

COUNTY OF CHARLESTON, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004

with

REPORT OF INDEPENDENT AUDITORS



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INTRODUCTORY SECTION





Roland H. Windham
Administrator

COUNTY ADMINISTRATOR

November 30, 2004

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To the Members of County Council and the Citizens of Charleston County, South Carolina:

State law requires that all general-purpose local governments publish at the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of Charleston County, South Carolina for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of Charleston County. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Charleston County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Charleston County's financial statements have been audited by Gamble, Givens & Moody, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Charleston County's financial statements for the year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Charleston County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in Charleston County's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Charleston County's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Charleston County, South Carolina, was established by the State of South Carolina on April 9, 1948, under the provisions of Act 681 of 1942. The County operates under a Council-Administrator form of government. Policy-making and legislative authority are vested in a governing council consisting of nine council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the County's administrator, internal auditor, and attorney. The administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Council is elected on a partisan basis. Council members serve four-year staggered terms, with either four or five members elected every two years. All nine council members are elected at large but must meet defined district residency requirements.

Charleston County, under a Council-Administrator form of government, provides a broad range of services that include:

- (1) Public safety - countywide law enforcement, emergency preparedness plans, and detention facilities as well as fire protection in the Awendaw Fire District, Town of McClellanville, the East Cooper Fire District and the West St. Andrew's Fire District;
- (2) Veterans' assistance;
- (3) Health - emergency medical services, alcohol and other drug abuse services, indigent health care, and social services;
- (4) Voter registration;
- (5) Street and drainage maintenance;
- (6) Waste disposal;
- (7) Planning and zoning administration;
- (8) Criminal, civil, probate, and family court administration;
- (9) Public defender assistance; and
- (10) Tax collection and dispersal.

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Charleston Public Facilities Corporation has been shown in the government-wide statements in both the government and business-type activities, as appropriate, and in the fund financial statements in the debt service and capital project governmental funds, and in the parking garage and other enterprise funds. Discretely presented component units are reported in a separate column in the statement of net assets and statement of activities to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government.

The following entities are being reported as discretely presented component units:

- (1) Charleston County Library (CCL)
- (2) Charleston County Park and Recreation Commission (CCPRC)
- (3) Cooper River Park and Playground Commission (CRPPC)
- (4) James Island Public Service District (JIPSD)
- (5) North Charleston District (NCD)
- (6) St. Andrew's Parish Parks and Playground Commission (SAPPPC)
- (7) St. John's Fire District (SJFD)
- (8) St. Paul's Fire District (SPFD)
- (9) Charleston County Voluntary Rescue Squad (CCVRS)

Additional information on all nine of these legally separate entities can be found in Note I.B. in the notes to the financial statements starting on page 62.

The annual budget serves as the foundation for Charleston County's financial planning and control. All agencies of the County are required to submit requests for appropriation to the County Administrator by March 15 each year. The budget office uses these requests as the starting point for developing a proposed budget. The County Administrator then presents this proposed budget to the Council for review prior to May 1. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of Charleston County's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., sheriff).

The legal level of budgetary control is determined by County Council at the individual fund level. Expenditures by department, sub-organizational level, and major category (i.e. personnel, non-personnel, and capital outlay) are further defined in the budget document and are subject to County Administrator approval. The County Administrator is authorized to make transfers between major expenditure categories within departments and between departments within the same fund. The Administrator has further delegated to the Chief Deputy Administrator and Chief Financial Officer the authority to transfer between departments under their respective control. The budget ordinance must be amended by Council to effect changes in fund totals.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 45 - 47 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the nonmajor governmental fund subsection of this report, which starts on page 133.

LOCAL ECONOMIC CONDITIONS AND OUTLOOK

Charleston's Economy At A Glance. As the State of South Carolina's largest and third most populous county, Charleston County's economic base is diversified and growing, anchored by four traditional engines:

- The military, with significant Air Force, Navy, Army, and Coast Guard facilities in Charleston.
- The medical industry, focused around the Medical University of South Carolina (MUSC), the State's teaching hospital.

- The Port of Charleston fuels the manufacturing and supply chain sectors in Charleston, statewide, and even beyond.
- The tourism industry has experienced quantum growth in recent years, expanding the tourist season to virtually year-round.

Of growing size and importance are the area's newly emerging technology companies, primarily clustered around biotech research at MUSC, marine research at the National Oceanic and Atmospheric Administration Southeast Center and the State's Fort Johnson complex, and the advanced electronic engineering work occurring at the Naval Space and Air Warfare Systems (SPAWAR) command.

Recent Economic Indicators. General economic indicators for 2003 were reported by the Charleston Metro Chamber Economic Outlook Board in Spring, 2004. Despite the fourth year of a flat national economy, the Charleston area eclipsed its previous records on many of the indicators. Highlights were as follows:

Population-

The Charleston area population increased by 8%, from 430,436 to 549,033 persons in the decade from 1990 to 2000. According to the U.S. Census Bureau, it most recently grew by 4% in the 2000-2003 period to its current estimated size of 571,631 persons. It is estimated that the area will reach 625,080 individuals by 2015.

Labor force-

Although the Naval Base gates closed in 1995, the civilian labor force has still grown by 19 percent, from 245,940 to 293,010 persons in 2003. According to the fall 2004 report by the Metro Chamber of Commerce's Economic Outlook Board, employment was expected to grow at 5.5% during 2004. The Charleston employment growth rate of 2.1% through May 2004 was well ahead of the state (1.2%) and national (0.8%) averages and made up one-third of the total for the State of South Carolina---the largest share of any one region. The unemployment rate was 4.5 percent at the close of 2003, although an independent study by a leading labor analysis group hinted that as many as 60,000 Charlestonians can be considered underemployed.

