage increases of 2 percent (to apply an increase in the LOST Credit) in the General fund and 3 percent for the Awendaw Fire District.

**Expenses and Program Revenues - Governmental Activities**



**Revenues By Source - Governmental Activities**

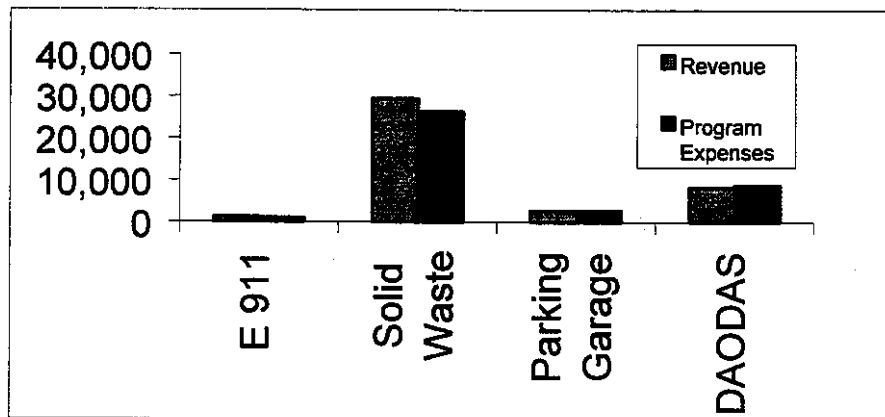


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The one significant increase in expenses occurred as a result of bringing new buildings online. The Lonnie Hamilton, III Public Services Building was in use for 12 months as opposed to 6 months in fiscal year 2001. The Historic Courthouse was placed back in service in July 2001 after a 13 year vacancy

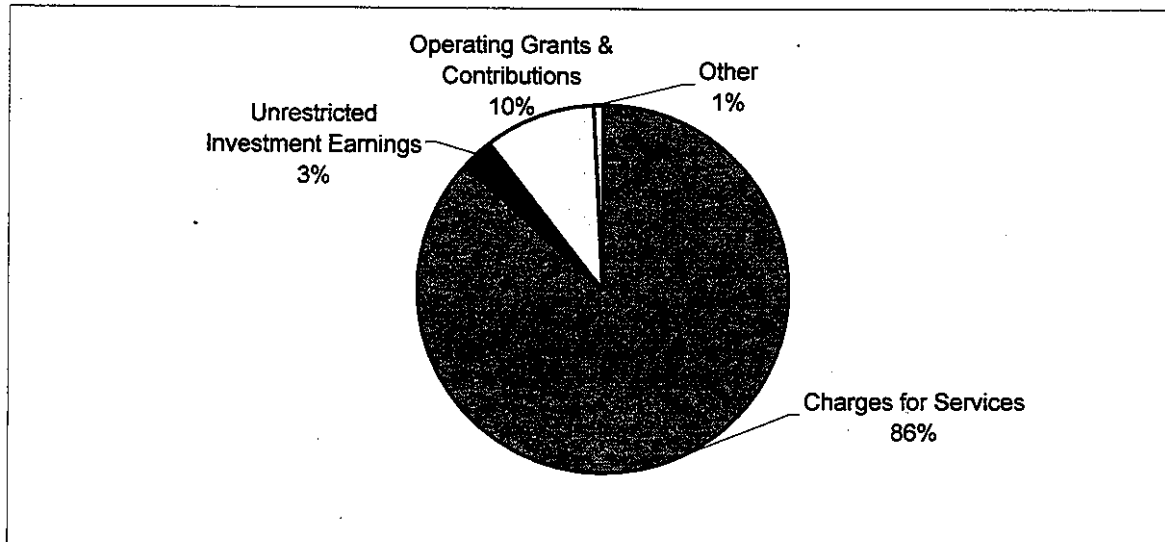
fiscal year 2001. The Historic Courthouse was placed back in service in July 2001 after a 13 year vacancy and the Sheriff's Department underwent substantial growth in personnel at mid-year to train and staff security for the new Judicial Center which opened in August 2002. Those costs amounted to an approximate increase of two million dollars.

