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To the members of County Council and the citizens of Charleston County, South Carolina:

State law requires that all general-purpose local governments publish at the close of each fiscal year a complete set of financial statements, presented in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to this requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) for Charleston County, South Carolina, for the fiscal year ending June 30, 2007.

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, 2007, 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, 2007, 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 Consolidated Fire District, the East Cooper Fire District, the West St. Andrew's Fire District, and Northern Charleston County 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 billing, 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 garages 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 64.

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 47-49 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. Charleston County's economic base is diversified and growing. The economy has gone through a significant shift in the past two decades from a military dependent economy to a more diversified economy that is stimulated by four distinct economic engines:

- The tourism industry, experiencing quantum growth in recent years, expanding the tourist season to be virtually year-round.
- The Port of Charleston, fueling the manufacturing and supply chain sectors in Charleston, statewide, and around the nation.
- The medical industry, focused around the Medical University of South Carolina (MUSC), the State's teaching hospital.
- The military, with significant Air Force, Navy, Army, and Coast Guard facilities in Charleston.

The history, quality of life, and culture of the area have also continued to attract new residents, which has in turn encouraged the real estate and development industries.

Biotech research at MUSC has generated many new emerging technology companies in the area and key federal and state research institutions. These new facilities are: NOAA Southeast Coastal Center, the Hollings Marine Laboratory, and the Clemson University Extension Vegetable Research Center have propelled Charleston County into a bustling and varied research hub.

Recent Economic Indicators. General economic indicators for 2006 were reported by the Charleston Metro Chamber Economic Outlook Board in March of 2007. Highlights are as follows:

Population-

The Charleston metro area population increased by over 8 percent, 506,875 to 549,033 persons, in the decade from 1990 to 2000. The U.S. Census Bureau estimates the 2006 population in the metro area to be 603,178, meaning that the percentage growth from 2000 to 2006 has been 9.9 percent. The percentage growth is significant as it surpasses the State of South Carolina's growth (7 percent) and the United States' growth (6.4 percent) during the same period. It is estimated that the area will be home to 623,680 people by the year 2010.

Labor Force & Employment-

Since the Naval Base closed in 1995, the civilian labor force in the Charleston region has grown by almost 28 percent, from 245,940 to 314,480 persons as of September 2007. The Metro Chamber of Commerce's Economic Outlook Board reported that total employment grew by 7,934 jobs in 2006, for an increase of 2.8 percent, which is close to double the national average. Labor force and employment are forecasted to grow at the same rate of just over 3 percent per year, keeping the unemployment rate stable at around 5 percent. As of September 2007, the Charleston region is experiencing 4.7 percent unemployment, compared to the state of South Carolina at 5.7 percent.

Housing-

A total of 9,181 new residential permits were issued in the Charleston region in 2006, which was a decline of 15 percent compared to the record-breaking 2005 year. In spite of the decline, 2006 marked

the second best year for the residential real estate industry. The average sales price of all homes sold increased from \$278,461 in 2005 to \$292,056 in 2006 – a 5 percent increase. The housing market is expected to continue to expand with 10,000 new residential permits forecasted for both 2007 and 2008.

Retail Sales-

Total retail sales for the Charleston area topped \$18 billion in 2006, setting a record with an increase of 10.6 percent from 2005. The August 2006 opening of the new Tanger Outlet Mall in the North Charleston area, along with the many retailers that have since opened doors around it, helped propel retail sales to record levels. Retail sales are expected to grow at 7 percent in 2007 and 2008.

Visitor Industry-

The Charleston region attracted over four million visitors in 2006, generating an economic impact of \$5.3 billion. Hotel occupancy rates were 72.5 percent for the year, and the average daily rate for lodging increased 8 percent from 2005 up to \$139 per night. Attendance rates at area attractions have remained flat over the past few years as the profile of visitors to the Charleston region has shifted. Many of the region's visitors are now largely repeat visitors coming to shop and dine in the area several times a year. AirTran Airways announced in February 2007 that it would offer four reduced fare flights per day to and from Charleston. With this announcement, air travel volume is expected to increase by 15 percent in 2007, and an additional 2 percent in 2008.



Port Activity-

In 2006, the Port of Charleston was ranked fourth on the list of busiest U.S. East Coast container ports. It is consistently recognized as one of the nation's most efficient and productive ports. In fiscal year 2007, the Port of Charleston handled 1.88 million TEUs (twenty foot equivalent cargo containers). The Charleston break-bulk cargo totaled 588,100 tons. Port activity is expected to rise over the next decade, largely due to the new container terminal currently under construction on the former Navy base. The State Ports Authority broke ground on the new terminal in May 2007 and hopes to open it in 2013.

