

# Management's Discussion and Analysis

As management of Charleston County, South Carolina, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Charleston County for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 16 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## Financial Highlights

- Charleston County reported net assets of \$265,619 at June 30, 2008, comprised of \$925,261 in total assets offset by \$659,642 in total liabilities.
- The government's total net assets decreased by \$15,835 during the fiscal year ended June 30, 2008, with a \$24,436 decrease resulting from governmental activities and an \$8,601 increase resulting from business-type activities.
- As of the close of the current fiscal year, Charleston County's governmental funds reported combined ending fund balances of \$407,050. Approximately 15 percent of this total amount, \$62,027, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$43,266 or 27 percent of the total general fund expenditures.
- Charleston County's long-term debt increased by \$218,018 (79 percent) during the current fiscal year. A full discussion of the County's changes in long-term debt can be found on pages 90-104.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Charleston County's basic financial statements which are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains required supplementary and other supplementary financial information in addition to the basic financial statements.

**Government-wide Financial Statements.** Government-wide financial statements are designed to provide readers with a broad overview of the financial position of Charleston County and are similar to private sector financial statements. They include a statement of net assets and a statement of activities. These statements appear on pages 39 and 40 of this report.

Component units, which are other governmental units over which the County (the County Council, acting as a group) can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as combining statements of net assets and of activities in the fund financial statements. The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component units. For those readers interested in more information on the component units, contact information is provided in Note I. B. on pages 62 through 64 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2008. The difference between these assets and liabilities is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position.

The statement of activities follows the statement of net assets and presents information showing how the County's net assets changed during the fiscal year. The statement presents all underlying events, which give rise to the change, regardless of the timing of related cash flows. Some included items, such as accounts payable or earned but unused vacation leave, will produce changes in cash in future fiscal periods.

Both statements attempt to distinguish functions of Charleston County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Governmental activities reported in the statements include general government, public safety, judicial, public works, health and welfare, economic development, culture and recreation, and education. Major business activities include parking garages and solid waste (recycling and waste disposal). Other business activities include the Department of Alcohol and Other Drug Abuse Services (DAODAS), radio communications, revenue collections and a countywide E-911 communication system.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, Charleston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Charleston County government can be divided into three categories: governmental, proprietary, and fiduciary.

**Governmental Funds.** Governmental funds, presented on pages 41 through 47, essentially account for the same functions as those reported under the governmental activities of the government-wide statement of net assets and statement of activities. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide financial statements. Such information may be useful in evaluating Charleston County's near-term financing requirements and available resources.

By comparing functions between the two sets of statements for governmental funds and governmental activities, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Governmental funds individually presented in Charleston County's statements include four major funds: the General Fund, the Debt Service Fund, the Transportation and Road Sales Tax Special Revenue Fund, and the General Obligation Bond Capital Projects Fund. Although there are many smaller governmental funds in Charleston County Government, they have been presented in a total column termed as "Other Governmental Funds". Combining statements for these other governmental funds have been presented on pages 124 through 134 of this report.

**Proprietary Funds.** Charleston County maintains and presents two different types of proprietary funds, enterprise, and internal service, shown on pages 48 through 53 of this report.

Enterprise funds report in greater detail the same information presented as business-type activities in the government-wide financial statements for solid waste and parking garages. DAODAS, radio communications, revenue collections and E-911 communications are presented in one total column termed as "Nonmajor Other Funds" but may be separately reviewed in the combining statements on pages 150 through 155.

Internal service funds (ISFs) are an accounting mechanism to accumulate and allocate costs internally for Charleston County Government. The County uses internal service funds to account for fleet management, office support services, workers' compensation, telecommunications, and the employee benefits trust. See pages 157 through 161 of this report. ISFs have been eliminated on the statement of net assets.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Charleston County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 163 through 165 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages 60 through 117 of the report.

**Other Information.** Individual statements, which present more detailed views of nonmajor funds used in governmental funds, begin on page 137. Additional trend information about the County, which may be of interest to the reader, is found under the Statistical section of this report, starting on page 170.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Charleston County, assets exceeded liabilities by \$265,619 at the close of fiscal year 2008.

Charleston County's unrestricted net assets, shows a deficit of \$21,949 at the close of fiscal year 2008. This exists because the County expended Transportation Sales Tax General Obligation bond proceeds on the purchase of land for greenbelts. Although the County issued the debt for these purchases, these assets were not capitalized because they are not owned by the County.