**Business-type activities.** Business-type activities increased the County's net assets by \$7,195, accounting for 31 percent of the total growth in the government's net assets. The key element of this increase is that the Solid Waste fund had an increase in net assets of \$4,458. 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 which would result in significant user fee increases, County Council decided to hold the user fee level in 1997 instead of decreasing it and therefore to have a much smaller increase in the years 2006 through 2010.

**Expenses and Program Revenues - Business-type Activities**



**Revenues by Source - Business-type Activities**



## 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 \$102,489, a decrease of \$15,716 in comparison with the prior year. Of this amount, \$17,443 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 increase, \$2,711 occurred in the Debt Service fund. Approximately one-third of this ending fund balance (\$33,539) 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 (\$17,668), 2) to pay debt service (\$10,227), or 3) to pay for capital projects as restricted by bond covenants (\$41,038).

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 \$20,143 while total fund balance reached \$22,783. 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 19 percent of total general fund expenditures, while total fund balance represents 21 percent of that same amount. The net increase in the fund balance of the general fund was minimal (\$7) during the current year. Highlights in the general fund were as follows:

- An increase in property taxes of \$5,791. This resulted from three primary sources; 1) an increase in the assessment base of 6 percent (exclusive of reassessment), 2) a millage increase of 1.7 percent (one-half the allowable CPI growth of 3.4 percent) to apply an increase in the LOST Credit, and 3) a 133 percent increase in the fee-in-lieu payments from the businesses with which the County has developed economic development partnerships.
- A budget freeze implemented in mid-year resulting in a savings of \$1,710 during the fiscal year.
- A hiring freeze implemented in mid-year which resulted in a permanent reduction of 16 FTE's in the FY03 budget process.
- Expenditure increases of \$2,000 to fund the operations of buildings brought on-line during the fiscal year.
- With the exception of the increase for the buildings discussed above there were no new programs started during the fiscal year.

The debt service fund has a total fund balance of \$10,227, 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 \$2,711. This increase was the result of lower than expected interest expenses for the general obligation bond issued in mid-June 2001 (after the millage had been set for the current year) and the decision to include as part of that June 2001 bond a refinancing of the County's 1994 G.O. Bond. The millage was reduced in fiscal year 2003 to recognize the savings, and the one-time increase is being used to fund the

County's new initiative to replace personal computers (PC's) with lease-purchased PC's on a three-year replacement cycle.

Capital projects funds have a combined total fund balance of \$51,475. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. The major funds are shown on pages 49 and 51 and the nonmajor ones on pages 123 through 124, 130 through 131, and 136 through 137.

The special revenue funds have a combined total fund balance of \$18,006. Of this amount, \$13,396 is undesignated fund balance and the balance of \$4,610 is reserved for encumbrances. All of the special revenue funds are shown as nonmajor governmental funds on pages 121 through 123, 126 through 130 and 132 through 136.

**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 155 through 167.

### **General Fund Budgetary Highlights**

There was no increase in appropriations between the original budget and the final amended budget shown on pages 53 through 55 of this report. There was a shift of \$1,515 from expenditures to transfers-out, primarily to special revenue funds to pay for grant matches and to the capital projects construction fund for multiple year projects.

### **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, 2002, amounted to \$265,788 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges and drainage easements. The total increase in the County's investment in capital assets for the current fiscal year was 2 percent (a 2.5 percent increase for governmental activities and no change for business-type activities).