Airport Activity-

Airport activity declined slightly in 2006 as a result of the bankruptcy of low-cost carrier Independence Air in early 2006. However, airport activity for 2007 is projected to increase 15 percent to a total of 2.15 million combined enplanements and deplanements. The arrival of AirTran Airways in May 2007 figures to factor heavily into the increase in the airport's activity.

BRIEF SECTOR PROFILES

Visitor Industry. Tourism has long been an economic mainstay in one of America's most photogenic and historic cities. In the 1990's this sector soared, recording visitation and earnings once thought impossible. Charleston recorded over four million visitors in 2006, providing an economic impact of \$5.3 billion to the local economy. The hospitality industry directly employs 29,356 people in Charleston County, accounting for 14.5 percent of the workforce. When direct and indirect employment from the hospitality industry is combined, the total employed balloons to over 50,000.

Charleston hoteliers have widely expanded the regional room inventory and range of choices in the past decade. Current regional inventory of hotel rooms stood at 15,450 at the end of 2006, with 13,831 of those rooms located in Charleston County. In addition, over 3,500 new rooms have been proposed or are currently under construction, which will increase the inventory by 25 percent. Included in the list of new hotels will be a new 185-room Hilton on the edge of Marion Square in downtown Charleston, as well as a 136-room hotel by the Starwood Family of hotels near the Charleston Area Convention Center. Like the Hilton and Starwood hotels, the majority of the new hotels will be in the downtown/peninsula area or in the area surrounding the Charleston International Airport and Charleston Area Convention Center, which has seen strong growth in the past two years.

The hotel industry is not only seeing growth in the number of rooms available in the Charleston area, but it is also seeing an increase in occupancy rates and average daily rates. Occupancy has risen significantly since the lower travel years following 9/11 terrorist attacks to its current average of 72.5 percent. The average daily rates have also steadily climbed to the current 2007 level of \$144 per day, which is expected to rise to \$152 per day by 2008.

Complementing this lodging growth, in 1997 Charleston County partnered with the City of North Charleston on the \$37 million Charleston Area Convention Center Complex, which is made up of a 160,000 square foot convention facility, a Performing Arts Center, and a 14,000 seat coliseum. These facilities have been host to numerous high profile events including industry trade shows, conferences, Broadway plays, and concerts featuring Grammy Award-winning artists.

The past few years have seen the emergence of a new facet to Charleston's tourism market – the cruise ship industry. For many years ships made calls into the Charleston area sporadically, but the trend toward marketing to passengers within driving distance of smaller terminals has allowed Charleston to siphon off some of the lucrative business typically staged from Florida. The State Ports Authority (SPA) announced in November 2007 that it had signed a new contract with Norwegian Cruise Line that will bring 36 Norwegian ships to the Charleston port a year, which is an increase of nine ships over the previous season's totals. The agreement guarantees a minimum of 105,000 passengers, most of who will shop and dine in the Market Street area. The SPA predicts record-setting numbers this year for the fall through spring cruise season. Five other cruise lines are scheduled to visit Charleston as a port of call, though Norwegian is the only cruise line with an SPA contract.

Restaurants in Charleston multiply and flourish, nourished by a constant flow of aspiring and accomplished chefs coupled with an increasingly affluent Charleston visitor. *The New York Times*, *Southern Living*, *Bon Appetit*, and *Wine Spectator* have all praised area restaurants where seafood, nouvelle, and southern cooking predominate in the over 100 restaurants in downtown Charleston alone. The average Charleston visitor is well acquainted with these wonderful restaurants, as they spent an average of \$235 per day in 2006 on food, accommodations, local attractions, shopping, and other entertainment.

The Port. The Port of Charleston is currently ranked fourth as the busiest port of the U.S. East Coast, dropping from its previous ranking of second. Port volume is expected to increase in the coming years due to the April 2007 announcement that the State Ports Authority (SPA) received permits for a new three-berth, 280-acre marine terminal at the former Charleston Naval Base. Work is already underway at the new facility and the first phase of the terminal is expected to open in six years.