Housing starts-

A record 6,834 residential building permits were issued during 2003, including 5,466 for new single family homes, a level of activity 10 percent ahead of 2002. Home sales topped 10,000 in 2003 for the first time in the region's history, a rate 21% ahead of the record-setting year before. The median sales price of a home rose by 5% from its 2003 level of \$166,000 to \$175,000 by July 2004, according to the South Carolina Association of Realtors. The average sales price of a home went up 13% between 2001 and 2002, and was \$228,865 in 2003. The economic forecast for 2004 predicted the issuance of 8,100 residential building permits and at mid-year 4,060 had already occurred. The forecast was for 13,000 home sales to occur in 2004, and at mid-year 6,053 sales had taken place.

Retail Sales-

Gross retail sales for the region finished at a record \$13.7 billion for 2003, 5 percent ahead of 2002. Retail sales slowed during the second quarter of '04, but holiday spending is expected to boost sales throughout the remainder of the year. Retail sales were projected to hit \$14.2 billion in 2004, and at mid-year were on pace to do so.

Visitor Industry-

The visitor industry continued its explosive decade-long expansion, with the largest number of visitors and room nights, and the largest per day expenditures and overall industry economic impact on record. Despite two hurricane threats during the third quarter '04, hotel occupancy rates were up 8.5 percent over the third quarter '03.

Port Activity-

Port tonnage rebounded by 6 percent over the 2002 level, with a 2003 mark of 1.69 million TEUs (twenty foot equivalent cargo containers). The 2003 mark is a new record, surpassing the previous high mark in 2000. The flat 2001 and 2002 figures had interrupted eight consecutive years of cargo volume growth, which had peaked in 2000 at 1.6 million TEUs. Projections for tonnage in 2004 were for 1.79 million TEUs, and at mid-year activity was on a pace to finish at that mark.

Airport Activity-

Airport activity continued its steady recovery from the effects of 9/11, with combined enplanements and deplanements in 2003 at 1.62 million. This figure was just 4% off the record 1.68 million mark set in 2000. An uptick in the number of arrivals was noticed at the Airport throughout the first two quarters of '04 and was expected to continue to trend positively through the close of the year.

BRIEF SECTORIAL PROFILES

Visitor Industry. Tourism has long been an economic mainstay in one of America's most photogenic and historic cities. In the 1990's this sector soared, recording visitation and earnings once thought impossible. Charleston recorded 4.6 million visitors in the year 2003; up an incredible 34 percent since 1997. Annual economic impact has followed suit, more than doubling since 1997 to its current \$5.2 billion. The sector now accounts directly and indirectly for some 93,702 jobs, a level that has also doubled over the past five years.

Charleston hoteliers have widely expanded the regional room inventory and range of choices since 1995. As the building continued into 2004, the overall regional inventory stood at a total of more than 13,000 rooms. Perhaps the most telling statistic has been the occupancy rate, still holding steady at 68 percent in 2003, and down only slightly from the 70 percent rate which prevailed in 1997, prior to the addition of 3,100 new rooms. The average daily room rate has gone to \$105.72, up about 24 percent over five years ago despite the added inventory and competition.

Complementing this lodging growth, in 1997 Charleston County partnered with the City of North Charleston on the \$37 million North Charleston Convention Center, a 160,000 square foot facility, and a Performing Arts Center. *Successful Meetings*, a trade magazine that reaches 75,000 travel planners, predicts the beautiful new facility will capture a large share of Southeast events involving groups of up to 2,000.

The newest addition to the area inventory was unveiled in August 2004 when the ultra-luxury hotel The Sanctuary opened on Kiawah Island to rave reviews. The brainchild of investor Bill Goodwin, this \$125 million, 255 room five-star aspirant hotel features lodging from \$275 to \$4,500 per night, and is a corporate companion to the Jefferson Hotel in Richmond, Va. and the Hermitage in Nashville, Tenn.

The year 2004 saw the emergence of an exciting new facet of Charleston tourism---the cruise ship industry. Although these ships have made calls in Charleston sporadically for some time, the industry trend toward marketing to passengers within driving distance of a smaller terminal have allowed Charleston and other Southeast ports to siphon off some of the lucrative business typically staged from Miami. By July of 2004, Charleston had hosted 13 cruise ships with about 20,000 passengers, according to the Federal Maritime Administration. Local port officials predicted that the area would host some 55 ships during 2004. In 2003, with fewer ships calling, the Charleston area garnered \$7.5 million from passengers beginning their cruises, port-of-call visitors, and local purchasing by the cruise lines while in port.

Restaurants here multiply and flourish, nourished by a constant flow of aspiring chefs and an increasingly affluent Charleston visitor. The *New York Times*, *Southern Living*, *Bon Appetit*, and *Wine Spectator* have all sung the praises of area restaurants, where seafood, nouvelle, and Southern cooking predominate in

the over 100 restaurants in downtown Charleston alone. The Charleston visitor is obviously at the front of most restaurant lines, spending an average of \$238 per day in 2003 on food, accommodations, event tickets, sightseeing, shopping, and other entertainment; up 51 percent since 1998.

The Port. The Port of Charleston is the second busiest port on the Atlantic and Gulf coasts, with only the combined New York / New Jersey ports handling more containerized cargo. It currently ranks fourth in the United States for containerized cargo tonnage, and sixth in the nation for cargo value at \$33 billion.

Some 40 steamship lines present here have ports of call in 150 countries, and over 2,300 ships traveled in and out of Charleston harbor during 2003. This 2003 traffic was accounted for with about 37% on Northern Europe routes, 26% on Asian routes, 15% in Latin America, 11% in the Mediterranean, and the remaining 11% split between the Middle East, the Indian subcontinent, Africa, and Eastern Europe.

The economic sphere of influence for the Port of Charleston extends well beyond Charleston and even the State of South Carolina, according to a 2003 economic impact study. In fact, Charleston Southern University economists assert that international trade through Charleston accounts for a staggering \$23 billion in overall economic impact, including \$9.4 billion in annual wages for South Carolinians employed in some 281,660 jobs, and for some \$2.5 billion in state and local taxes.

