

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, 2005. 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 20 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, 2005, by \$203,157 (net assets). Of this amount, \$54,077 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$21,435 during the fiscal year ended June 30, 2005, with a \$13,464 increase resulting from governmental activities and a \$7,971 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 \$117,019. Approximately forty-one percent of this total amount, \$48,283, 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 \$33,899 or twenty-six percent of the total general fund expenditures.
- Charleston County's long-term debt decreased by \$5,609 (two percent) during the current fiscal year. A full discussion of the County's changes in long-term debt can be found on pages 89-102.

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 41 and 42 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 64 through 66 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2005. 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 43 through 49, essentially account for the same functions as those reported under the governmental activities of 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 statement 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 General Obligation Bond Capital Projects Fund, and the 2005 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 118 through 129 of this report.

Proprietary funds. Charleston County maintains and presents two different types of proprietary funds, enterprise and internal service, shown on pages 50 through 55 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 termed as "non-major other funds" but may be separately reviewed in the combining statements on pages 148 through 153.

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 155 through 159 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 161 through 163 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 62 through 111 of the report.

Other information. Individual statements, which present more detailed views of non-major funds used in governmental funds begin on page 118. 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 168.

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 \$203,157 at the close of the 2005 fiscal year.

Of this amount, \$77,601 (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 \$43,706 (21 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, \$27,774 (14 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$54,077 (27 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, 2005
(Recapped from page 41)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$247,426	\$241,246	\$ 82,624	\$ 75,349	\$330,050	\$316,595
Capital assets	221,992	218,536	30,921	31,437	252,913	249,973
Total assets	<u>\$469,418</u>	<u>\$459,782</u>	<u>\$113,545</u>	<u>\$106,786</u>	<u>\$582,963</u>	<u>\$566,568</u>
Long-term liabilities						
Outstanding	\$195,234	\$204,627	\$ 23,668	\$ 35,588	\$218,902	\$240,215
Other liabilities	144,737	138,960	16,167	5,492	160,904	144,452
Total liabilities	<u>\$339,971</u>	<u>\$343,587</u>	<u>\$ 39,835</u>	<u>\$ 41,080</u>	<u>\$379,806</u>	<u>\$384,667</u>
Net assets:						
Invested in capital assets, net of related debt	57,359	49,999	20,241	18,802	77,600	68,801
Restricted for future construction	34,059	20,437	9,647	6,929	43,706	27,366
Restricted - other	26,280	12,496	1,495	1,533	27,775	14,029
Unrestricted	<u>11,749</u>	<u>33,263</u>	<u>42,327</u>	<u>38,442</u>	<u>54,076</u>	<u>71,705</u>
Total net assets	<u>\$129,447</u>	<u>\$116,195</u>	<u>\$ 73,710</u>	<u>\$ 65,706</u>	<u>\$203,157</u>	<u>\$181,901</u>