The Charleston customs district ranks as the nation's sixth largest in dollar value of international shipments, with the Port of Charleston's cargo valued at more than \$55 billion annually. Top commodities that pass through Charleston docks include consumer goods, agricultural products, metals, machinery, vehicles, chemicals and clay products. Charleston's five port facilities, located close to the open ocean for fast turnarounds, consist of two container ports, two break-bulk ports, and one container and break-bulk port.

The \$148 million Charleston harbor deepening project completed in 2004 took the inner harbor channel to -45 feet at mean low water. In 2005, the Arthur Ravenel Bridge spanning the Cooper River was completed, and with 186 feet of vertical clearance at mean high water, it allows Charleston to handle larger vessels under any tidal condition. The SPA's fiscal year 2008 capital improvement program calls



Colleen Condon participates in the groundbreaking ceremony of the port expansion.

for \$128.7 million in enhancements and equipment for new and existing facilities.

The SPA, which operates the Port of Charleston, employs approximately 600 people. International trade through the SPA's facilities provides 281,660 jobs paying \$9.4 billion in wages to South Carolinians. In all, trade pumps \$23 billion into the state economy and generates \$2.5 billion in state and local taxes.

The Medical Industry. The region's medical industry is anchored by the State's teaching hospital, the Medical University of South Carolina (MUSC), and accounts for over 10 percent of the area's total employment. The majority of the employment currently exists in five private regional hospitals, MUSC, Charleston Memorial Hospital, and the Ralph H. Johnson VA Medical Center, along with the hundreds of general practitioners, dentists, and medical specialists in the region.

The center of energy in the region's medical arena is MUSC. It is made up of six colleges: College of Medicine, College of Pharmacy, College of Nursing, College of Graduate Studies, College of Dental Medicine, and College of Health Professions. These colleges give students a variety of options and gives the region a talented group of new medical professionals every year. Enrollment in the six colleges collectively stands at 2,498, with over 1,000 faculty members being employed. In fiscal year 2007, MUSC received \$190 million in research funding.

MUSC established one of the first infirmaries specifically for teaching purposes in 1834, which is now known as the MUSC Medical Center. This comprehensive facility is now comprised of three separate hospitals: the University Hospital, the Institute of Psychiatry, and the Children's Hospital. The Medical Center includes centers for specialized care: Heart Center, Transplantation Center, Hollings Cancer Center, Digestive Diseases Center, Storm Eye Institute. Numerous outpatient facilities include the Family Medicine Center and affiliated faculty practice ambulatory care centers. Among the programs that have earned distinguished reputations at the Medical University of South Carolina are: neuroscience, substance abuse, cardiovascular medicine, drug sciences, prenatal medicine, ophthalmology, hearing loss, genetics, rheumatology, and cancer care.

In 2007, the MUSC Medical Center will complete a 156 bed, 641,000 square foot expansion of its medical center. This additional facility will allow the institution to continue providing a growing and aging patient population with the most advanced care available anywhere. Scheduled for completion over the next several years are the Phase I Replacement Hospital with 156 beds, the new James B. Edwards College of Dental Medicine Clinical Education Building, and a new Bee Street Parking Garage. A Drug Discovery Building is already in the design phase, and approvals are expected soon for a Bioengineering Building in collaboration with the University of South Carolina and Clemson University.

Several of the private hospitals are also currently in a growth mode. Roper St. Francis Healthcare, a non-profit hospital group, is currently planning a new hospital in the Mt. Pleasant area. The 250,000 sq. ft. facility will be located on 78 acres of land at the intersection of Highway 17 North and Faison (Airport) Road in the Carolina Park Development adjacent to Wando High School in northern Mount Pleasant. The new hospital will include 85 inpatient beds, 24 hour emergency care, Women's Services including high-tech and comfortable Labor & Delivery Suites, inpatient and outpatient surgery, Intensive and Critical Care Units, and imaging, laboratory and pharmacy. East Cooper Regional Medical Center is also planning to build a new hospital in Mt. Pleasant to replace its existing facility. The new hospital will cost \$160 million to build, and it will be equipped with 140 beds. Along with the additional bed space, the new hospital brings 200 more jobs in addition to the over 600 that East Cooper currently provides.

The Military. Despite the 1993 decision to close most of the Charleston Naval Complex, the military still makes a large annual economic impact in the Charleston region. There are 22,000 active-duty, reserve personnel, civilians, and civilian contractors employed in the region by the area's defense facilities. In total, the military provides an annual economic impact on the Charleston region estimated at \$3.4 billion.