From its four area facilities in Charleston, the South Carolina State Ports Authority is well positioned to handle both container and break bulk cargo. Its *Orion* computerized cargo handling system is an industry standard, a cooperative public/private approach which pre-clears cargo by Customs and USDA prior to a ship's docking. The system has earned the Port designation by *Port Development International* as the most efficient in the world. This same-day discharge of cargo has proven effective in many cases in luring more Asian trade through the Port, avoiding grid-locked West Coast ports.

Advances at the Port are possible largely due to increasing capacities enabled by expansion. The Ports Authority spent \$150 million beginning in 1999 on a harbor deepening project which, by 2005, will accommodate ships with a 45 foot draft at mean low water—a requirement in keeping with the huge post-Panamax ships beginning to dominate the industry. These ships will eventually be accommodated along 3,000 feet of additional berthing space located on a 250 acre portion of the former Naval Base on the Cooper River, at a future container facility that the SPA began permitting in 2003 and where it anticipates commencing use in 2008. In 2006 The State of South Carolina will also complete replacement of the aging Grace and Pearman bridges over the Cooper River with the Arthur Ravenel Jr. Bridge, an awe-inspiring single fixed-span bridge which is already beginning to tower over its counterparts during its ongoing construction. The SPA will also spend \$128 million during the next two years updating and adding to its inventory of new cranes, and container stacking and handling equipment.

The Medical Industry. Anchored by the State's teaching hospital, the Medical University of South Carolina (MUSC), the region's medical industry accounts for over 16,000 jobs, and the health services sector led area job growth from 1990 to 2000. The lion's share of employment currently exists in five private regional hospitals, MUSC Hospital, and Charleston Memorial Hospital, along with the hundreds of general practitioners, dentists, and medical specialists in the region.

The center of energy in the region's medical arena is MUSC. The six schools and hospitals collectively employ some 8,000 health professionals within the 80 buildings on its 40 acre downtown Charleston campus. With an annual \$700 million budget, MUSC graduates some of the best and brightest future physicians and nurses in the nation.

MUSC continues to be among hospitals listed in the *US News and World Report* annual rankings of hospitals, receiving distinctions for the treatment of digestive disorders, and in the areas of neurology, cardiology, and pulmonary disease, and its occupational therapy program was recognized as among the nation's top 20 graduate programs. MUSC had previously been ranked in separate listings of the Top 100 Medical Centers and the Top 100 Research Universities by the National Science Foundation, and was also included in the *Child* magazine list of the Top 10 children's hospitals in the U.S.

Over the past decade, MUSC researchers have increased their grants and research funding from an annual level of \$20 million in 1992 to \$175 million in 2003. This 2003 research grant funding level was the highest ever recorded by a South Carolina higher education institution, and placed MUSC 48th among the nation's 126 medical schools in receipt of National Institutes of Health (NIH) funding. Beyond its basic and clinical research concentrations in cancer, neurobiology, and cardiovascular diseases, MUSC has significant expertise and research capabilities in the emerging areas of genomics, proteomics, lipidomics, structural biology, bioinformatics, and imaging.

The Military. Despite the 1993 decision to close much of the Charleston Naval Complex, the military still makes a large annual economic impact in the Charleston region. According to a 2003 study by the Charleston Metro Chamber of Commerce, more than 27,000 active duty, civilian employees, reservists and contract personnel are employed by the military, with a direct payroll of \$1.4 billion, and the overall economic impact of the military presence tops \$3.28 billion annually.

The U.S. Navy in 2003 again became the area's single largest employer, with 16,586 uniformed, civilian and reservist employees located at the Navy Nuclear Power Training School, the Naval Hospital, the Space and Air Warfare Systems Center (SPAWAR), and Naval Facilities Engineering Command.

Charleston gained the high tech SPAWAR facility during the 1993 Base Realignment and Closure (BRAC) process which also closed its Naval Base. This electronic engineering facility hosts 1,100 employees and a \$70 million annual payroll. SPAWAR also awards contracts of over \$2.5 billion in electronic engineering work each year in Charleston, with beneficiaries including the 35 top-flight private contractors who have opened shop here with approximately 2,000 of their employees. The region took a great step in 2004 toward securing the future of this high-tech industry 'cluster' when it secured graduate level electronic engineering degree studies through a unique collaboration between the University of South Carolina and the Lowcountry Graduate Center.

The Charleston Air Force Base hosts 8,428 uniformed, civilian, and reservist employees. The Base is home to the 437th Airlift Wing and its squadrons of C-17 transport planes, currently serving a vital supply role to the military in both Afghanistan and Iraq. The expenditure of \$150 million in modernization at the base and the phasing in of 48 of the newer technology C-17s embodies a commitment by the U.S. Air Force toward the long-term strategic viability of Charleston.

In addition to those employed by the military, the 2003 Chamber study also highlighted the very significant concentration of 19,000 military retirees and widows residing in the Charleston area. With military pensions averaging around \$25,000 annually, this group contributes at least \$450 million annually to the Charleston economy through their presence.

With its potential to affect the Charleston AFB and the huge naval complex, including SPAWAR, the pending 2005 BRAC is foremost on the minds of Charlestonians. For the past two years the Charleston Metro Chamber has spearheaded an intense fact finding, public relations and lobbying effort aimed at creating awareness of the value of these installations to federal lawmakers and BRAC participants. Charleston County has been a participant and financing partner in this public/private pre-BRAC initiative, which has succeeded in demonstrating the strategic value, joint use, ability to expand, and public support for the area's facilities.

Industrial and Service Companies. The Charleston region experienced record levels of success in economic recruitment from 1995, when it commenced a unique tri-county collaborative program, through the national economic slowdown in the year 2000. During that time, more industrial and service sector corporate growth occurred than in the previous 20 years, with over \$5.69 billion in capital investment and the creation of 27,558 new primary jobs. Of this regional total, 621 firms relocated or expanded in Charleston County, investing \$1.8 billion and creating 12,180 new primary jobs.

The year 2004 was a new high water mark in economic development in Charleston County. The County pushed its totals, since the 1993 inception of its economic development program, to some \$2.5 billion in capital investment, and the creation of 15,000 new primary jobs.