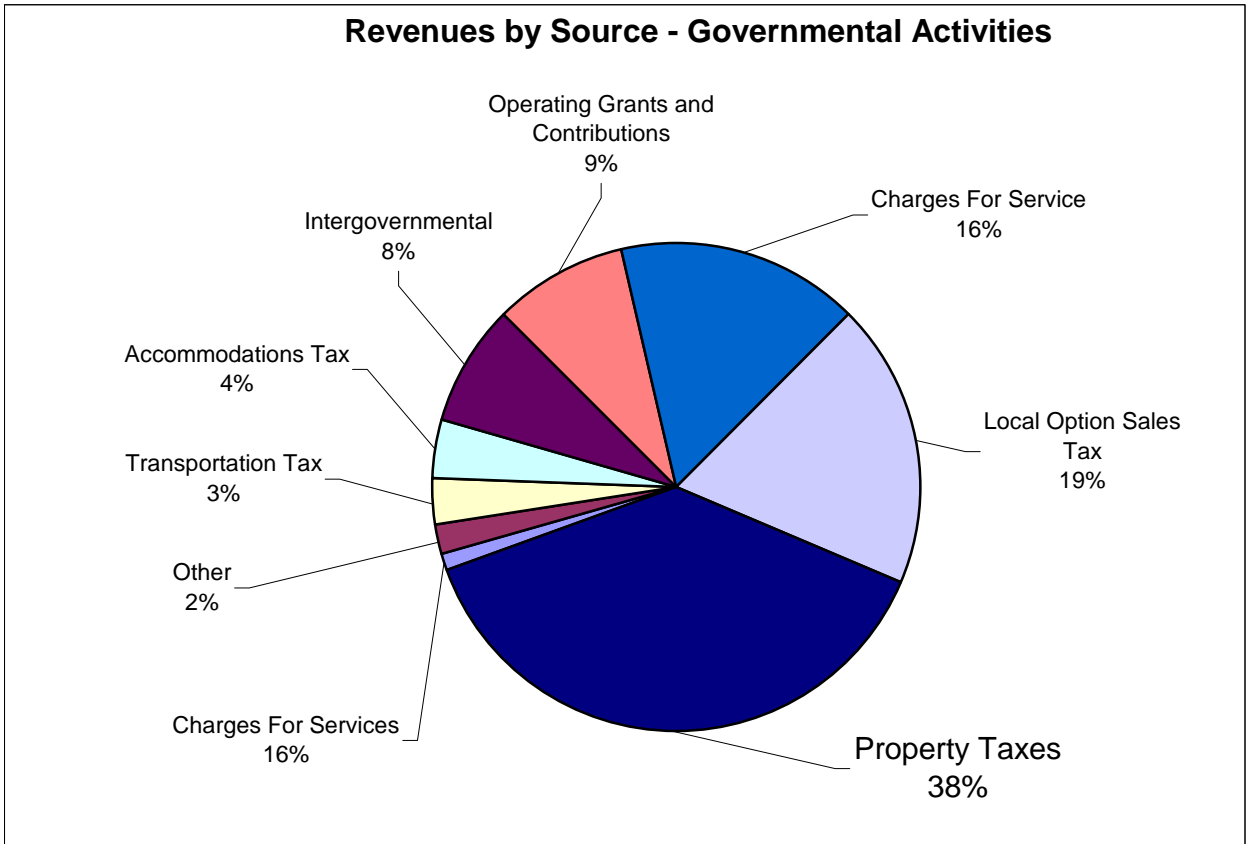
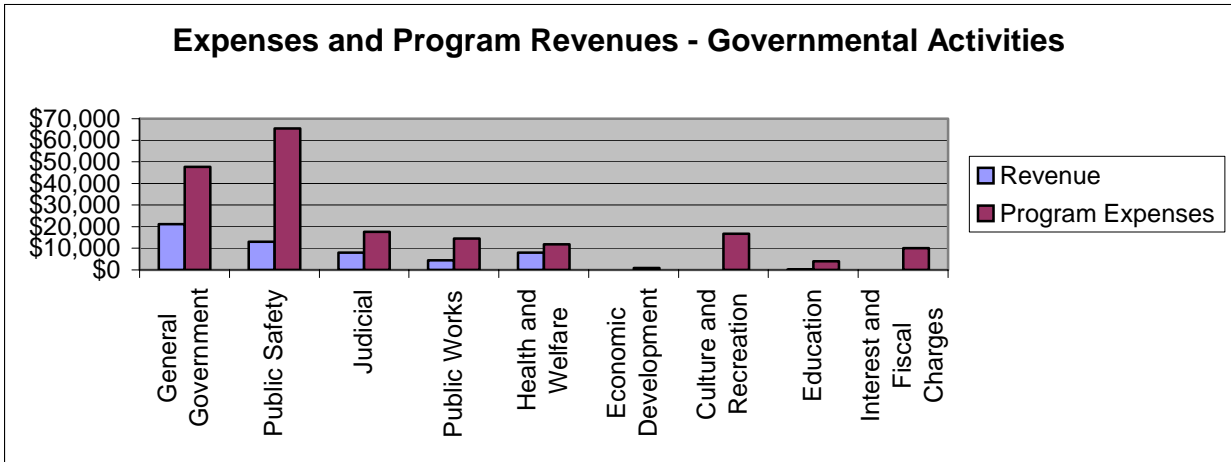
The County's net assets increased by \$21,435 during the current fiscal year. This compares favorably to the fiscal year 2004 gain of \$8,926. Approximately twenty-one percent of the gain came from planned revenues in excess of expenditures in the solid waste business-type activities, where the County 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 \$13,464. Key elements of the increase:

- Fees, permits and licenses increased by \$4,710 (19.6 percent) during the year.
- Local option sales tax increased by \$2,471 (6.9 percent) during the year.
- The new half cent sales tax was effective May 1, 2005. The transportation tax collected for May and June was \$5,870.
- Investment earnings increased by \$1,521 (56.5 percent) during the year.
- Expenses for the year increased by \$11,279 (6.4 percent) with the substantial portion of that increase coming from public safety \$5,212 and general government \$3,507. The remaining increase \$2,560, reflects both inflation and the growth in the demand for services.

