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November 13, 2006

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 this requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) for Charleston County, South Carolina, for the fiscal year ending June 30, 2006.

This report consists of management's representations concerning the finances of Charleston County. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government agency'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 beliefs, this financial report is complete and reliable in all material aspects.

Charleston County's financial statements have been audited by Dixon Hughes PLLC, 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, 2006, 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 fiscal year ended June 30, 2006, 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" that is 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 requires 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, and should be read in conjunction with, MD&A. Charleston County's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The County of Charleston 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 is vested in a governing council consisting of nine Council members. The Council is elected on a partisan basis. During the November 2006 election Council finished the conversion from all members being elected at large to single-member district elections. Six seats were converted in the November, 2004 election and the final three seats were converted in the November, 2006 election.

Charleston County Council is responsible for, among other duties, passing ordinances and policies, approving the budget, appointing committee members, and hiring the County's Administrator, Internal Auditor and Attorney. The Administrator is responsible for enforcing the policies and ordinances of the governing council, overseeing the day-to-day operations of the government services and its approximately 2,300 employees, and for appointing the heads of the various County departments.

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

- Public safety - countywide law enforcement (Sheriff's Office), detention facilities, emergency preparedness plans to include activation of the County's Emergency Operations Center in an event of a disaster, as well as fire protection in the Awendaw Fire District, Town of McClellanville, Town of Awendaw, the East Cooper Fire District, and the West St. Andrew's Fire District
- Veterans' assistance
- Health-related assistance - Emergency Medical Services (EMS), alcohol and other drug abuse services, indigent health care, and social services
- Voter registration
- Street and drainage maintenance
- Waste disposal and recycling
- Planning and zoning administration
- Criminal, civil, probate, and family court administration
- Public defender assistance
- Tax collection and dispersal to appropriate entities/municipalities
- Mosquito control

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. It is also shown in the fund financial statements in the debt service and capital project governmental funds, and in the parking garage and other enterprise funds. Charleston Development Corporation has been shown in the government-wide statements in the governmental activities, and in the fund financial statements in other governmental funds.

Discretely presented component units are reported in a separate column in the statement of net assets and in the statement of activities in order 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:

- Charleston County Library (CCL)
- Charleston County Park and Recreation Commission (CCPRC)
- Cooper River Park and Playground Commission (CRPPC)
- James Island Public Service District (JIPSD)
- North Charleston District (NCD)
- St. Andrew's Parish Parks and Playground Commission (SAPPPC)
- St. John's Fire District (SJFD)
- St. Paul's Fire District (SPFD)
- Charleston County Volunteer Rescue Squad (CCVRS)

Additional information on these nine legally separate entities can be found in Note I.B. in the notes to the financial statements starting on page 66.

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 County's Budget Office uses these requests as the starting point for developing a proposed budget for the next fiscal year. The County Administrator presents the proposed budget to County Council for review prior to May 1 each year. Council is required to hold public hearings on the proposed budget, and to adopt a final budget each year no later than June 30, which is the close of Charleston County's fiscal year. The appropriated budget is prepared by fund, function (public safety), and department (Sheriff's Office).

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 (personnel, non-personnel, and capital outlay) are further defined in the budget document and are subject to approval by the County Administrator. The County Administrator has the authority 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, the Chief Support Officer, and the Chief Financial Officer the authority to transfer between departments under their authority. The budget ordinance must be amended by County 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 pages 49-51 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 non-major governmental fund subsection of this report, which begins on page 137.

LOCAL ECONOMIC CONDITIONS AND OUTLOOK

Charleston's Economy at a Glance. As 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, which has significant Air Force, Navy, Army and Coast Guard facilities in Charleston.
- The medical industry, which focuses around the Medical University of South Carolina (MUSC), the state's teaching hospital.
- The Port of Charleston, which fuels the manufacturing and supply chain sectors in Charleston, statewide, and beyond.
- The tourism industry, which 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 centered around biotech research at MUSC; marine research at the National Oceanic and Atmospheric Administration (NOAA) Southeast Center and the State's Fort Johnson complex; and the advanced information technology and electronic engineering work occurring at the Space and Naval Warfare Systems (SPAWAR) Center.

Recent Economic Indicators. General economic indicators for 2005 were reported by the Charleston Metro Chamber Center for Economic Forecasting in the fall of 2006. The Charleston area surpassed its previous records on many of the indicators, with highlights as follows:

Population-

The Charleston area population increased by 8%, from 506,875 to 549,033 persons, in the decade from 1990 to 2000. According to the U.S. Census Bureau, the population grew by 34,401 new residents from 2000 to 2004 reach the current estimated size of 583,434 persons. This represented a 6.3% growth rate, which outpaced the nation (4.3%) and state (4.6%) during that period. It is currently estimated that the area will reach a population of 613,470 by 2010.

Labor force-

Even with the U.S. Naval Base closure news announced by the Base Closure and Realignment Commission (BRAC) in 1993, the civilian labor force has grown by 25%, from 239,208 to 300,036 persons in 2005. Labor force and employment have grown by 13% during the past five years (2000-2005) a rate that is triple that of the State of South Carolina and the United States during the same period. Forecasts are for the labor force to further expand by 4% during 2006, and by an additional 4% during 2007.

In 2005, the average wage in Charleston of approximately \$33,000 was 2.6% higher than that of the state, at just below \$32,000. It continues, however, to lag the national average of \$37,440 by about 13%.

Following the closure of the Charleston Naval Complex, all economic sectors have grown over the past 10 years (1995-2005), adding a total of 62,900 new jobs. The most notable growth has occurred in the Professional & Business Services sector (14,000 new jobs), accounting for 22% of the total, and continuing robust growth of the Charleston tourism business is reflected in the Leisure & Hospitality total (8,500 new jobs), representing 13.5% of all new jobs. Retail accounted for 12% (7,500 new jobs), while

MUSC and area hospitals added 7,100 new jobs to the Education & Health Services sector (11% of all new jobs). Record home building swelled the ranks of the Construction sector with 6,700 new jobs (11% of all new jobs).