In August, Verizon Wireless made history as it opened its \$25 million customer care center in North Charleston, announcing the employment of 1,100 persons --- the largest initial private sector employment figure ever recorded in the area.

In December, history repeated itself as Governor Mark Sanford and county officials announced the \$560 million investment by Dallas-based Vought Aircraft Industries, Inc. and Rome, Italy-based Alenia Aeronautica, near the Charleston International Airport in a aviation manufacturing complex which will fabricate and assemble the fuselage for the new Boeing 7E7 commercial aircraft. The two aerospace companies will initially employ about 645 high-wage workers in this state-of-the-art facility, with an annual payroll of \$32.25 million. The announcement involves the largest publicly-announced private sector capital investment ever recorded in the Charleston area, allowing Charleston County to finish 2004 with its best ever capital investment for a single year. It is also the third largest in South Carolina history.

Charleston will benefit for years to come, not only from the supplier firms that are expected to relocate to the area, but from the state's universities collaborating with the aircraft makers to establish a top-flight higher education, research and training curriculum for advanced aviation technology.

Although the Charleston manufacturing sector has never reached a double digit percentage share of the area's jobs, its salaries remain among the best in the area at facilities such as Robert Bosch, MeadWestvaco, Bayer, DuPont, Alcoa, Nucor Steel, and DaimlerChrysler. Manufacturing positions in the area increasingly demand a highly skilled workforce, as typified by precision aerospace opportunities at Eaton Aerospace or SKF Aerobearing, the work in assembling fire engines at American LaFrance, or in the contract production of new pharmaceuticals at aaiPharma.

Beyond manufacturing are the emerging biotech jobs characterized by local start-up firms like Charles River Endosafe, which utilizes the blood of horseshoe crabs to create a diagnostic agent for toxins in injectible drugs. Gen Phar, which pioneered HIV detection kits for hospital use, has ties to MUSC, where its founder conducted research. Organ Recovery Systems has been another unique success story, creating a kidney transportation device to preserve organ viability while extending transplant time.

Hill-Rom, Inc.'s use of lighter than air mattress technology for burn victims beds emerged from a MUSC scientist's discovery. Another MUSC researcher, Dr. Mark Kindy, in 2004 founded Neurological Testing Services, which investigates pharmaceutical compounds in models associated with neurodegenerative diseases. Another local entrepreneur in 2003 founded CureSource, only the seventh stem cell harvesting operation in the U.S.

Information technology companies are also a burgeoning sector in Charleston, anchored by nationally known companies such as Scientific Applications International Corporation, BAE Systems, and many others who are servicing their SPAWAR accounts. But there are also the Charleston "home-growns." Blackbaud grew in Charleston from less than 30 to well over 700 employees as their private sector non-profit fund-raising software became the 'gold standard.' Automated Trading Desk, Inc., born here of humble beginnings, now trades 5% of the NASDAQ volume on a daily basis on lightening fast computer terminals from its \$30 million state-of-the-art complex in suburban Mt. Pleasant.

WHY CHARLESTON?

Companies relocating to Charleston, as well as entrepreneurs, typically give two primary reasons for why they chose to do business in Charleston: the renowned quality of life and the enviable competitive posture.

Quality of Life. Key among the region's advantages is its geographic location, its natural beauty, moderate climate, and a coveted quality of life which has been deliberately and carefully protected.

Charleston has a three hundred and thirty year history and is widely acknowledged as among the world's leaders in the area of historic preservation. The stunning, well-preserved eighteenth and nineteenth century homes and commercial buildings in downtown Charleston are a testament to this passion. Sight-seeing in historic downtown is a favorite pastime for pedestrians and for tourists in horse-drawn carriages. Far from receiving a staid museum-like experience, the visitor to Charleston is struck by the busy streets of a vibrant city which are packed with tourists and locals well into the night.

Charleston is a medium-sized city with big-city arts offerings. The world-renowned Spoleto Festival USA is an annual two-week celebration of opera, jazz, dance, and visual arts which attracts legendary performers to the City. Charleston has an active arts community, with over 70 arts and cultural organizations, including a first-class symphony, museums, a proliferation of art galleries, local stage and theater groups, dance troupes, a community band and chorus, and a variety of dance and music recitals at area colleges.

Charleston offers diverse education options, from K-12 through the technical college, bachelor's degree, and post-secondary study levels. Four public school districts in the tri-county Charleston region operate 132 schools hosting 87,500 students. A variety of learning styles are accommodated and a variety of subject matter is offered through excellent magnet and charter schools geared to advanced academic studies, the creative arts, technology, and other key pursuits. The Charleston area also hosts 75 private and parochial schools where 11,000 students are enrolled.

There are 17 colleges and universities offering a range of two-year, bachelor's and master's degree programs in Charleston. The larger among these are Trident Technical College, with 11,791 students, The College of Charleston (11,536), The Citadel (3,695), Charleston Southern University (2,990) and the Medical University of South Carolina (2,298). In 2004 the area's post-secondary educational offerings were again bolstered by the creation of the Charleston School of Law, the second law school in the state. This private institution was greeted with enthusiasm, which extended to 200 full and part-time students enrolled during its inaugural semester in the fall.

Sports are an important part of the Charleston social landscape in a town where the median age is 35. Sports is big business, contributing \$66.4 million annually to the regional economy and employing nearly 1,200 people. Charleston hosts professional baseball, soccer, and hockey; and in 2004 its South Atlantic League Charleston River Dogs signed a new deal as a New York Yankees single-A farm club. Southern Conference and Big South Conference collegiate sports round out the mix, with the teams of The Citadel, the College of Charleston, and Charleston Southern University taking center stage.

Charleston boasts a 10,000 seat state-of-the-art tennis stadium which is home to the prestigious Family Circle Cup, and this leading annual women's professional tennis tournament event celebrated its fourth year in Charleston by crowning Venus Williams its 2004 champ. In 2004, the area was also proud to host captain Patrick McEnroe and the U.S. Davis Cup team during its victorious competition with the Belarus team.