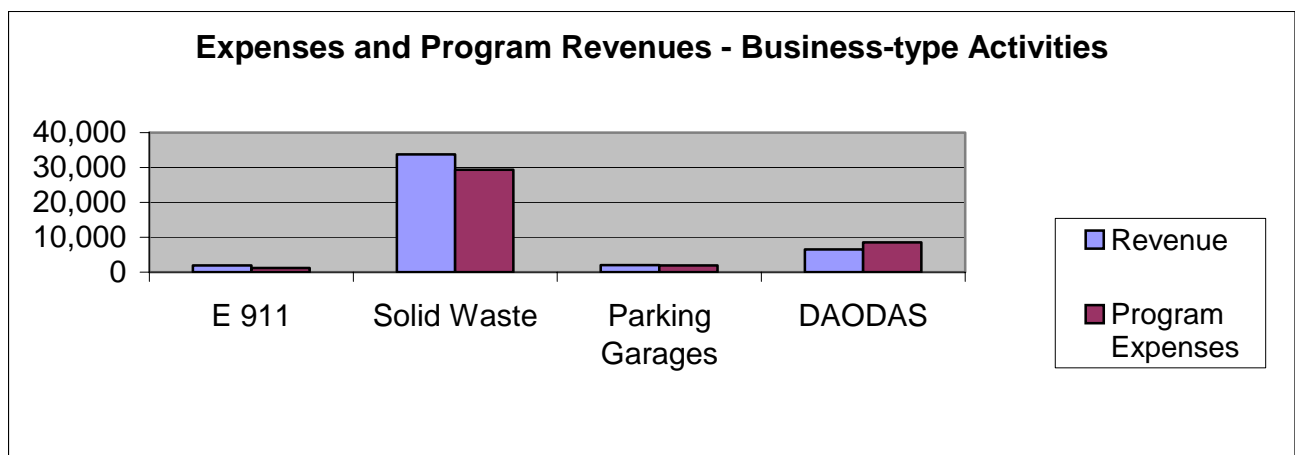
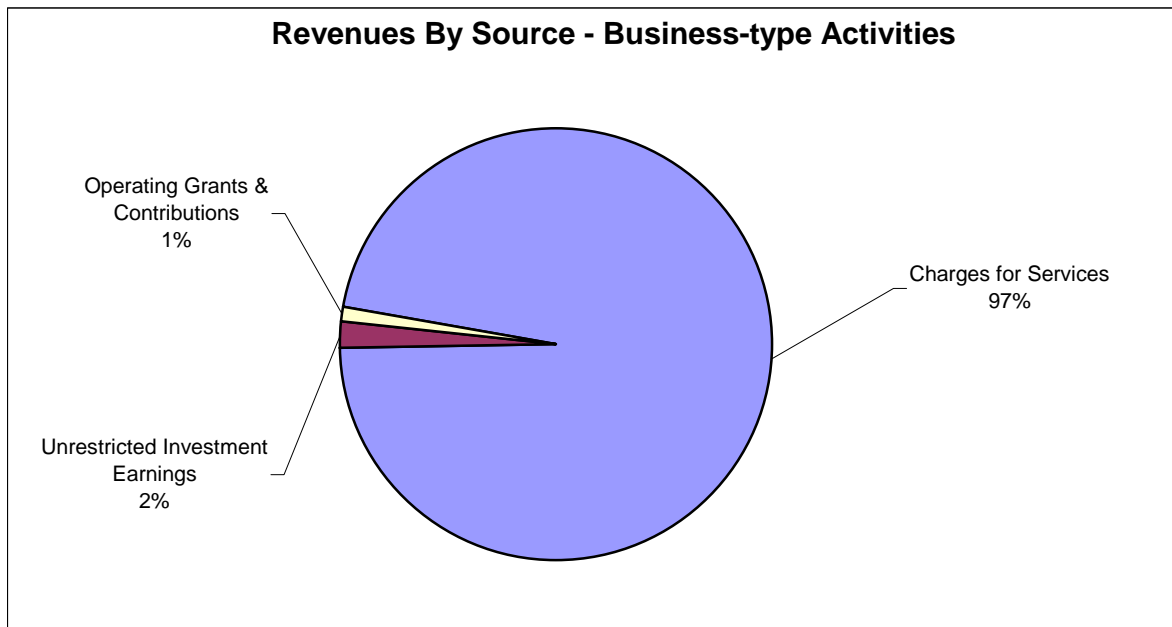
County of Charleston, South Carolina
Changes in Net Assets (Recapped)
For the Fiscal Year Ended June 30, 2005