From 1995 to 2000, the area was characterized by robust job creation, with 45,300 new positions reflected in the sectoral data. According to statistics, job growth has been slower from 2000-2005, with 17,600 new jobs created. During this latter five-year period, job growth has continued in all sectors except Manufacturing, and Transportation and Utilities, where there has been a net job loss.

The unemployment rate was 4.9% in the Charleston region at the close of 2005. The U.S. Bureau of Labor Statistics projects the rate will remain at this level, with forecasts for 4.8% in 2006 and 4.9% in 2007.

Housing starts-

11,534 residential and non-residential building permits were issued in the Charleston area during 2005, up 22% from 2004. The total value of these permits was \$2.3 billion, up 35% from the 2004 level. Residential permit activity (10,019 permits in 2005) continues to dominate, and the region topped the \$1.5 billion mark for residential permit value for the first time in its history in 2005. This new value mark was up 38% over the previous level in 2004, when the region's residential permits value first exceeded \$1 billion. Forecasts are for residential permits to further increase by 13% during 2006 and by another 10% during 2007. The single-family home market continues to lead all other construction activity, with the annual number of permits up 215% over the 1996 level. In 2005, just fewer than 8,000 new single-family permits were issued, an increase of 18% over the previous year.

The average value of a new residential permit rose to \$154,000 in 2005, exceeding the 2004 average by 12%. The region's level of home sales broke records again in 2005, topping 15,400, for an increase of nearly 13% over the 2004 level. The average sales price of area homes rose by 7% from 2004 to 2005, and has doubled during the past decade, according to Trident Association of Realtors. The average price of all residential property in the Charleston region was \$259,000 during 2005, up 7% from 2004, and fully double what it was a decade earlier.

Retail Sales-

Gross retail sales for the region finished at a record \$16.4 billion for 2005, 9% ahead of 2004. These sales were no doubt driven by the region's growing population, robust real estate activity, and our multi-billion dollar visitor industry. Projections are for this figure to increase to \$17.6 billion during 2006 and to \$18.7 billion by 2007. The years 2005 and 2006 saw dramatic expansion by retailers in Charleston, with several new shopping complexes being placed into service, notably three Super Wal-Mart centers, the Tanger Outlet Mall at Centre Pointe in North Charleston, and the Freshfields complex at Kiawah Island.

Visitor Industry-

In 2006, Charleston was named #4 among the top ten U.S. and Canadian cities in *Travel & Leisure Magazine's* 'World's Best Cities Awards.' It marked the second consecutive year the region had received this accolade, climbing from its 2005 ranking of #6. The visitor industry continued its 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.

Port Activity-

Port tonnage in 2005 was up 5% over the 2004 level, with a record 1.98 million TEUs (20 foot equivalent cargo containers). Projections for tonnage in 2006 and 2007 are for more modest increases in the 2% range, boosting volumes to 2 million TEUs in 2006.

Airport Activity-

Charleston International Airport, no more than a 30 minute ride from any regional front door, offers Delta, US Airways, United Express, Continental and Northwest, and provides 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, Detroit, Orlando and Tampa. Airport activity continued to grow in 2005, setting a new record, with combined enplanements and deplanements of 2.15 million passengers. This figure is 17% ahead of the 2004 passenger level. The forecast is for this trend to flatten, with around 2 million passengers in 2006 and 2007.

BRIEF SECTORIAL PROFILES

Visitor Industry. Tourism has long been an economic mainstay in Charleston, 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 5.1 million visitors in the year 2005, fueling an annual economic impact of \$5.4 billion. Tourism now accounts directly and indirectly for some 105,000 jobs, a level that has also doubled over the past five years.



Tourists take a carriage tour through historic downtown Charleston. Charleston welcomed 5.1 million visitors in 2005.

Charleston hoteliers have widely expanded the regional room inventory and range of choices since 1995. As building continued into 2006, the overall regional inventory stood at a total of more than 15,000 rooms. Perhaps the most telling statistic has been the occupancy rate, which increased during 2005 to 70% from the 67.8% level of 2004. The average daily room rate rose to \$128.61 during 2005, up 14% over the prevailing 2004 rate of \$112.67 per night.

Opening to rave reviews in 2005, the most significant addition to the area inventory is The Sanctuary, the ultra-luxury hotel on Kiawah Island. The brainchild of investor Bill Goodwin, this \$125 million, 255-room, five-star hotel is a corporate companion to The Jefferson Hotel in Richmond, Virginia and The Hermitage in Nashville, Tennessee.

Complementing this lodging growth, Charleston County partnered in 1998 with the City of North Charleston to construct the \$37 million, 160,000 square-foot North Charleston Convention Center, and the adjacent 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 Charleston tourism sector is constantly evolving, and amidst great prosperity, surprisingly its area attractions have actually experienced a downward trend in recent years. A study by regional tourism planners revealed that this unhealthy trend was the result of another, healthier trend - repeat visitors. Some 60% of Charleston's visitors are 'repeat visitors,' and are not likely to return to the same attractions visited on previous trips. The historic sites, area beaches and downtown shopping and dining are the most powerful draws, and area attractions have learned to craft new marketing strategies that target both first-time and repeat visitors. These efforts are beginning to bear fruit, as projections for 2006 and 2007 were for attraction attendance to remain level.