Golf-rich Charleston boasts over 30 courses, and the world-class Ocean Course at Kiawah Island was the site of the 1991 Ryder Cup, the 1997 and 2003 World Cup of Golf events, and the 2002 inaugural UBS Warburg Cup. Charleston again hosted the UBS Warburg event in November 2004, but this second event will occur at Kiawah Island's Cassique Course.

Charleston boasts 164 parks and recreational facilities encompassing 11,509 acres, or nearly 21 acres per 1,000 people. A network of parks and recreational boat ramps maintained by the County Park and Recreation Commission serves all corners of the tri-county region, offering opportunities for picnicking, jogging, skating, boating, canoeing, kayaking, and swimming in the water parks, or surfing at three oceanfront parks. The most recent additions include the passive Caw Caw Interpretive Center in Ravenel, the regional Wannamaker Park in North Charleston, and plans for an equestrian-oriented park on John's Island. In short, there's something for everyone.

Competitive Posture. Charleston has won numerous accolades in recent years from revered business publications such as *The Kiplinger Letter*, and has been named among the 'top spots for entrepreneurs' by *Inc.* magazine, 'best place to start a business' by *Entrepreneur*, 'top logistics area' by *Expansion Management*, and as a 'hot spot for medical technology' by *MX* magazine.

The Charleston region offers a sizeable real estate portfolio for a mid-sized market, with over 7 million square feet in upscale executive buildings and office parks. The 12.7 million square feet of retail space in the region is distributed between regional malls, strip centers, and the downtown Charleston central business district. A variety of vacant industrial and warehouse buildings and 22 industrial parks are available for industrial opportunities.

The last decade saw a 96 percent increase in the inventory of available office space, from the 1991 level of 3.9 million square feet to the current level of 7.66 million. From 2000 through 2003, the Charleston region had increased its inventory by 33 percent, adding 1.69 million square feet. As supply increased during the period from the 3rd quarter of '03 to the 2nd quarter of '04 by around 300,000 additional square feet, the vacancy rate fell from 18.5 to its current 17%. Leasing rates have stabilized, and tenant incentives are now increasingly a thing of the past.

Warehouse space, plentiful during the industrial slowdown which commenced in 2001, has begun to be absorbed again in 2004. Industrial vacancy fell from 23% to 19% in the past year, and over the next two years, as was revealed at the recent 2004 Greater Charleston Commercial Forecast Meeting, the projection is that some 2 million square feet in new industrial/warehouse space will be added to the local inventory. The resolution of the Port expansion issue and the surge in container tonnage are given as causes of this new activity. The lion's share of available space is in the 75,000 square feet or smaller category, with just ten facilities currently offering space larger.

Development "hot-spots" abound in 2004, characterizing the pace of growth in several portions of the County. After years of anticipation, the Center Pointe development begin to sprout out of the ground at I-26 / I-526 in North Charleston, and will offer a Sam's Wholesale Club, Wal-Mart Supercenter, Tanger Outlet Mall, other retail space, professional offices, and several restaurant sites. This development becomes part of the critical mass now forming around the North Charleston Coliseum, the Convention Center, and Performing Arts Center complex and its four hotels. The Bridgeport Center in Mt. Pleasant features 60,000 square feet of Class A office space, and its residential condominium tower is rising in clear view of the new Cooper River Bridge. The impoverished 'Neck' area in the City of Charleston also made news, with the unveiling of an ambitious mixed use plan for its renewal.

Charleston International Airport, no more than a thirty-minute ride from any regional front door, has experienced great growth over the past five years. The mix of passengers has begun to shift away from its tourist base toward one increasingly characterized by business fliers. Delta, US Airways, United Express, Continental and Northwest, provide daily non-stop service to a growing list of key business destinations such as New York (LaGuardia and JFK), Chicago, Washington (Dulles and National), Atlanta, Charlotte, Raleigh-Durham, Detroit, Cincinnati, Dallas, Houston, Philadelphia, Newark, Orlando and Tampa.

The year 2004 was one of great change at the Charleston International Airport. The Charleston County Aviation Authority approved two facility improvements designed to address the great growth in air travel through Charleston. The Authority began construction on a large parking garage to accommodate

increased volumes of fliers, and began equipping the Passenger Terminal for 'wi-fi' access, allowing wireless internet use within the terminal by waiting fliers. The local air carrier profile took on a new look as well in 2004, with Independence Air signing on, introducing increased competition at the gates and sparking a price war with incumbent carriers.

Pro-business government attitudes permeate the State of South Carolina and the Charleston region, where State commerce department officials work hand-in-hand with the Charleston Regional Development Alliance, a non-profit recruitment organization, and economic developers from Charleston County and its three largest municipalities. This team searches out national and international business prospects, facilitating their relocations and expansions. Some of the services assisting these businesses include expedited permitting, infrastructure grants, financial incentives, and the Center for Accelerated Technology Training (CATT), the national gold standard amongst state-sponsored labor training programs. The industrious Charleston labor force is acclaimed for its productivity by a who's who of manufacturing, distribution, corporate office, and research and development entities throughout the tri-county area.

MAJOR COUNTY INITIATIVES

The County's initiatives in fiscal year 2004 centered around enhancing the value of the service provided to citizens, partnering with municipal governments, encouraging economic development, and continuing with an extensive facilities improvement and replacement program.

Financial. County Council approved a 15 percent reassessment cap ordinance in November 2000. This ordinance limited the growth in the assessed value of four percent property to 15 percent. The state-mandated reassessment was implemented in February 2001. The application of the 15 percent reassessment cap to only four percent property was challenged in court. In May 2002 the State Supreme Court ruled that the County's reassessment cap ordinance was invalid. Several cases are still outstanding related to refunds of bills for fiscal year 2002. The most significant of these cases was initially ruled against the County and appealed to the State Supreme Court. The State Supreme Court referred the cases back to the Circuit Court for dismissal; however, the State Supreme Court ordered that administrative remedies should be pursued for the refunds. The County is now in the process of refunding approximately \$11.5 million as a result of the Supreme Court order and expects to have the substantial portion of the refunds completed by March 31, 2005. This refund has been reflected in these financials.