The Charleston Air Force Base is home to 437th Airlift along with 6,100 (airbase) employees and over 50 C-17 aircraft. The C-17s are currently serving a vital supply role to the military in both Afghanistan and

Iraq. The Charleston Naval Weapons Station is another of the larger military facilities in the area, employing 11,000 people in over 40 separate commands.

The Space and Naval Warfare Systems Center Charleston (SPAWAR) is a high technology, engineering facility that designs, builds, tests, fields, and supports the Navy as well as other federal customers. The facility employs over 2,400 Civil Service employees with an average salary of \$75,678 and supports an estimated 80 local defense contractors operating in the region, which employ 9,000 contractor employees. SPAWAR awarded \$2.1 billion in contract orders in fiscal year 2006.

Other facilities include the Nuclear Power Training Command and Nuclear Power Training Unit, which are both state-of-the-art nuclear power schools that graduate over 2,000 students each year. The Army's Combat Equipment Group Afloat and Surface Deployment Distribution Commands 841st Transportation Battalion both transport equipment to support the war efforts. The US Coast Guard and Federal Law Enforcement Training Center also operate facilities in the region.

Industrial and Service Companies. The Charleston region has experienced record levels of success in economic recruitment since 1995, when it commenced a unique tri-county collaborative industry recruitment program. Through the end of 2006, over \$6.7 billion in corporate and industrial capital investment was recorded and some 28,597 new primary jobs were created throughout the tri-county region. Of this total, Charleston County boasted \$2.5 billion and 15,000 new jobs, placing on the state's top performing counties list nine times, and recording the single largest private sector job announcement in tri-county history (Verizon Wireless, 2004, 1,200 new employees). In 2007 the trend continued as the Charleston region was ranked 12th on the Milken Institute's "Best Performing Cities" list, with its job growth 7 percent ahead of the U.S. average.

Pro-business government attitudes permeate through the State of South Carolina and the Charleston region, where state commerce department officials work hand-in-hand with economic developers from the Charleston Regional Development Alliance, Charleston County and its three largest municipalities: City of Charleston, City of North Charleston, and Town of Mt. Pleasant. This team searches out national and international business prospects, facilitating their relocations and expansions. State and local financial incentives are strategically utilized to leverage private sector relocation and expansion decisions. A key incentive among these is the customized, turn-key workforce training available from the state's Center for Accelerated Technology Training, the oldest and most well regarded program of its kind in the U.S.

Charleston County in 2004 embraced a recruitment strategy that centers on five key economic clusters:

- Aerospace and Aviation
- Automotive Manufacturing and Suppliers
- Biotech, Medical and Pharmaceutical Activities
- Information Technology and Advanced Security
- The Creative Cluster of Internet, Movie-Making, Architecture and Urban Design-Related Activities

Aerospace and Aviation-

Recently opened for business at the Charleston International Airport, the Vought aircraft complex is an international collaboration on a cutting edge commercial aircraft which is already making history. The Boeing 787 will be the first commercial aircraft ever constructed from carbon graphite composite materials. They are a super-strength, light-weight material with many fuel efficiency and maintenance advantages over conventional metals traditionally used in aviation. Worldwide market response has been robust, with over 464 orders in place for the 787 by March 2007. This success in fact, has fueled speculation that Boeing may boost production from 7 to 10 planes per month.



During May 2007, Vought Aircraft Industries (Dallas, TX) fabricated its first aft fuselage for the 787, and Global Aeronautica (a joint venture of Vought and Alenia Aeronautica of Milan, Italy) integrated the flooring systems and various other interior components. The finished fuselage sections are being shipped via air on 'Dreamlifters' (large, converted 747s) to the Boeing facility in Everett, WA, for final assembly. There they are united with the wings, tail, front fuselage and nose cone sections made in Italy, Japan, and Wichita, KS. Boeing held a "roll-out" ceremony for the first completed 787 on July 7, 2007, in Everett, WA. Its worldwide suppliers on several continents joined via simulcast, including the U.S. city of North Charleston, SC.

As the march toward the first 787 flight continues, Vought and Global Aeronautica will achieve their initial hiring goal of some 650 employees, likely adding even more employees if the anticipated Boeing production boost occurs. The companies will also meet and exceed their originally announced capital investment total of \$560 million during 2008.