Restaurants here multiply and flourish, nourished by a constant flow of aspiring chefs and increasingly affluent Charleston visitors. The *New York Times*, *Southern Living*, *Bon Appetit* and *Wine Spectator* have all sung the praises of area restaurants, where seafood, nouvelle cuisine, and Southern cooking dominate over 100 downtown Charleston restaurants. The Charleston visitor is 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, as measured by the Charleston Metro Chamber of Commerce in a

2004 survey of visitors. The restaurant industry got another significant raise during November 2005, when the new Culinary and Hospitality Training Center opened on the Trident Technical College campus in North Charleston. The state-of-the-art facility is part of ongoing projects totaling \$45 million, which will boost programs at the college's Complex for Industrial and Economic Development.

The Port. The Port of Charleston (the Port) is the second busiest port on the Atlantic and Gulf coasts, with only the combined New York/New Jersey ports handling more containerized cargo. In 2005, it ranked fourth in the United States for containerized cargo tonnage, and sixth in the nation for cargo value at \$53 billion.

Some 40 shipping lines present here have ports of call in 150 countries, and over 2,167 ships steamed in and out of Charleston harbor and ancillary state port facilities during 2005. In 2005, 54% of total cargo volume was accounted for by North Europe and Asia, with the remainder divided among Latin America, the Mediterranean, the Middle East, the Indian subcontinent, Africa and East Europe. The South Carolina State Ports Authority (SCSPA) announced its first direct service to Central America from Charleston in 2005, and additional service was added to South America and the Middle East. Another historic milestone in 2005 was the celebration by BMW of the shipment of its one millionth South Carolina-made automobile through the port. The German-based auto-maker first began shipping through the port from its Spartanburg, SC, facility in 1994.

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. Charleston Southern University economists assert that international trade through the Charleston port accounts for \$23 billion in overall economic impact, including \$9.4 billion in annual wages for South Carolinians employed in 281,660 jobs, and for \$2.5 billion in state and local taxes.

Its cargo-handling systems has earned the Port designation by *Port Development International* as the most efficient port in the world, an accolade repeated in 2006 by *World Trade* magazine. From its four area facilities in Charleston, the SCSPA 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 same-day discharge of cargo has proven effective in many cases in luring more Asian trade through the port, avoiding grid-lock West Coast ports. The computerized Yard Management System (YMS) developed by the port during 2005 further elevated productivity and cut turn times for truckers delivering or picking up cargo. The SCSPA also set new productivity records in 2006 with its dockside cranes, recording 41 container moves per hour.

The SCSPA continued its capacity-enhancing measures during 2005, investing in 16 new container handling cranes at a cost of \$24 million. It also enacted new dockside demurrage rules which limit the number of "free" days during which an import or export cargo shipment can stay on the terminal. In order to further maximize the limited existing space at its four terminals, strict new rules banning the storage of inoperable chassis and ocean containers also went into effect.

Advances at the Port are possible largely due to increasing capacities enabled by expansion. The Ports Authority spent \$150 million on a harbor-deepening (completed in May of 2005) that now accommodates ships with a 45-foot draft at mean low water: a requirement in keeping with the huge Post-Panamax ships that are beginning to dominate the industry. In 2005, the State of South Carolina also completed the replacement of the aging Grace and Pearman bridges over the Cooper River with the new 2.8-mile-long, 8-lane Arthur Ravenel, Jr. Bridge - the longest cable-stay bridge in North America. This new awe-inspiring structure, dubbed a "cathedral of light," has a span of 1,546 feet, and its 186-foot height will guarantee adequate clearance for the world's largest container ships well into the future.

These larger Post-Panamax ships will soon be accommodated at a container facility offering 3,000 feet of additional berthing space. The new terminal will be located on a 250-acre portion of the former Naval Base on the Cooper River. Permitting is ongoing, and the U.S. Army Corps of Engineers EIS is anticipated

before the close of 2006, according to SCSPA President & CEO Bernie Groseclose. This final federal clearance will allow for construction to begin during the first quarter of 2007. Amongst the infrastructure improvements required will be a new multi-lane access road directly linking the terminal with I-26. State political support is strong for the funding necessary to construct this highway infrastructure, and in 2006, SC House Speaker Bobby Harrell (R-Charleston) announced his intention to lead the General assembly in meeting this need during the 2007 session. SCSPA officials have already ordered four super Post-Panamax cranes for the new terminal, at a cost of \$38 million.

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 1,000 businesses and 24,000 jobs. The majority share of employment (13,400 employees) exists in five private regional hospitals, MUSC Hospital, the Ralph Johnson Veteran's Administration Hospital, and Charleston Memorial Hospital.

The year 2005 was highlighted by significant growth in the medical sector, as every Charleston area hospital system announced an expansion plan or had one already in progress. Roper St. Frances Healthcare pursued plans, (first announced during 2004) to build an \$80 million full-service hospital on Hwy. 17-North in Mt. Pleasant. Tenet Health Systems pursued expansion plans to enlarge its existing East Cooper Regional Medical Center in Mt. Pleasant. Trident Health Systems recently completed its \$60 million expansion of its North Charleston hospital facility.

The center of energy in the region's medical arena is MUSC. The six schools and hospitals of MUSC collectively employ approximately 8,000 health professionals within the 6.3 million square feet of its 88 buildings on the 76-acre downtown Charleston campus. With an annual \$1 billion budget, MUSC annually 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 \$180.6 million in 2004. This 2004 research grant funding level was the highest ever recorded by a South Carolina higher education institution, and placed MUSC as 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.

Adopted at the close of the 1990s, 'Vision 2020' is a comprehensive capital facilities planning effort designed to take MUSC well into the future. Progress thus far includes completion of the seven-story Charles P. Darby Children's Research Institute, the College of Health Professions building, and the spacious new addition to the Ernest Hollings Cancer Center. Significant progress also occurred during 2005-2006 on the massive new three-phase MUSC hospital. In the planning stages is a bioengineering and patient-oriented research center building which will be known as the Center for Drug Discovery.