During July 2002, Council passed an ordinance that will cap the growth in assessed value at 15 percent for all real properties effective for the 2003 tax bill. The City of North Charleston filed a lawsuit challenging the cap and the implementation has been delayed to the 2004 tax bills.

In November 2004, the voters of Charleston County approved an additional 1/2 percent sales tax to be levied starting May 2005 for no more than 25 years or until \$1.3 billion is generated, whichever occurs first. The revenues from the additional sales tax will be used to fund the County's \$75 million commitment to the replacement of the Grace Memorial Bridge over the Cooper River. Connecting the City of Charleston and the Town of Mount Pleasant, the new \$631 million bridge will be completed by the South Carolina Department of Transportation by 2005. Additional funds from the tax will be used for roads and mass transit and for farm, forestland, and open space protection.

In April and May 2004, the County culminated its review of outstanding debt when refunding bonds were issued for all 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 for the County.

Partnerships. The County has partnered with the City of Charleston and Berkeley County to construct the Daniel Island Tennis Center. County Council committed to fund \$750,000 of the project with 15 annual payments of \$50,000 from Accommodations Fee revenues. This \$9.3 million facility was completed in March 2001, and serves as the new home of the annual Family Circle Cup Women's Tennis Tournament, previously held on Hilton Head Island. To provide an estimate of the local impact, economic impact studies indicate that the event generated \$20.3 million of direct economic activity in the Hilton Head economy in 1999.

County Council also annually assists the City of North Charleston with debt service payments for the North Charleston Convention Center in the amount of \$1.4 million from the Accommodations Fee revenues, with a total commitment of \$18 million. Similar to the Daniel Island Tennis Center, the Convention Center provides considerable economic activity.

Road improvements and maintenance are an essential service the County provides to all its citizens, regardless of municipal boundaries. During fiscal year 2004, the Public Works department managed more than \$4.6 million of road and drainage improvement projects and road resurfacing, all funded by the Charleston County Transportation Committee.

The tri-county Trident One-Stop Career Center in North Charleston celebrated its five-year anniversary in 2003. This award winning, grant-funded program brings together numerous state and local programs and provides the benefit of one-stop assistance to both applicants and employers. This program has assisted more than 165,000 local residents with employment matters since it opened. The center provides individuals with job search assistance, skill assessment, GED preparation, and job readiness training. The center provides business services such as career fairs, interviewing and testing facilities, and training for new and incumbent employees.

In December 2002, Council authorized the renovation of floor space in the Charleston Center for the relocation of the ten-bed Mental Health Crisis Stabilization Unit. This move was funded through collaboration between Charleston Center, the South Carolina Department of Mental Health and public and private hospitals. The move will help address problems in the Emergency rooms with patients who are intoxicated and possibly suicidal by providing a single facility that will give patients access to the expertise of the Charleston Center and the Department of Mental Health. The renovation work was completed and the unit was opened in fiscal year 2004.

Environment. Preparing for the time when the Bees Ferry landfill and the waste-to-energy incinerator's useful life comes to an end, Council approved a plan of action to ensure continued, effective management of solid waste in Charleston County. Elements include developing a new lined landfill at Bees Ferry by January 2006; accumulating additional land adjacent to the Bees Ferry site; reducing the quantity of construction and debris waste at the landfill; and increasing community recycling participation. Other actions include initiating discussions for continued long-term use of the waste-to-energy incinerator with the operator, identifying a future site for a municipal solid waste transfer station, developing a utilization plan for the next generation landfill site on US 17 South, and identifying a potential site for a new recycling center.

During the year, a South Carolina Department of Health and Environmental Control permit was acquired to modify the existing Bees Ferry landfill, and another permit application was submitted for a new lined landfill at the Bees Ferry site. During the year, the Solid Waste department also continued to work toward the completion of Phase One closure of the Bees Ferry Landfill. Upon completion, the total construction cost of the closure will be approximately \$8.3 million.

Quality of Life. A state-mandated periodic review of the county's land use guidelines, resulted in County Council adopting a revised County of Charleston *Comprehensive Plan*. The *Plan* establishes community driven goals regarding the pattern and intensity of land use, the provision of public facilities

and services, economic development, intergovernmental cooperation, and preservation of natural and cultural resources. Implementation of the plan, embodied in revised Zoning and Land Development Regulations, is expected next year.

Automation. Efforts to computerize various county functions to enhance customer service continued throughout the year. In July, the Building Services department instituted a web-based automated inspection request system that allows contractors to request building inspections online and improves schedules for inspectors. The Emergency Medical Service has joined a growing number of emergency systems who gather information for both their patients and their system through computer technology. Using "ruggedized" laptop computers with handwriting recognition, crews efficiently collect data on patient care, operations, and billing thereby freeing time for emergency responses. The county's Public Works department has spearheaded an effort to improve the management of roadway complaints for all municipal, county, and state agencies. A website has been established that comprises an easy to access master list of roadways in the county that includes jurisdiction and maintenance responsibility.

Benchmarking. Striving for continuous improvement, the County participated in a benchmarking study with the University of South Carolina's Center for Government Studies. Data measuring the performance of the county's building services and emergency medical services was compared with five other large counties in the state.

Community Safety Education. Following last year's award of the Large Emergency Medical Service (EMS) System of the Year award from the SC Department of Health and Environmental Control (DHEC), Charleston County's EMS received the 2004 Public Information, Education and Relations award from DHEC. Charleston County EMS spent the last year focusing its education campaign on teenage drivers. The system joined forces with the MUSC Trauma Center, SAFE Kids, SC Highway Patrol and North Charleston Police Department to form the "High School Injury Prevention Coalition."