Automotive Manufacturing-

In 2007, Charleston County officials helped DaimlerChrysler officials dedicate their newly established Sprinter Van re-assembly facility in North Charleston. Since their 2005 announcement, the company has achieved its initial phase of 200 workers. The site of the tall conversion van was somewhat of an oddity to Charlestonians at the time of the announcement, but the company has now assembled over 15,000 Sprinter Vans in North Charleston, making it a commonplace sight traveling to and from the Port and along area highways. The local DaimlerChrysler facility underwent a name change during 2007 with the dissolution of the Daimler and Chrysler marriage, and is now doing business as Daimler Vans Manufacturing, LLC. With plenty of elbow room in a 1,200 acre industrial park, this 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.



DaimlerChrysler Sprinter Van
Assembly Plant Dedication

Biotech, Medical & Pharmaceutical Activities-

Emerging biotech jobs in Charleston are characterized by firms like Gen Phar, which first pioneered an HIV detection kit for hospital use. The company 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. During 2007, Gen Phar announced the establishment of a \$33 million vaccine manufacturing facility in suburban Mt. Pleasant. There, it will employ 133 new biotech researchers over the next five years.

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 Space and Air Warfare Systems (SPAWAR) research and development contracts. But there are also the Charleston home-grown IT firms. Founded in Charleston, Automated Trading Desk, Inc., now trades 4 percent of the NASDAQ volume on a daily basis on lightning-fast computer terminals from its \$30 million state-of-the-art complex in Mt. Pleasant. The firm made national business news during 2007 when it was acquired by Citigroup for \$680 million, but will continue to call Charleston home.



Automated Trading Desk, Inc.

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. The Charleston Peninsula boasts a treasure trove of

well-preserved eighteenth and nineteenth 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 recently, hoping to attract yet more television and motion picture productions to Charleston and other statewide locales. Among the first to respond were the producers of the television series "Army Wives", which since 2006 has operated from filming facilities in the neck area of Charleston. Local and state efforts to create more knowledge-based IT jobs are bearing fruit, as evidenced by the results of a 2007 survey which revealed salaries averaging \$83,526 within the "Digital Corridor" in downtown Charleston.

WHY CHARLESTON?

Companies relocating to Charleston, as well as entrepreneurs who start business in the area, typically give two primary reasons for why they chose to do business here: 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 quality of life which has been deliberately and carefully protected.

Charleston has a 330 year history and is widely acknowledged as among the world's leaders in the area of historic preservation. The stunning, well-preserved eighteenth and nineteenth century homes and commercial buildings in downtown Charleston are a testament to this passion. Sightseeing in historic downtown is a favorite pastime for pedestrians and also tourists in horse-drawn carriages. Far from receiving a staid museum-like experience, the visitor to Charleston is struck by the busy streets of a vibrant city which are packed with tourists and locals well into the night.

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

Charleston offers diverse education options, from K-12 through the technical college and on to bachelor's degrees, and post-secondary study levels. Four public school districts in the tri-county Charleston region operate 136 schools hosting 92,335 students. A variety of learning styles are accommodated and a variety of subject matter is offered through excellent magnet and charter schools geared to advanced academic studies, creative arts, technology, and other key pursuits. The Charleston area also hosts 65 private and parochial schools where 11,200 students are enrolled.

There are 26 colleges and universities offering a range of two-year, bachelor's, master's, and doctoral degree programs in Charleston. The five largest are : Trident Technical College, with 11,808 students; The College of Charleston, with 11,218 students; The Citadel, with 3,306 students; Charleston Southern University, with 3,135 students; and the Medical University of South Carolina with 2,498 students. One of Charleston's most recent points of pride is the new Charleston School of Law. This private institution was opened in 2004 and is one of only two law schools in the state (the University of South Carolina School of Law being the other). On May 19, 2007, the Charleston School of Law graduated its first class of 186 students.

Sports are an important part of the Charleston social landscape in a town where the median age is 35. Sporting events are big business in Charleston, contributing over \$50 million annually to the regional economy and employing nearly 1,200 people. Charleston hosts several professional teams. The Charleston RiverDogs Baseball team is a Class A – Affiliate of the New York Yankees, the Charleston Battery Soccer team is part of the USL First Division, and the South Carolina Stingrays Hockey team is a

member of the ECHL Southern Division and an affiliate of the NHL Washington Capitals. Southern Conference and Big South Conference collegiate sports round out the mix, with the teams of The Citadel, College of Charleston, and Charleston Southern University taking center stage.