The other components of net assets include \$129,525 investment in capital assets (e.g., land, building, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. An additional \$87,827 is being held by the County as cash and investments to be used for the planned purchase/construction of additional capital assets already approved by County Council. Charleston County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities. An additional portion of the County's net assets, \$70,216 represents resources that are subject to external restrictions on how they may be used.

Charleston County's Net Assets  
June 30, 2008  
**(Recapped from page 39)**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007 (restated)	2008	2007	2008	2007 (restated)
Current and other assets	\$557,151	\$349,555	\$ 87,185	\$102,080	\$644,336	\$451,635
Capital assets	235,534	230,165	45,391	45,360	280,925	275,525
<b>Total assets</b>	<u>\$792,685</u>	<u>\$579,720</u>	<u>\$132,576</u>	<u>\$147,440</u>	<u>\$925,261</u>	<u>\$727,160</u>
Long-term liabilities						
outstanding	\$455,578	\$235,492	\$ 19,204	\$ 19,405	\$474,782	\$254,897
Other liabilities	176,382	159,067	8,477	31,741	184,859	190,808
<b>Total liabilities</b>	<u>\$631,960</u>	<u>\$394,559</u>	<u>\$ 27,681</u>	<u>\$ 51,146</u>	<u>\$659,642</u>	<u>\$445,705</u>
Net assets:						
Invested in capital assets, net of related debt	\$102,685	\$ 89,153	\$ 26,840	\$ 24,638	\$129,525	\$113,791
Restricted for future construction	82,344	22,442	5,483	5,533	87,827	27,975
Restricted - other	37,678	47,388	32,538	29,341	70,216	76,729
Unrestricted	(61,982)	26,179	40,033	36,782	(21,949)	62,961
<b>Total net assets</b>	<u>\$160,725</u>	<u>\$185,161</u>	<u>\$104,895</u>	<u>\$ 96,294</u>	<u>\$265,619</u>	<u>\$281,455</u>

The County's net assets decreased by \$15,835 during the current fiscal year. The governmental activities had a decrease of \$24,436 which resulted primarily from the allocation of GOB proceeds to various governmental entities within the county for the purchase of greenbelts. The increase of over \$200,000 in total assets and liabilities resulted from the issuance of \$225,000 in general obligation bonds for the transportation sales tax and capital projects programs.

The business type activities had an increase of \$8,601 which resulted primarily from planned revenues in excess of expenditures in the solid waste business-type activities, where the County has large balloon payments starting in 2006 and has been placing the savings from the 1997 refinancing of the Foster Wheeler Solid Waste Bonds in a debt service reserve since that time to apply to these balloon payments. The remainder of the business type activity increases represents the degree to which increases in ongoing revenues have outpaced similar increases in ongoing expenses.

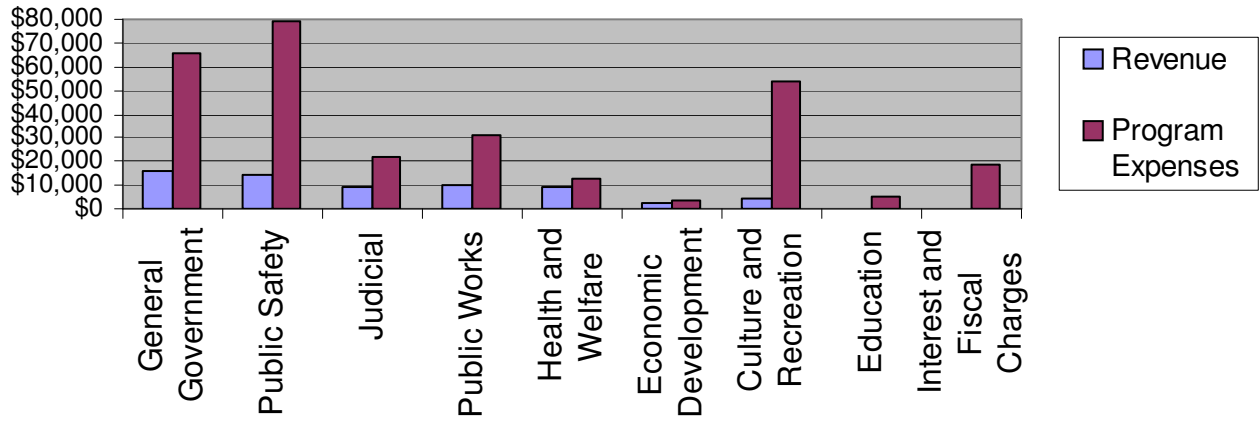
**Governmental Activities.** Governmental activity decreased the County's net assets by \$24,436. Key elements of the decrease:

- Property taxes and local option sales tax increased by \$4,652 (3.7 percent) during the year.
- Investment earnings decreased by \$1,673 (30.9 percent) during the year.
- Expenses for the year increased by \$52,193 (21.8 percent) with the substantial portion of that increase coming from culture and recreation \$32,515, public safety \$13,533, interest and fiscal charges \$9,151, economic development \$1,904, health and welfare \$1,767, judicial \$1,656, and a decrease in public works \$9,175. The remaining increase of \$842, reflects both inflation and the growth in the demand for services.

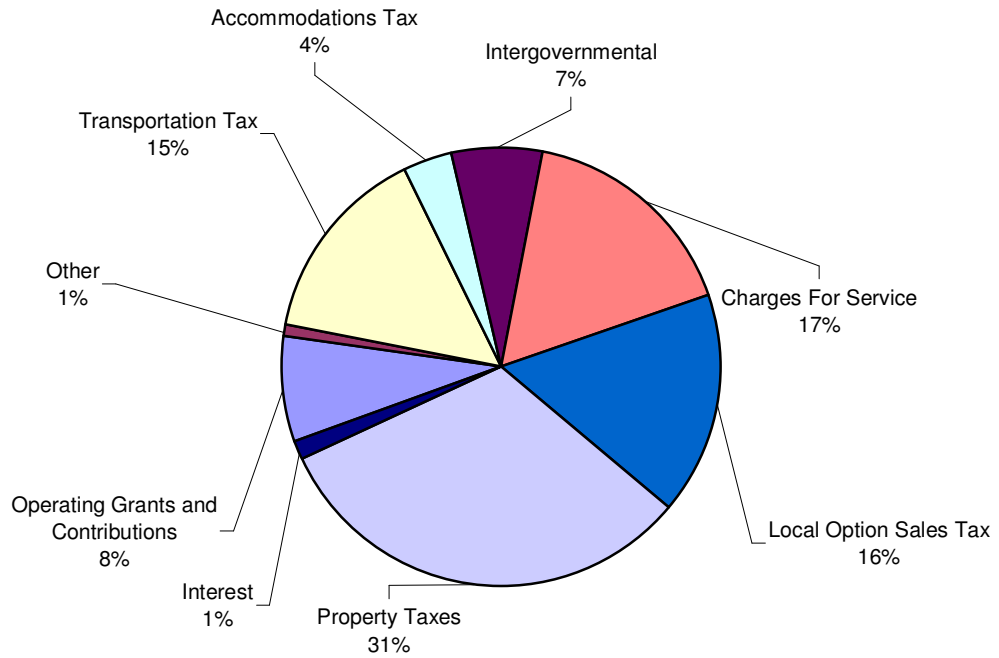
County of Charleston, South Carolina  
**Changes in Net Assets (Recapped from page 40)**  
For the Fiscal Year Ended June 30, 2008