Additionally, county paramedics Amanda Reeves and Becky Smyth won the EMS State Paramedic Championship, making them the top paramedic team in the state. Reeves and Smyth are the first and only all-female team to win the award.

Emergency Preparedness. Charleston County's Project Impact initiative, striving toward making our community more resistant to disasters, sponsored or participated in 46 outreach efforts with an estimated total audience of two million. Project Impact also received nearly \$148,000 third party in-kind contributions of goods and services, indicating a deep level of community interest and support in this hazard awareness and mitigation program. The program was recognized at the 2000 National Project Impact Summit in Washington, D.C. as the Star Community for the Federal Emergency Management Agency's Region IV. This selection was based on exhibiting the most solid, well-organized and rapid development of Project Impact of all the communities within the eight-state region.

Of greater importance given recent world events, advanced training and equipment for all local emergency responders for the challenges of hazardous materials, marine firefighting, and terrorism response continues to be coordinated by Charleston County Government.

In the area of disaster response, the County developed and implemented multi-jurisdictional debris management contracts meeting Federal Emergency Management Agency standards. These contracts will allow for a quicker response to debris removal due to either a natural or man-made disaster.

In February the County graduated its third class of Community Emergency Response Teams (CERT), teaching them how to assist the community's professional responders should there be an overwhelming catastrophic event locally. The goal is to provide basic response skills and to introduce a team concept so neighbors can pull together should there be a real disaster. The CERT model is based on a concept that originated with the Los Angeles Fire Department in the mid 1980s. Because of the potential for earthquakes that could cut off neighborhoods, the idea of training citizens and helping them develop

basic response plans emerged. Graduates range in age from their 20s to retirees and include active civic leaders, retired nurses, ham radio enthusiasts and health care workers.

Community Civic Education. After three months of learning the ins and outs of local government, the first class of the Charleston County's Citizens' Academy graduated in November. This intensive course, created and offered the first time this year, allowed residents to learn from more than 30 county departments, commissions and functional areas. They were given a glimpse of the complex issues the county deals with daily so they could better grasp how the county's services touch their lives each day. Twenty area residents met weekly, learning directly from county employees about the wide variety and complexity of the services.

Capital Projects. The county's Capital Improvement Plan includes new construction and renovations to existing buildings. The County currently has several capital facilities projects under various states of planning, design and construction. Approximately \$17.5 million of construction was completed during Fiscal Year 2004. With an emphasis on providing better services, this multi-year, multi-million dollar effort focuses on cost-efficient and functionally effective facilities.

Adjacent to the newly completed Judicial Center, renovations to the O.T. Wallace County Office Building and the Blake Tenement were completed. The renovations provide new, updated office space for the circuit court judges, Guardian Ad Litem, Solicitor, Public Defender, Assessor, Auditor, Treasurer, Delinquent Tax, Register of Mesne Conveyance, and Geographic Information Systems. The entire Judicial Center Complex was designed with a commitment to public safety and security. Closed circuit television, screening stations, access and traffic control, duress systems, and identification systems were all included in the initial design stages.

Substantial completion was achieved on the 16,000 square foot Johns Island Regional Library. Constructed on land provided by the Charleston County School Board and adjacent to the Haut Gap Elementary School, this regional library will provide much needed services to the Johns, Wadmalaw, Seabrook and Kiawah Island communities.

Substantial completion of the new EMS Medic 4 station on Folly Road on James Island was also achieved. The station is actually a relocation to a more central area to meet growing service demands on Folly Beach and James Island. Work continues on three other EMS stations: the Johns Island station (Medic 7) will include a magistrate's court in addition to EMS services; the McClellanville station (Medic 6), located on Highway 17, south of McClellanville, will include replacement of the McClellanville Fire Station and will also include a magistrate's court; and the Ladson station (Medic 15).

Other projects completed by Capital Projects during the fiscal year include a Crisis Stabilization center at Charleston Center's downtown building and a fueling facility at the SeeWee Public Works Camp in Awendaw.

Due to the merging of the Election Commission and the Board of Voter Registration, using in-house labor, the Facilities Management department completed substantial renovations to the Elections Warehouse. To meet the needs of disabled clients of the Senior Citizens Center and Clemson Extension, an elevator was installed in the 259 Meeting Street building in downtown Charleston.

FINANCIAL INFORMATION

Cash Management. Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the U.S. Treasury, repurchase agreements, or interest bearing checking accounts. The average yield on investments was 1.41 percent for the year ending June 30, 2004.

The County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The County's bank balances were approximately \$198 million at June 30, 2004, all but one of which were collateralized or covered by insurance. More detail on the County's deposits and investments is found in Note III. A. of the notes to financial statements starting on page 75.

Risk Management. The County has a limited risk management program for vehicle comprehensive and collision. As part of this plan, the County has initiated a mandatory defensive driver training class for new employees operating County vehicles. The County insures all licensed vehicles for collision and comprehensive with a \$1,000 deductible per vehicle provided by the State of South Carolina Insurance Reserve Fund. The County has also acquired commercial insurance on heavy equipment with a \$1,000 deductible for equipment with a value of \$100,000 or less and a \$2,500 deductible for equipment with a value over \$100,000. There is a \$2,500 per catastrophe limit on the deductible for heavy equipment. The County also has a \$1,000 deductible per location coverage for fire and extended coverage with the State of South Carolina Insurance Reserve Fund.

During fiscal year 1995, the County insured the risk of job related injury or illness to its employees through The South Carolina Association of Counties (SCAC) Workers' Compensation Trust. Effective July 1, 1995, the County converted to a self-insured plan with SCAC to fund risks associated with workers' compensation claims. More information on the County's risk management plan can be found in Note IV. A. of the notes to financial statements starting on page 104.

Pension and other Post Employment Benefits. Charleston County participates in the State of South Carolina Retirement System. All permanent employees of the County are members of either the South Carolina Retirement System or the South Carolina Police Officer's Retirement System. More information on these pension plans are provided in Note IV. I. of the notes to financial statements starting on page 112 of this report.