Charleston also plays host to many high-profile sporting events throughout the year. The annual Family Circle Cup Tennis Tournament, a WTA Tier 1 event, is played at the Family Circle Tennis Center (capacity 10,200) on Daniel Island. The 2006 tournament was attended by 92,375 people with a \$25 million economic impact. Kiawah Island's world-class Ocean Course hosted the 68th Senior PGA Championship tournament in May 2007. This tournament gave Charleston international television exposure and had a \$23.3 million impact on the region's economy. The Ocean Course has also been selected to host the 94th Annual PGA Championship in 2012. Other exciting events in Charleston this past year include the LPGA Ginn Tribute hosted by Annika Sorenstam, the 2007 AVP Charleston Open, and the annual Cooper River Bridge Run 10K, which hosted over 45,000 runners in 2007.



Curtis Strange takes a shot on the Ocean Course during the Senior PGA Championship on Kiawah Island

Competitive Posture. Charleston has won numerous accolades in recent years from esteemed business and travel publications. *Forbes* placed Charleston in the top 25 for job growth on its list for "Best Places for Business and Careers." Charleston was ranked in the top 15 for mid-size metros on *Inc.* magazine's list of "Top U.S. Cities for Doing Business." *Expansion Management* has cited the Charleston region as sixth among mid-sized markets on their list of "Economic Development Hot Spots" and thirteenth on their list of "Top Real Estate Markets for Expanding Companies." The Sanctuary at Kiawah Island was ranked the number one Family Resort in the US and Canada by *Travel + Leisure Family*. *Travel + Leisure* also named Charleston the sixth Best City in the United States and Canada.

The Charleston region offers a sizeable real estate portfolio for a mid-sized market, with close to 9 million square feet in upscale executive buildings and office. The 15.3 million square feet of retail space in the region is distributed between regional malls, strip centers, and the downtown Charleston central business district. A variety of vacant industrial and warehouse buildings and over 20 industrial parks are available for industrial opportunities.

Demand for office space in the Charleston region has led to the development of many new office properties. Since 2000, over 3.5 million square feet of office space has been added to the Charleston region's inventory. Vacancy rates have stabilized at just under 13 percent. The average lease rate in the region is \$26.50 per square foot per year, which is 25 percent lower than Boston's average of \$35.34 and 45 percent lower than Washington DC's average of \$48.

Over 20 industrial parks are strategically located throughout the Charleston region. Each park has a distinct personality and a unique set of attributes. Some parks are adjacent to an interstate highway or rail line, some offer quick access to a port terminal or airport, and many have Foreign-Trade Zone status. All industrial facilities in the region benefit from the area's reliable and affordable water and power. As of the end of 2006, the Charleston region had over 24 million square feet of warehouse and flex space, with another 995,000 square feet under construction. Vacancy stands at 6.17 percent and average lease rates are around \$4.50 per square foot per year.

The Charleston International Airport, no more than a thirty-minute ride from anywhere in the region, has experienced great growth in recent years. The mix of passengers has shifted away from its tourist base toward one increasingly characterized by business travelers. Carriers include Continental Airlines, Delta Airlines, Northwest Airlink, US Airways, United Express, American Eagle, and low-cost carrier AirTran Airways. Daily non-stop service is available to Atlanta, Newark, Houston, New York LaGuardia, Cincinnati,

Boston, Orlando, Detroit, Memphis, Charlotte, Philadelphia, Washington National, Washington Dulles, Chicago, and Dallas-Fort Worth.

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 November of 2004, Charleston County voters approved an additional one-half of one 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 \$1.303 billion is generated, whichever occurs first." The County also received referendum approval in November 2004 to issue General Obligation Bonds totaling \$113 million for roads and greenbelt projects. In November 2006 the County received referendum approval for additional General Obligation Bonds totaling \$300 million to fund costs of transportation related projects. To date the County has issued \$65 million of referendum debt and will issue an additional \$150 million in December 2007. These proceeds will be used for road construction projects and land acquisition projects for greenbelts.

In December 2007 Charleston County will be issuing General Obligation Bonds totaling \$75 million for the expansion of the Adult Detention Facility. Additional construction projects to be funded from this bond are repairs to the County Judicial Center, construction of an automotive repair facility, startup funding for a county-wide consolidated dispatch center, and the final phase of an upgrade to the County's 800MHz radio system. An additional General Obligation Bond for the full funding of these projects is planned for the fall of 2009.

Technology. Charleston County Emergency Medical Services (EMS) was the first in South Carolina to introduce the new MARVLIS digital navigation program that allows crews to see live, Global Positioning System (GPS) maps in their ambulances. The system shows the location of the 911 call, the ambulance's own location, and the most direct route to the emergency.