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 32,521	\$ 31,390	\$ 43,075	\$ 46,077	\$ 75,596	\$ 77,467
Operating grants and contributions	19,298	16,593	1,138	3,092	20,436	19,685
Capital grants and contributions	3,132	-	-	-	3,132	-
General Revenues:						
Property taxes	77,341	76,422	-	-	77,341	76,422
Other taxes and fees	54,161	44,939	554	539	54,715	45,478
State aid to political subdivisions	13,960	13,781	-	-	13,960	13,781
Unrestricted investments earnings	2,496	470	833	396	3,329	866
Gain (Loss) on sale of capital assets	-	387	-	-	-	387
Total Revenue	202,909	183,982	45,600	50,104	248,509	234,086
Program Expenses:						
Governmental Activities:						
General government	48,480	44,074	-	-	48,480	44,074
Public safety	65,412	60,200	-	-	65,412	60,200
Judicial	17,627	16,303	-	-	17,627	16,303
Public works	14,570	13,047	-	-	14,570	13,047
Health and welfare	11,824	12,259	-	-	11,824	12,259
Economic development	944	1,058	-	-	944	1,058
Culture and recreation	16,731	17,465	-	-	16,731	17,465
Education	3,931	3,736	-	-	3,931	3,736
Interest and fiscal changes	10,108	9,306	-	-	10,108	9,306
Business-Type Activities:						
E-911	-	-	1,167	905	1,167	905
Solid waste	-	-	29,336	27,253	29,336	27,253
Parking garages	-	-	1,922	2,323	1,922	2,323
DAODAS	-	-	8,493	8,185	8,493	8,185
Total Expenses	189,627	177,448	40,918	38,666	230,545	216,114
Excess of revenue over expenses	13,282	6,534	4,682	11,438	17,964	17,972
Transfers	(3,289)	8,151	3,289	(8,151)	-	-
Gain on dissolution of James Island	3,471	-	-	-	3,471	-
Contribution to other municipalities to refund of 2001 property taxes	-	(9,151)	-	-	-	(9,151)
Increase (Decreases) in Net Assets	13,464	5,534	7,971	3,287	21,435	8,821
Net assets, beginning	116,195	110,534	65,706	62,440	181,901	172,974
Prior Period Adjustments	(212)	127	33	(21)	(179)	106
Net Assets, beginning adjusted	115,983	110,661	65,739	62,419	181,722	173,080
Net Assets, ending	\$129,447	\$116,195	\$73,710	\$65,706	\$203,157	\$181,901



Business-type activities. Business-type activities increased the County's net assets by \$7,971. The key element of this increase was:

- The solid waste fund had an increase in net assets of \$4,576. 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.



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 \$117,019, an increase of \$20,047 in comparison with the prior year. Of this amount, \$3,071 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, \$5,866 and in the debt service fund \$14,285. Approximately forty-one percent of this ending fund balance, \$48,283 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 (\$7,878), 2) to pay debt service (\$26,280), 3) to pay for capital projects as restricted by bond covenants (\$34,059), or 4) reserved for inventories and prepaid items (\$519).

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 \$33,899 while total fund balance reached \$36,369. 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 26 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount. The net increase in the fund balance of the general fund was \$5,866 during the current year. Highlights in the general fund were as follows:

- An increase of \$3,282 in fees, permits and licenses (20.4 percent) over the prior year.
- An increase of \$2,471 in local option sales tax which is 7 percent over the previous year.
- The debt service fund has a total fund balance of \$26,280, 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 \$14,285. \$12,392 of this increase is a result of an early repayment of a note receivable by The Medical University of South Carolina.

Capital projects funds have a combined total fund balance of \$34,059. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. The General Obligation Bond Capital Projects (\$22,493) is shown as a major fund and the remaining funds (\$11,566) are all nonmajor ones and are shown on pages 122 through 123, and 128 through 129.

The special revenue funds have a combined total fund balance of \$20,312. Of this amount, \$14,385 is undesignated fund balance and, of the balance, \$5,628 is reserved for encumbrances and \$299 is reserved for inventory. All of the special revenue funds are shown as nonmajor governmental funds on pages 118 through 122, and 124 through 128.