The County also provides post-retirement health, life and dental care benefits as per the requirements of a local ordinance, for certain retirees and their dependents. More information on the post-retirement benefits are shown in Note IV. G. of the notes to financial statements starting on page 111.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to Charleston County for its comprehensive annual financial report for each of the fiscal years ended June 30, 1988, through 2003.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

In addition, the government has also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fourteen fiscal years starting July 1, 1989 through 2003. In order to qualify for the distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including a policy document, a financial plan, an operations guide, and a communications device.

The timely preparation of the Comprehensive Annual Financial Report (CAFR) was made possible by the dedicated service of the entire staff of the Controller's Office. Special thanks go to the team headed by Carla Creech, who with the assistance of Dolores Dong, Anthony Oglietti, Reshma Kutte, Christopher Royer, and Stacey Barber of the Controller's office produced the CAFR and coordinated the audit with the external auditors. Substantial contributions were also made by several financial staffs throughout the County: Mack Gile from the Budget Office, Andrew Smith and Julie Riley-Hollar from the Treasurer's Office; Lisa Murray from the Department of Alcohol and Other Drug Abuse Services; Jean Sullivan, Catherine Ksenzak and Jeanette Williams from Grants Administration; and Bill Turner from the Public

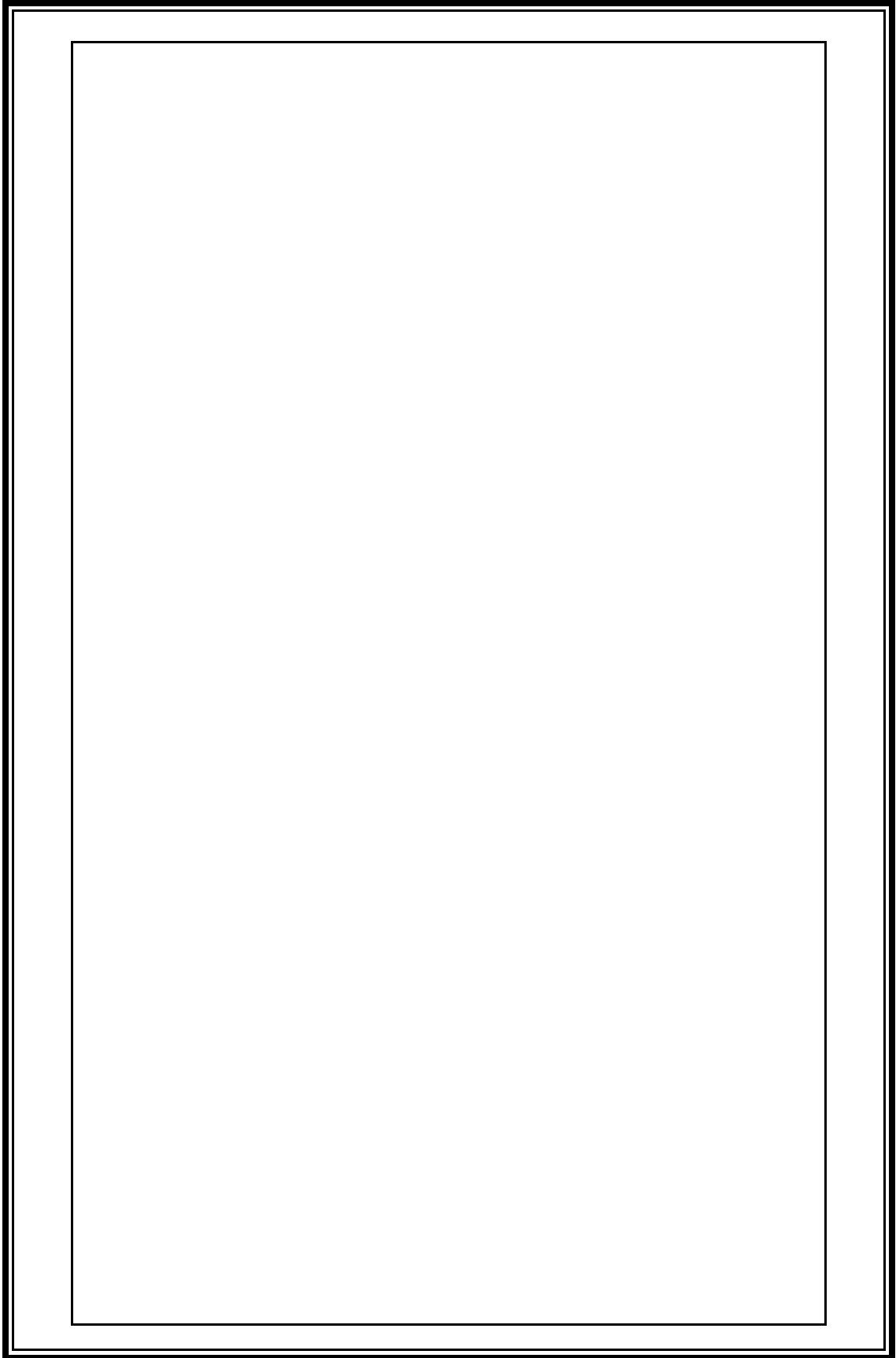
Works Department. Thanks also to Cynthia Smalls of the Controller's Office who prepared the financial notes, this letter, the management's discussion and analysis and provided clerical support to the external auditors. Substantial assistance also came from the staff members of the County Administrator and Chief Financial Officer, with special thanks to Steve Dykes of the Economic Development Office. Thank you's are also extended to the staff of Gamble Givens & Moody, LLC, the external auditors, for their efforts in producing this CAFR.

In addition, we would like to acknowledge the cooperation and support of Charleston County Council in making this report possible.

Roland H. Windham, Jr.
County Administrator

Corine Altenhein
Chief Financial Officer

Harold L. Bisbee
Controller



Charleston County, South Carolina Organizational Chart

Revised
09/27/2002
12/16/2003
02/26/2004

County Departments
Effective 12/16/2003