The Military. Despite the 1993 (Base Realignment and closure) (BRAC) decision to close much of the Charleston Naval Complex, the military still has a large annual economic impact in the Charleston region. Charleston is a model of joint-use and is a national strategic inter-modal transportation hub, with facilities that provide the nation with airlift, sealift, and pre-positioning capacity.

According to a 2005 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 \$1.9 billion, and the overall economic impact of the military presence tops \$4.4 billion annually.

In 2006 the U.S. Navy again became the area's single largest employer, with 16,200 uniformed, civilian and reservist employees located at the Navy Nuclear Power Training School, the Naval Hospital, the Space and Naval Warfare Systems Center (SPAWAR), and Naval Facilities Engineering Command.

During the 1993 (BRAC) process, Charleston gained the high tech SPAWAR facility an electronic engineering facility with 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 35 top-flight private sector contractors who have started businesses here with approximately 2,000 of their employees.

The Charleston Air Force Base hosts 8,428 uniformed, civilian and reservist employees. The base is home to the 437th Airlift Wing and its squadron of C-17 transport planes that are currently serving a vital supply



Charleston Air Force Base is home to the 437th Airlift Wing. The C-17 transport planes are a vital supply line to troops in Iraq and Afghanistan.

role to the military in Afghanistan and Iraq, and humanitarian efforts all over the globe. The expenditure of \$150 million in modernization at the base and the ongoing phasing in of 53 of the newer technology C17s, embodies a commitment by the U.S. Air Force toward the long-term strategic viability of the Charleston base.

In 2004, the Charleston region gained its newest federal establishment. The Federal Law Enforcement Training Facility, located on the former Naval Base, is training up to 2,000 students per year for the U.S. Coast Guard.

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

Many Charlestonians were relieved in the wake of the 2005 BRAC, having experienced in 1993 just how devastating these military draw-downs can be. The August 2005 BRAC news again involved some anxiety for the Charleston community, albeit on a much smaller scale than in 1993. Charleston is losing 1,121 jobs at four different area military facilities. Specifically, the BRAC decided that the Defense Financing and Accounting Center on the former Naval Base will be closed, affecting 360 area workers. The Naval Facilities Engineering Command's Southern Division was also ordered to close, affecting another 450 Charlestonians. The BRAC also decided to shift 264 positions from the Naval Weapons Station to commands or facilities in other states, and to trim the SPAWAR staff in Charleston with the transfer of 47 positions to Virginia.

Industrial and Service Companies. Pro-business government attitudes permeate the state of South Carolina and the Charleston region, where state commerce department officials work hand-in-hand with economic developers from Charleston County and its three largest municipalities. This team searches out national and international business prospects, facilitating their relocations and expansions.



The new Vought Aircraft Fuselage assembly building in North Charleston

Some of the services by the Charleston region to assist relocating and expanding 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 Workforce Investment Act (WIA) affiliated Trident One Stop Career Center, managed by Charleston County employees, offers continuous workforce training support to area businesses throughout their life cycles.



Equipment installation at the Vought Aircraft facility

Charleston County founded its Economic Development Office in 1993, and led the effort in 1995 to create the non-profit Charleston Regional Development Alliance. This latter group was tasked with marketing the tri-county area to industrial and business prospects, in collaboration with the economic developers of Berkeley, Charleston, and Dorchester counties.

Operating with a \$1.4 million annual budget, the Alliance hosts an award-winning web-site, performs editorial placement, targeted advertising, and other marketing functions, facilitates prospect visits to Charleston, and

searches for new prospects for the region during trade shows and agency visits to key national and international markets.

The Charleston region has experienced record levels of success in economic recruitment since 1995, when it commenced a unique tri-county collaborative program. From 1995 through the end of 2000, 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.

During the past 12 years, the efforts of these partners have led to many notable economic highlights.

Some of these highlights for Charleston County have included:

- Assisting relocating or expanding private firms in the creation of nearly 15,000 new jobs and the investment of more than \$2.5 billion within Charleston County;
- Placing Charleston County amongst the top ten of the state's 46 counties for capital investment and new job creation in nine of the past 12 years;
- Placing Charleston County first among the state's 46 counties in both capital investment and new job creation in 2004;
- Recording the largest private sector capital investment in Charleston tri-county area history in 2004, with the Vought Aircraft Industries \$560 million, 645-employee aircraft fabrication and integration complex, which will construct the Boeing 787 fuselage in Charleston County; and
- Recording the largest private sector job announcement in Charleston tri-county area history in 2004, with the announcement by Verizon Wireless of its 1,100 employee call center in Charleston County.

As a partner in the tri-county recruitment effort, Charleston County in 2004 embraced a recruitment strategy that centers on five key economic "fields":

- Aerospace and aviation;
- Automotive manufacturing and suppliers;
- Biotech, medical and pharmaceutical activities;
- Information technology and advanced security; and
- Internet, movie-making, architecture and urban design

The strategy was devised on behalf of the region by Angelou Economics, Inc. of Austin, TX, following six months of significant local input from area business leaders.

Aerospace and Aviation

The Vought Aircraft complex is an international collaboration in a sophisticated commercial aircraft which is already making history. The Boeing Company forecasts the future primacy of mid-sized commercial airliners as carriers increasingly depart from the hub-and-spoke model and offer flights between mid-sized cities. The Boeing 787 will be the first commercial aircraft ever constructed from carbon graphite composite materials, a super-strength, lighter-weight material with many fuel efficiency and maintenance advantages over conventional metals traditionally used in aviation.

If worldwide market response is an accurate indicator, the approximately 400 orders for the 787 which were placed by Boeing customers prior to the close of 2006, speak well for the future of this innovative aircraft.