Previously, EMS crews used paper map books, which could be six months old or older when they were bought new at the store. The issue of finding a location in an emergency started from the very beginning of the call. With the new system, crews can see almost immediately where the emergency is and how to get there. The system alerts them with a tone, and the location of the call appears with a large, red "X". It also shows the location of the ambulance on the map and the quickest route to the emergency.

The new system uses Charleston County Global Information System (GIS) maps, which can be updated weekly by County Government staff. The system was purchased for approximately \$875,000.

Transportation Sales Tax. Charleston County's Transportation Sales Tax was approved by voters in November of 2004. Collection of the tax began two years ago in May of 2005. The tax will continue for 25 years or until \$1.303 billion is generated for transportation and greenspace related projects and improvements.

The County has leveraged sales tax proceeds to generate over a half-billion dollars in additional road building dollars. At the beginning of the fiscal year the South Carolina State Infrastructure Bank (SIB) voted unanimously to commit a total of \$420 million to Charleston County for the completion of I-526 (Mark Clark Expressway) and \$40 million for the intersection of I-526 and US Highway 17-North.

Three months later in September Charleston County officials secured an additional \$43 million in federal funds through the Charleston Area Transportation Study (CHATS) over the next several years to supplement projects funded by the Transportation "Half-Cent" Sales Tax.

In less than two years, over 100 resurfacing, paving, handicap ramps, intersection improvements and drainage projects have been either been completed or are underway with funds from the Charleston County Transportation "Half-Cent" Sales Tax Program.

The projects include:

- 45 handicap ramps
- 88 resurfacing and paving projects
- a variety of small projects such as bicycle paths and drainage improvements
- the design phase of 11 bonded projects is currently underway

Disaster Preparedness. Following a review of "lessons learned" following Hurricane Katrina on the Gulf Coast, county and municipal officials announced the designation of 75 Evacuation Pick-up Points for residents who don't have transportation in the event of a mandatory evacuation.

New blue signs that state "Hurricane Evacuation Bus Stop" will be used to mark all the pick-up points. The signs were posted throughout the county at all 75 pick-up point locations.

For years, Charleston County's Emergency Preparedness Division has had an evacuation transportation plan in place to take residents from various pick-up points to the nearest available Red Cross shelter during a mandatory evacuation. Because the community has grown dramatically, new pick-up points have been added to the list, and some previous pick-up locations have been changed.

The evacuation pick-up points are in locations that are well-known to citizens who live near them. They are located at churches, grocery stores and schools, and many of them are co-located with CARTA bus stop locations.

The pick-up points were chosen for their ability to provide a safe location for people to congregate away from traffic and for having a parking lot or area for buses to pull off the road and safely load passengers without blocking evacuation traffic routes.

Solid Waste. Charleston County Solid Waste & Recycling is now accepting paperboard from Charleston County residents. Paperboard is now being collected curbside along with other paper items to be recycled, and at drop-sites and convenience centers located throughout the county.

Paperboard represents 35 percent of municipal solid waste, according to the Environmental Protection Agency. Until recently, Charleston County Solid Waste & Recycling did not have a market for paperboard, but county employees worked to find a way to accept this item.

Public Safety Dispatch. In November the County received a \$1.454 million from the state's 911 Surcharge Fund, administered by the S.C. Budget & Control Board. The largest 911 Surcharge Fund check ever distributed was reimbursement for the amount that the County spent on Phase II of 911 Compliance. What this means to the public is that when someone calls 911 from a wireless (cellular) phone, 911 operators in Charleston County have equipment that can pinpoint the caller's location to anywhere in the county within 65 meters. Until recently, cell phone callers could not be located through the 911 system like regular (land) phone lines.

Now with Phase II being completed, all six Public Safety Answering Points (PSAP) in Charleston County have the capability to locate cell phone users who dial 911. Incoming calls are located using latitude and longitude coordinates.

Related to the issue of consolidating the six separate PSAPs in the County, Council placed \$15 million in the County's Capital Improvement Plan following the April completion of the Consolidated Dispatch Feasibility Study. This study, which was presented to local officials and emergency response leaders,

showed that consolidating emergency public safety communications in Charleston County is indeed feasible and will benefit the community.

As the next phase in a long-term project to save time and lives during an emergency, the County will coordinate with eight other jurisdictions within Charleston County to sign an intergovernmental agreement. The agreement will put short-term and long-term management and cost responsibilities in place for the participating jurisdictions.