Proprietary funds. The County's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. See pages 50 through 55, 148 through 153 and 155 through 159.

General Fund Budgetary Highlights

There was a \$2,445 decrease in appropriations between the original budget and the final amended budget shown on pages 47 through 49 of this report.

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, 2005, amounted to \$252,913 (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 3.1 percent (a 3.8 percent increase for governmental activities and a 1.7 percent decrease for business-type activities).

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,963	\$ 5,854	\$ 3,951	\$ 3,951	\$ 7,914	\$ 9,805
Buildings	162,943	141,155	19,524	20,067	182,467	161,222
Improvements other than buildings	1,908	1,985	736	809	2,644	2,794
Machinery and equipment	25,323	20,465	5,435	5,575	30,758	26,040
Infrastructure	27,400	21,048	-	-	27,400	21,048
Construction in progress	455	23,222	1,275	1,060	1,730	24,282
Total	<u>\$ 221,992</u>	<u>\$ 213,729</u>	<u>\$ 30,921</u>	<u>\$ 31,462</u>	<u>\$ 252,913</u>	<u>\$ 245,191</u>

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

- The Town of James Island was dissolved resulting in a gain of \$3,471 due to infrastructure being added back to Charleston County.
- Significant work-in process was completed during the year with the result that it has transferred from work-in-process to Buildings:

County Office Buildings	\$15,428
John's Island Library	2,983
3 EMS Stations	3,004
Other	1,452

Additional information on the County's capital assets can be found in Note III. C. on pages 83 through 86 of this report.

Long-term debt. At the end of the current fiscal year, Charleston County had total bonded debt outstanding of \$185,290. Of this amount, \$93,392 comprises debt backed by the full faith and credit of the government, \$78,896 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$13,002 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 \$37,821 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 93,392	\$ 95,927	\$ -	\$ -	\$ 93,392	\$ 95,927
Certificates of participation	67,055	71,304	11,841	12,637	78,896	83,941
Revenue bonds	-	-	13,002	14,164	13,002	14,164
Intergovernmental Note payable	<u>37,821</u>	<u>38,609</u>	<u>-</u>	<u>-</u>	<u>37,821</u>	<u>38,609</u>
Total	<u>\$ 198,268</u>	<u>\$ 205,840</u>	<u>\$ 24,843</u>	<u>\$ 26,801</u>	<u>\$ 223,111</u>	<u>\$ 232,641</u>

The County's total bonded debt decreased by \$8,742 (4.5 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 March, 2005 Charleston County issued refunding bonds for substantially all of the certificates of participation that were economically viable and legally eligible to be refunded. The combined refunding resulted in an economic gain of \$1,157 to the County. See Note III.I., pages 100-101, for additional details on this refunding.

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 \$195,786 which is significantly in excess of the County's current G.O. outstanding balance of \$75,339 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 102 of this report.

Economic Factors and Next Year's Budgets and Rates

- There were 6,949 single family permits issued in 2004, an increase of 27 percent over the prior year.
- Gross retail sales in 2004 finished 3.6 percent higher than 2003.
- Port tonnage increased 10 percent in 2004 compared to 2003.
- Combined enplanements and deplanements was 13 percent greater in 2004 than 2003.
- Hotel room revenue in fiscal year 2005 increased by 9.8 percent over 2004.
- The unemployment rate at the close of 2004 was 4.4 percent.

All of these factors were considered in preparing Charleston County's budget for the 2006 fiscal year.

The following factors were considered by Charleston County Council which allowed it to pass a general fund budget for fiscal year 2006 without an increase in millage.

- Growth in the property tax base \$3,050
- Growth in the Local Option Sales Tax \$2,000

- Emergency Medical Services – increased volume of services and improved collection of fees \$1,350
- Register of Mesne Conveyance – increased number of Documentary Stamps \$1,700
- Transfer in from Capital Proceeds Funds \$3,000

The General Fund expenditures for Fiscal Year 2006 increased by \$15,000 in expenses and transfers out. The major increases are:

- Salary adjustments for Cost of Living increases \$ 2,700
- Information Technology hardware and software \$ 1,800
- Increase in inmate costs at Detention Center \$ 1,500
- Increase in County Council contingency \$ 1,400
- Transfer out to the Library \$ 800
- Transfers out to the Capital Improvement Plan \$ 2,500

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.