International logistics are critical to a manufacturing team spread across three continents producing the Boeing 787, and Charleston's 8,500-foot runway and nearby ocean port access, (all linked by rail and interstate highways) made it a logical site for the aviation complex. Large, converted 747s, known as Large Cargo Freighters (LCFs), will deliver fuselage parts made in Nagoya, Japan and Grottaglie, Italy to the Charleston complex. Using these materials, Vought Aircraft Industries (Dallas, TX) will manufacture the fuselage, and Global Aeronautica (a joint venture of Vought and Alenia Aeronautica of Milan, Italy) will integrate the flooring systems and various other interior components. These finished fuselage sections will then travel via LCF to Everett, WA, where they will undergo final assembly, being united with the wings, tail, and nose cone sections.



A conceptual drawing of the new Boeing 787 commercial aircraft. In 2005, Vought Aircraft and Alenia Aeronautica announced their \$500 million investment in a state-of-the-art manufacturing facility in North Charleston that will produce Boeing 787 fuselages.

Since the February 2005 ground-breaking, work at the Vought Aircraft complex has proceeded in earnest. Vought held a building dedication ceremony for the fabrication building in July 2006, and Global Aeronautica plans to christen its new integration building in a similar ceremony before the end of 2006. A training center building opened in 2005, and is now a beehive of recruitment, hiring and workforce training. Work continues urgently on additional ancillary buildings and a taxiway. The first LCF will land in Charleston during the first quarter of 2007, carrying the first materials to the plants as they begin their first fuselage work.

Automotive Manufacturing

Charleston County ended 2005 with another economic bang, with the announcement that Daimler-Chrysler would locate its Sprinter van assembly plant in North Charleston. Beginning with its initial phase of 200 workers in 2006, the facility could eventually grow to a full automotive original equipment manufacturer (OEM) facility, encompassing over \$400 million in additional capital investment and creating over 1,200 additional jobs.

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, Vought Aircraft, Alenia Aeronautica, Boeing and Daimler Chrysler. Manufacturing positions in the area are increasingly demanding a highly skilled workforce, as typified by the precision aerospace work being performed at Boeing, Vought/Alenia, Eaton Aerospace or SKF Aerobearing; the engineering work in assembling Sprinter vans at Daimler-Chrysler; the complex science involved in the contract production of new pharmaceuticals at aaiPharma; and the "rocket science" involved in the cutting edge electronic engineering at Scientific Research Corporation, Inc. as it fulfills its SPAWAR contract work and meets the needs of the modern U.S. military.

Biotech, Medical & Pharmaceutical Activities

Emerging biotech in Charleston are characterized by firms like Charles River Endosafe, which utilizes a portion of the blood of Atlantic horseshoe crabs to create the pharmaceutical industry's "gold standard" diagnostic agent for toxins in injectible drugs. Gen Phar, which first pioneered an HIV detection kit for hospital use, retains ties to MUSC, where its founder first conducted research. It most recently created a vaccine geared at immunizing U.S. troops from the deadly Marburg and Ebola viruses. An innovative air mattress technology for burn victims' hospital beds also emerged from MUSC scientists' discoveries. This product became a lucrative market niche for Indiana-based Hill-Rom, Inc., a Hillenbrand company which maintains its assembly operation in North Charleston.

Information Technology and Advanced Security

Information technology companies are also a burgeoning sector in Charleston, anchored by nationally known companies such as Scientific Applications International Corporation (SAIC), BAE Systems, and many others servicing their SPAWAR accounts. But there are also the Charleston "home-grown" IT firms. Blackbaud grew in Charleston from less than 30 to well over 700 employees as their private sector non-profit fund-raising software became their industry's "gold standard." Founded in Charleston, Automated Trading Desk, Inc., now trades 4% of the NASDAQ volume on a daily basis on lightning fast computer terminals from its \$30 million state-of-the-art complex in suburban Mount Pleasant.

"Creative Cluster"

Charleston has been a magnet for a growing list of small Internet-related companies, architecture and urban design firms, and movie-making expertise. Downtown Charleston boasts a treasure trove of well-preserved 18th and 19th century architecture that is a timeless laboratory for young urban design practitioners. Clemson University will soon break ground on an architecture center in downtown Charleston, and the Center for the Building Arts has provided a training school for craftsmen involved in structural restoration. South Carolina improved its financial incentives offerings for movie-makers in 2006, hoping to attract yet more television and motion picture shoots to Charleston and other statewide locales.

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 that has been deliberately and carefully protected.

Charleston has a 336-year history, and is widely acknowledged to be among the world's leaders in the area of historic preservation. The well-preserved 18th and 19th century homes and commercial buildings in downtown Charleston are a testament to this passion. Sight-seeing in historic downtown is a favorite for tourists, whether traveling the 'Holy City' (a moniker based on its myriad churches and synagogues) on foot, in passenger vans, or in horse-drawn carriages. But far from being a staid museum-like experience, the visitor to Charleston is struck by the busy streets of a vibrant city, filled with tourists and locals dining and enjoying entertainment well into the night.

Charleston is a medium-size city with big-city arts attractions. 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 more than 70 arts and cultural organizations, including a seasonal symphony orchestra, museums, 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 134 schools with a total of 88,760 students. A variety of learning styles are accommodated and a diverse subject matter available through excellent magnet and charter schools geared to advanced academic studies, the creative arts, technology and other key pursuits. The Charleston area also hosts 65 private and parochial schools that enroll a total of 11,000 students.



Rainbow Row is located in Charleston's downtown historic district. Charleston is a world leader in historic preservation.

There are 22 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 (11,407 students), The College of Charleston (11,332 students), The Citadel (3,386 students), Charleston Southern University (3,022 students) and the Medical University of South Carolina (2,298 students). In 2004, the area's post-secondary educational options were increased by the creation of the Charleston School of Law, the second law school in the state.

Sports are an important part of the Charleston social landscape in a town where the median age is 34. Sports are big business, contributing \$66.4 million annually to the regional economy and employing nearly 1,200 people.