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

A 23,000 square foot, \$3.7 million addition to the existing Heavy Equipment Garage was awarded and is scheduled for completion in the last quarter of calendar year 2008.

The award of Temporary Housing for Charleston County Detention Facility was made and completion is anticipated for the last quarter of calendar year 2007. This project will help alleviate severe overcrowding until the expansion project is complete. This is temporary housing and will provide dormitory units to accommodate 128 inmates.

The award of a design-build contract for a 334,000 square foot, \$102.5 million addition to the Charleston County Detention Facilities is anticipated for the last quarter of calendar year 2007. The detached dormitory style building constructed at the Main Detention Facility will provide an additional 1,344 beds to the County's rated capacity. The existing facilities house an ADP of over 1,700 inmates; the total rated capacity of the facility will be 2,033 after the expansion.

A Request for Proposals was advertised for the Repairs to the Judicial Center and an award is anticipated for the last quarter of calendar year 2007. The project consists of building envelope repairs and modifications to the Judicial Center.

Awards for the Relocation of the K-9 Facility/Impound Lot and the Temporary Sheriff's Logistics Center are anticipated for the last quarter of calendar year 2007.

Technology. An Intrusion Detection system, provided by the state, was implemented to monitor and report network intrusions as well as to report results of ongoing vulnerability testing.

A Disaster Recovery Site for the County's critical data was implemented, enabling replication of this data, on a nightly basis, to an offsite location.

The RMC and Technology Services provided data from our imaging system to the Trident Realtor's Association enable access to neighborhood Covenants and Restrictions.

A Unified Wireless Network was setup for users in the Public Service Building, the Judicial Center and the County Office Building. With Unified Wireless users can move from one building to another and access network without changing any local laptop settings. This technology also provides flexibility to provide Guest Internet Access for non county users in any of these three buildings.

The Emergency Operations Center (EOC) was configured to be completely independent of the Data Center and completely portable so it can be relocated anywhere any time during emergencies. Two transportable satellite dish antennas were configured to provide backup Internet Access for EOC activation.

In Radio Operations, the migration to the new digital P25 radio system was completed for the Sheriff, Emergency Medical Services, Emergency Preparedness Division and other first responders.

Safety.

For fiscal year 2007, Charleston County experienced the lowest number of on the job injuries since joining the South Carolina Association of Counties Workers Compensation Trust in 1991. This record achievement followed two past successful years in which both back strain and fall injuries were significantly reduced. By working together as a team, EMS and Safety & Risk Management researched products that could reduce our paramedics and EMT's exposure of heavy and repetitive lifting. In 2004, Charleston County purchased "stair chairs" that enabled our EMS employees to safely transport patients down flights of stairs. Since the implementation of the stair chairs, not one paramedic or EMT has suffered a back injury while using this device. In late 2006, Charleston County replaced 26 stretchers with new stretchers that can mechanically and safely lift patients weighing up to 650 pounds. These two new products along with focused safety training and awareness have significantly contributed to the continued reduction of County employee back injuries during the past three years.

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 5.32 percent for the year ending June 30, 2007. 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 \$148,388,968 million at June 30, 2007, 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 78.

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 108.

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 118 of this report.

The County also provides post-employment 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-employment benefits is shown in Note IV.G. of the notes to financial statements starting on Page 117.

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 2006, 19 years in total.

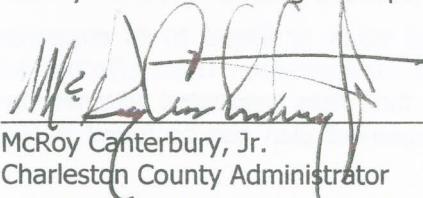
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable 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 18 fiscal years starting July 1, 1989 through 2006. 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 years starting July 1, 2005 through 2006 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, and John Ward 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 and Jackie Proveaux from the Public Works Department. Much appreciation also goes to Dawn Murray 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.

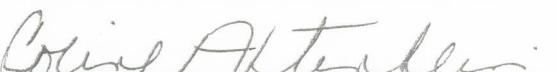
In addition, Charleston County would like to acknowledge the cooperation and support of Charleston County Council in making this report possible.



McRoy Canterbury, Jr.
Charleston County Administrator



Keith Bustraan
Charleston County Chief Deputy Administrator/Chief Financial Officer



Corine Altenhein
Charleston County Controller