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

- Charleston Memorial Hospital was sold resulting in a \$12,297 reduction in governmental activity capital assets.
- The Historic Courthouse renovation was completed and it was placed into service resulting in \$11,667 being moved from construction in progress (governmental activities) to capital assets (buildings) being depreciated.
- The Cumberland Street Parking Garage addition was completed and placed into service resulting in \$9,885 being moved from construction in progress (business-type activities) to capital assets (buildings) being depreciated.
- The fixed assets records were updated resulting in approximately \$15,000 being removed from both machinery and equipment and depreciation - machinery and equipment.
- Construction continued on two major projects during the fiscal year resulting in \$12,503 for the Judicial Center and \$6,079 for the County Office Building renovations being added to the governmental activities work in progress.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Land	\$ 6,086	\$ 6,313	\$ 4,013	\$ 4,013	\$ 10,099	\$ 10,326
Buildings	102,464	101,493	22,508	31,614	124,972	133,107
Improvements other than buildings	2,398	2,398	546	747	2,944	3,145
Machinery and equipment	22,388	21,330	6,517	6,357	28,905	27,687
Infrastructure	35,995	35,049			35,995	35,049
Construction in progress	<u>48,289</u>	<u>56,269</u>	<u>9,512</u>	<u>205</u>	<u>57,801</u>	<u>56,474</u>
Total	<u>\$217,620</u>	<u>\$222,852</u>	<u>\$43,096</u>	<u>\$42,936</u>	<u>\$ 260,716</u>	<u>\$ 265,788</u>

Additional information on the County's capital assets can be found in note III. C. on pages 91 through 93 of this report.

**Long-term debt.** At the end of the current fiscal year, Charleston County had total bonded debt outstanding of \$218,975. Of this amount, \$106,850 comprises debt backed by the full faith and credit of the government, \$95,381 is comprised of Certificates of Participation secured by the capital assets constructed with their proceeds and \$16,744 is comprised of revenue bond debt secured solely by Solid Waste user fees.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
General obligation bonds	\$110,400	\$106,850	-	-	\$110,400	\$106,850
Certificates of participation	78,049	74,817	\$21,542	\$20,564	99,591	95,381
Revenue bonds	-	-	<u>17,676</u>	<u>16,744</u>	<u>17,676</u>	<u>16,744</u>
Total	<u>\$188,449</u>	<u>\$181,666</u>	<u>\$39,218</u>	<u>\$37,308</u>	<u>\$227,667</u>	<u>\$218,975</u>

The County's total bonded debt decreased by \$8,692 (4 percent) during the current fiscal year. This is a result of no new bonded debt being issued and payments being made on existing debt.

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.

South Carolina statutes limit the amount of general obligation debt a governmental entity may issue (without referendum) to 8 percent of its total assessed value. The current general obligation (G.O) debt limit for Charleston County is \$135,820 which is significantly in excess of the County's current G.O. outstanding balance of \$84,600 subject to the debt limitations.

Additional information on the County's long-term debt can be found in note III. I. on pages 98 through 109 of this report.

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

- The unemployment rate in Charleston County is in the 3.5 to 4 percent range. This compares favorably with South Carolina's average unemployment rate of 5.4 percent.
- Hotel room revenues were up 3.5 percent over fiscal year 2001.
- Retail trade is showing a 3.4 percent growth over last year.
- Single-family housing starts for the first nine months of 2002 have already nearly equaled the full-year 2001 starts.
- Inflationary trends in the region compare favorably to the national indexes.

All of these factors were considered in preparing Charleston County's budget for the 2003 fiscal year.

The following actions Charleston County Council took during fiscal year 2002 allowed it to pass a general fund budget for fiscal year 2003 with a net decrease in expenditures of \$1,629 and avoid the need to raise property taxes (even with the substantial loss of state shared revenues).

- A hiring freeze that resulted in a permanent reduction of 16 FTE's in the general fund and 72 FTE's Countywide, resulting in a countywide savings of \$1,400. The freeze also resulted in the elimination of several temporary positions with a Countywide savings of \$500.
- The implementation of an early retirement plan that resulted in a reduction of 20 FTE's countywide and a combined net savings of \$1,750 over the next three fiscal years.
- Imposition of a budget freeze which saved \$1,700 in the general fund in fiscal year 2002.

Emergency medical service fees were increased in fiscal year 2003 to more accurately reflect actual costs and to conform to new billing guidelines adopted by the Federal government for Medicare patients.

There were no rate increases adopted for any of the 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.