Some of the mainstays of this vibrant sports scene include:

- Professional baseball at Joseph P. Riley Stadium, with Class A Charleston RiverDogs
- Professional soccer at Blackbaud Stadium with the Charleston Battery
- Professional hockey at the North Charleston Coliseum with the East Coast Hockey league S.C. Stingrays
- Collegiate sports at The Citadel (Southern Conference), The College of Charleston (Southern Conference), and Charleston Southern University (Big South Conference)
- Family Circle Cup professional women's tennis tournament, with its 10,000 seat stadium
- Over 30 golf courses, including the fabled Ocean Course at Kiawah Island, scene of the 1991 Ryder Cup, the 1997 and 2003 World Cup of Golf, the 2002 UBS Warburg event, and future site for the 2007 Senior PGA Championship, and the 2012 PGA championship

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 are maintained by the Charleston County

Park and Recreation Commission, which serves all corners of the tri-county region, offers opportunities for picnicking, jogging, skating, boating, canoeing, kayaking, swimming in the water parks, or surfing at three oceanfront parks. The most recent additions include the Caw Caw Interpretive Center in Ravenel, the regional Wannamaker Park in North Charleston, as well as plans for an equestrian-oriented park on Johns Island. In short, there's something for everyone. In addition, the Commission has been named by County Council as the body to expend \$36 million of General Obligation Bonds issued in 2006, to purchase land for additional parks. These Bonds will be retired with proceeds from the Transportation Sales Tax.

Competitive Posture. Charleston has won numerous accolades in recent years from respected business organizations, associations, and publications:

- Five-Star Knowledge Worker Metros, *Expansion Management*, May 2006
- Top U.S. Cities For Doing Business, *Inc. Magazine*, May 2006
- Mid-Sized Markets with Highly Diverse Economies, *Southern Business & Development*, Winter 2006
- Best Performing Cities, Milken Institute, February 2006
- America's 50 Hottest Cities, *Expansion Management*, January/February 2006
- Top Logistics Metros in the U.S., *Expansion Management*, September 2005
- Hot Cities for Entrepreneurs, *Entrepreneur*, October 2005
- New American Dream Towns, *Outside*, August 2005
- Most Unwired Cities, Intel Corporation, July 2005
- Top Arts Destinations, *American Style*, June 2005

Many of the Charleston competitive advantages were discussed previously, including the international logistics of the Port and the Charleston Airport, the presence of key military installations, MUSC, SPAWAR, the booming tourism sector, productive workers, an award-winning training program, and the numerous educational, cultural and recreational opportunities all of which contribute to making the Charleston area one of the Nation's most desirable places to live.

The Charleston region also offers a sizeable commercial real estate portfolio for a mid-sized market. According to estimates by the U.S. Census Bureau and the S.C. Budget and Control Board, the tri-county Charleston SMSA (Standard Metropolitan Statistical Area) had grown to 583,434 persons by 2004. These agencies forecast that the region will continue to grow to 613,470 persons by 2010. This estimate may in fact be conservative given the more than 135,000 new housing units which had been permitted across the region by the close of 2006. This strong residential growth, along with a record number of tourists, has spawned growth of the retail sector, along with the corresponding inventory of retail space.



Grand opening of the Tanger Outlet Mall featuring guest speaker Lauren Hutton

By the close of 2005, the region had exceeded 12.5 million sq. ft. of retail inventory, including an array of regional malls, the downtown Charleston central business district (CBD), and numerous suburban strip centers. The occupancy rate for the downtown CBD was nearly 97%, with 98% in area malls, and 91% in suburban centers. With the expansion trend in play, top of the market average rates prevailed, ranging from \$25.59 per sq. ft. downtown, to \$17.45 in the malls and \$13.65 within suburban centers.

Among the 2 million sq. ft. that has been added during 2005 through 2006 is the 400,000 sq. ft. Tanger Outlet Mall in North Charleston, which opened in the summer of 2006.

Impressive plans are in motion in Mt. Pleasant, where the Market at Oakland will feature some 425,000 sq. ft. in retail space, along with an 188,000 sq. ft. Wal-Mart Supercenter. Downtown Charleston will experience redevelopment of one of its prominent corners, at Calhoun and King Street opposite Marion Square, which will be transformed during 2007 into a multi-use retail and condo development.

In mid-2006, data compiled by Colliers Keenan indicated that regional inventory had expanded to 14.5 million sq. ft. - a 16% increase over 2005. Occupancy in downtown grew to nearly 99% by mid-year, while it fell slightly to 95% in the malls and to 87% in the suburbs. Average rent held constant at 2005 levels in downtown Charleston space, the malls, and the suburbs, despite the infusion of new space.

Since 2000, in the Charleston area there has been a more than 50% increase in the inventory of available office space. The Charleston office space inventory grew at a pace of 6% between 2004 and 2005, from previous 7.6 million sq. ft. to 8 million sq. ft. Vacancy in 2004 had averaged 13%, but was 11% at the close of 2005. At the close of 2005, the average rate for all office space across the Charleston region was \$19.66 per sq. ft., and \$25.29 per sq. ft. for Class A space.

The Charleston office market was growing at a similar pace in mid-2006, with the 8.2 million sq. ft. of inventory representing a 3% increase from the 2005 year-end total. Vacancy had gone down slightly (10.5%), along with the regional average rate for all office space of \$19.12 sq. ft., and the Class A space rate of \$23.15.

The year 2005 was a "banner year", according to Colliers-Keenan, characterized by record sales and lease prices. The construction of speculative product was another by-product, initiated in response to the low vacancy rates the region faced by mid-year 2006. Service companies, banks, and defense contractors fueled the demand. All told, a 25% increase in the region's office space will occur as some 2 million sq. ft. in proposed space begins taking shape. A sampling of the new projects includes three now under construction: Holder Properties (105,000 sq. ft.) in lower North Charleston, Offices at Belle Hall in Mt. Pleasant (80,000 sq. ft.) at I-526/Longpoint Rd. and benefitfocus.com (150,000 sq. ft.) on Daniel Island.

Charleston boasts an extensive array of existing manufacturing, warehouse, flex space and business park options spread across the urban area. The year 2005 was characterized by great absorption, according to Colliers Keenan, creating demand for new product and driving land prices and development further away from the urban core.

Port-related third-party logistics and bulk warehouse operations such as Shimano and Fruit-of-the-Loom relocated to the area or expanded, as East Coast ports continued to reap dividends from the vast volume of Chinese and other Asian imports and the growing difficulty of shippers moving cargo feasibly through West Coast Ports.



Display Table for Shimano Distribution Center

Growing inventory, decreasing vacancy, and stiffening rates have characterized 2006. Space grew by 2.5 million sq. ft. (11%) from the close of 2005 through mid-year 2006, moving from 20.8 million to 23 million sq. ft. Bulk warehouses, accounting for nearly two-thirds of all space, had a vacancy rate of 6.6%, with an average lease rate of \$3.63 per sq. ft. There was a similar vacancy rate amongst the approximately 5.5 million sq. ft. of distribution space, available at \$4.19 per sq. ft. Flex space supply and demand was even tighter, driven by expanding SPAWAR contractors, with a vacancy rate of only 4% amongst the 2.7 million sq. ft. inventory. New industrial product was proposed or under construction in Summerville, Hanahan, and North Charleston during 2005 through 2006, including two speculative buildings of 148,000 sq. ft. and 315,000 sq. ft., respectively.

MAJOR COUNTY INITIATIVES

Charleston County's initiatives in fiscal year 2006 focused on enhancing the value of services provided to our citizens, partnering with municipal governments, encouraging economic development, and continuing with an extensive facilities improvement and replacement program.

Financial. In order to give some financial relief on property taxes, County Council approved a 15% reassessment cap ordinance in November of 2000. This ordinance limited the growth in the assessed value of property taxed at a rate of 4%, to a 15% increase. The state-mandated reassessment was implemented in February of 2001. However, the application of the 15% reassessment cap to only 4% property was challenged in court. In May of 2002, the State Supreme Court ruled that the County's reassessment cap ordinance was invalid. Some 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. But the State Supreme Court ordered that administrative remedies should be pursued for the refunds. Refund applications were mailed to applicable taxpayers on October 6, 2004. Per the Supreme Court order, the deadline for filing an application was set at January 15, 2005. The refund process is now nearing an end. As of September 30 2005, Charleston County had processed refunds totaling \$9,657,016 to local property owners and at June 30, 2006, any remaining liability was closed out to current year taxes collected.

In November of 2004, Charleston County voters approved an additional one-half percent (a half-cent on every dollar) sales tax to be levied. This Transportation Sales Tax was implemented in May of 2005, and will continue "for no more than 25 years or until \$1.3 billion is generated, whichever occurs first." The County also received referendum approval to issue General Obligation Bonds totaling \$113 million for roads and greenbelt projects. Some of 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 Arthur Ravenel, Jr. Bridge was completed by the South Carolina Department of Transportation, and opened to traffic in July of 2005. The week-long community celebration of the bridge opening included public walking days, a \$200/ticket symphony concert on the bridge, and a ceremony with dignitary guest speakers, and culminated in a spectacular fireworks display that was the largest ever seen in South Carolina.

The opening ceremonies were funded completely by donations. Additional funds from the Transportation Sales Tax will be used for roads and mass transit, and for greenbelts such as farm, forestland, trails and open space protection.

Partnerships. The County partnered with the City of Charleston and Berkeley County to construct the Daniel Island Tennis Center. Charleston County Council committed to fund \$750,000 of the project through 15 annual payments of \$50,000 each from Accommodations Fee revenues. This \$9.3 million facility was completed in March of 2001, and serves as the new home of the annual Family Circle Cup Women's Tennis Tournament, which was previously held on Hilton Head Island. 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 through various year-round events.

Road improvements and maintenance are an essential service that the County provides to all its citizens, regardless of municipal boundaries. During fiscal year 2006, the Charleston County's Public Works Department managed more than \$7.9 million in 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 completed its eighth year in business in 2006. 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. 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 addition to assisting the citizens of the area, the center works very closely with the industries that have been recruited through the Trident Area's economic development efforts to provide trained employees.

In December of 2002, Charleston County Council authorized the renovation of floor space in the Charleston Center (Department of Alcohol and Other Drug Abuse Services) 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 relocation helps address problems in the emergency rooms with patients who are intoxicated and may be 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.

Capital Projects. Consistent with the Charleston County's Capital Improvement Plan, which includes both new construction and renovation to provide better, more efficient service to residents, a number of projects were started during the year including two additional Emergency Medical Service stations.

The primary project started during the year was the replacement of the majority of the mobile radios owned by the County, along with replacement of most of the equipment in the radio towers. It is expected that this project will be completed in the first quarter of calendar year 2007. Additionally Information Technology replaced a number of systems.

Regional Medical Cooperation. The Emergency Medical Services (EMS) departments of Charleston, Berkeley and Dorchester Counties received multiple awards from the South Carolina Association of Counties and *The Charleston Regional Business Journal* for working together and developing an approach to cardiac care that is reducing the disability and death associated with heart attacks. The three county systems worked on the idea that if they could fax a diagnostic-capable EKG, taken in the field by paramedics, to emergency rooms via a cell phone, hospitals could prepare the catheterization lab prior to a patient's arrival. As a result of the project, chest pain patients who are confirmed to be having a heart attack are seeing the time between their arrival at the hospital emergency room and entering the catheterization lab reduced by 85%.

No tax dollars were used in the purchase of over \$70,000 worth of technology used for the EKG project. A grant from the Medical Society of South Carolina purchased the equipment. The Roper St. Francis Hospital System, Medical University of South Carolina, East Cooper Hospital, and Trident Health Care Systems contributed to the success of the counties' project.

Flood Insurance Program. As Charleston is a coastal community, Charleston County has participated in the federal government's Community Rating System (CRS) since 1995. This year the County received notice that its CRS rating increased to 5, meaning that residents living in the unincorporated areas (over which the County's Building Services department exercises authority) now receive an automatic 25% discount on flood insurance premiums. This translates into an approximate \$130 saving per year.

Charleston County is one of only 27 communities in the United States that have obtained the elite Class 5 rating. Only three communities in the nation have a better rating than Charleston County's Class 5.

Technology. In a first for the County, in April of 2005 the Magistrates' Courts began using videoconferencing in a remote location to accept guilty pleas for defendants housed at the Charleston

County Detention Center. This technological advancement expedited releases from the jail, reduced staffhandling of detainees, saved fuel and other transportation costs, and served as a positive demonstration for potential future use by courts of even larger jurisdiction.

Following last year's installation of "ruggedized" laptop computers in ambulances, this year Charleston County's EMS implemented new billing software and billing procedures to improve collections. The new system reduced billing from 15 to 30 days to 5 days, reduced Medicare rejections, and increased addressing accuracy. The net effect was a 41% increase in collections.

Safety. Following last year's successful campaign to reduce back injuries, Charleston County's Safety and Risk Management Department initiated an emphasis on reducing slips and falls. Through a combination of education and awareness, monitoring and feedback, specialized equipment, and improved maintenance procedures, a 21% reduction in slip-and-fall injuries and a 30% reduction in lost work days was realized within the County employee workforce.

Recycling. Between 1990 and 2000, the Latino population has more than tripled in South Carolina, and according to the latest U.S. Census Bureau population estimates, the total Latino population in Charleston County has risen 7% from 2000 to 2003. Several departments, including Solid Waste and Recycling, and Charleston Center (Department of Alcohol and Other Drug Abuse Services), have trained employees in conversational Spanish, reflecting the need to serve the county's growing Latino population. Most Latinos that have recently moved to the Lowcountry are not familiar with recycling programs, or did not have recycling programs in place at home. With this in mind, the Solid Waste and Recycling Department launched an innovative new commercial, spoken entirely in Spanish with English subtitles. The commercial is not only airing on the local Latino TV stations, but across all local affiliate stations.

To increase household recycling participation in established neighborhoods around the county, a subdivision-by-subdivision program was implemented. Staff worked with homeowners' associations, attended community meetings, designed and put up signs, and distributed new recycling bins. This proactive measure has resulted in four- and five-fold increases in participation rates. Similarly, in new in-fill subdivisions, a concerted effort to raise recycling awareness has been successful.

Transportation Sales Tax. Following the passage of the Transportation Sales Tax in November of 2004, implementation of the road construction, greenbelt, and transit programs the tax was intended to fund began in earnest in FY 2006. Two citizen advisory boards, the Transportation Advisory Board and the Greenbelt Advisory Board, both completed their comprehensive plans and submitted them to County Council.

The County's Public Works department adopted the *RoadWise* program name for the highways and drainage component. By June 15, 2006, local road projects, dubbed the Quick Start program, were completed. Groundbreaking on Palmetto Commerce Parkway in North Charleston occurred in the Spring. This project became part of a County incentive package that successfully encouraged DaimlerChrysler to locate its Sprinter van assembly plant here. Most impressively, the County leveraged the \$847 million 25-year cash flow the Transportation Sales Tax represented into three separate state and federal grants totaling \$503 million dollars, increasing by almost 50% the amount of money available for road construction in the county.

While the Comprehensive Greenbelt Plan was being developed, the County issued \$36 million of voter approved debt to permit the Charleston County Park and Recreation Commission to begin its Transportation Sales Tax-related acquisition of future parkland.

FINANCIAL INFORMATION

Cash Management. Cash that was 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 4.18% for the year ending June 30, 2006.

Charleston 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 \$149,905,492 million at June 30, 2006, 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 79.

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, including 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 107.

Pension and Other Post Employment Benefits. Charleston County participates in the State of South Carolina Retirement System. All permanent County employees 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 115 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 is shown in Note IV.G. of the notes to financial statements starting on page 115.

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 2005, 18 years in total.

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 that Charleston County's 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 17 fiscal years starting July 1, 1989 through 2005. 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 award for the year starting July 1, 2005, included a "Special Performance Measures Recognition".

The timely preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Charleston County's Controller's Office. Special thanks go to the team headed by Carla Creech, who with the assistance of Dolores Dong, Scott Bartley, Kathleen Durham and Daryl Brigman of the Controller's Office produced the Comprehensive Annual Financial Report, and coordinated the audit with the external auditors. Substantial contributions were also made by several financial staffs throughout the County: Mack Gile and Catherine Ksenzak 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 and Jeanette Williams from Grants Administration; and Bill Turner from the Public Works Department. Much appreciation also goes to Cynthia Meadows of the Controller's Office who prepared the financial notes, this letter, and 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 Dixon Hughes PLLC, the external auditors, for their efforts in producing this Comprehensive Annual Financial Report.

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

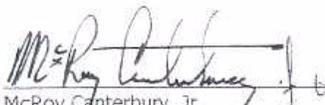
McRoy Canterbury, Jr.
Charleston County Administrator

Corine Altenhein
Charleston County Chief Financial Officer

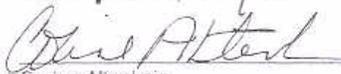
Harold L. Bisbee
Charleston County Controller

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McRoy Canterbury, Jr.
Charleston County Administrator



Corine Altenhein
Charleston County Chief Financial Officer



Harold L. Bisbee
Charleston County Controller