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 45,308	\$ 39,400	\$ 53,709	\$ 47,867	\$ 99,017	\$ 87,267
Operating grants and contributions	20,815	18,216	3,081	979	23,896	19,195
Capital grants and contributions	-	-	-	1	-	1
<b>General Revenues:</b>						
Property taxes	86,508	82,290	-	-	86,508	82,290
Other taxes and fees	97,135	95,022	554	517	97,689	95,539
State aid to political subdivisions	17,865	16,098	-	-	17,865	16,098
Unrestricted investments earnings	3,749	5,422	2,446	3,369	6,195	8,791
Gain on sale of capital assets	-	-	66	95	66	95
<b>Total Revenues</b>	<b>271,380</b>	<b>256,448</b>	<b>59,856</b>	<b>52,828</b>	<b>331,236</b>	<b>309,276</b>
<b>Program Expenses:</b>						
<b>Governmental Activities:</b>						
General government	65,853	65,198	-	-	65,853	65,198
Public safety	79,153	65,620	-	-	79,153	65,620
Judicial	22,201	20,546	-	-	22,201	20,546
Public works	31,011	40,186	-	-	31,011	40,186
Health and welfare	12,879	11,112	-	-	12,879	11,112
Economic development	3,228	1,325	-	-	3,228	1,325
Culture and recreation	53,822	21,307	-	-	53,822	21,307
Education	5,325	5,138	-	-	5,325	5,138
Interest and fiscal charges	18,462	9,311	-	-	18,462	9,311
<b>Business-Type Activities:</b>						
E-911	-	-	1,016	984	1,016	984
Solid waste	-	-	39,065	30,230	39,065	30,230
Parking garages	-	-	2,008	1,754	2,008	1,754
DAODAS	-	-	9,349	8,984	9,349	8,984
Revenue collections	-	-	1,724	-	1,724	-
Radio communications	-	-	1,974	1,800	1,974	1,800
<b>Total Expenses</b>	<b>291,935</b>	<b>239,743</b>	<b>55,136</b>	<b>43,752</b>	<b>347,071</b>	<b>283,495</b>
Excess (deficiency) of revenue over (under) expenses	(20,555)	16,705	4,720	9,076	(15,835)	25,781
Transfers	(3,881)	(5,052)	3,881	5,052	-	-
<b>Increase (Decreases) in Net Assets</b>	<b>(24,436)</b>	<b>11,653</b>	<b>8,601</b>	<b>14,128</b>	<b>(15,835)</b>	<b>25,781</b>
Net assets, beginning	174,751	163,052	96,294	82,166	271,044	245,218
Prior Period Adjustments	10,410	46	-	-	10,410	46
Net Assets, beginning adjusted	<b>185,161</b>	<b>163,098</b>	<b>96,294</b>	<b>82,166</b>	<b>281,454</b>	<b>245,264</b>
<b>Net Assets, ending</b>	<b>\$160,725</b>	<b>\$174,751</b>	<b>\$104,895</b>	<b>\$96,294</b>	<b>\$265,619</b>	<b>\$271,045</b>

## Expenses and Program Revenues - Governmental Activities

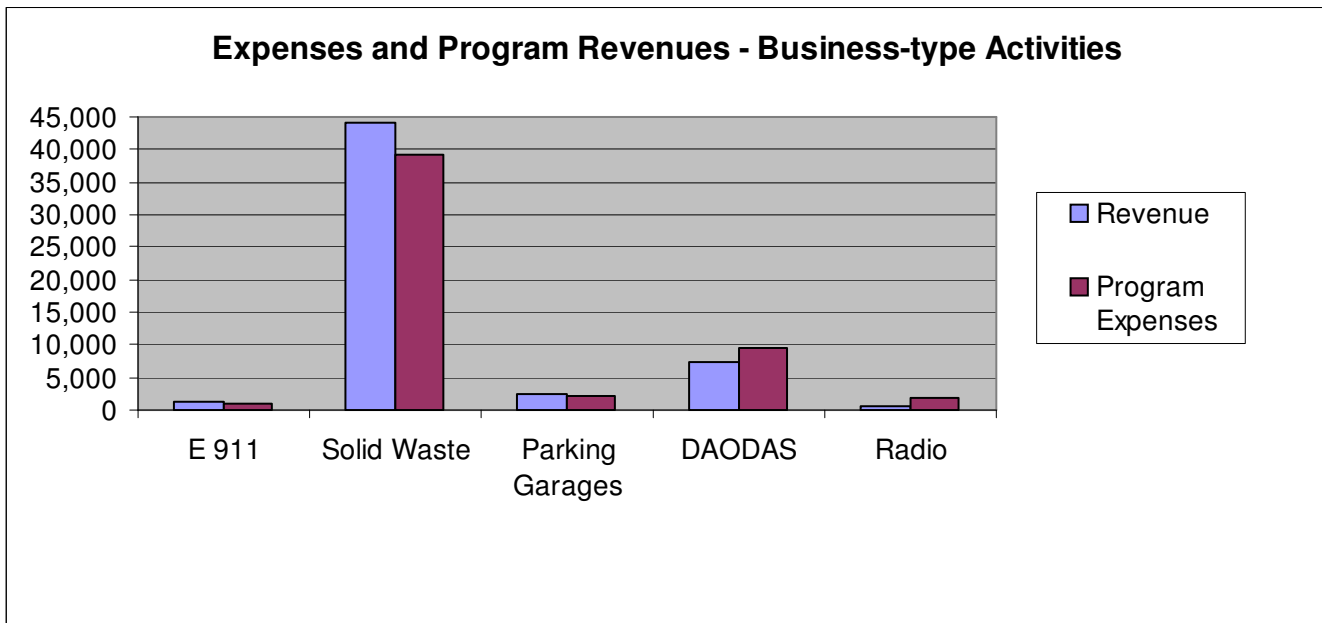
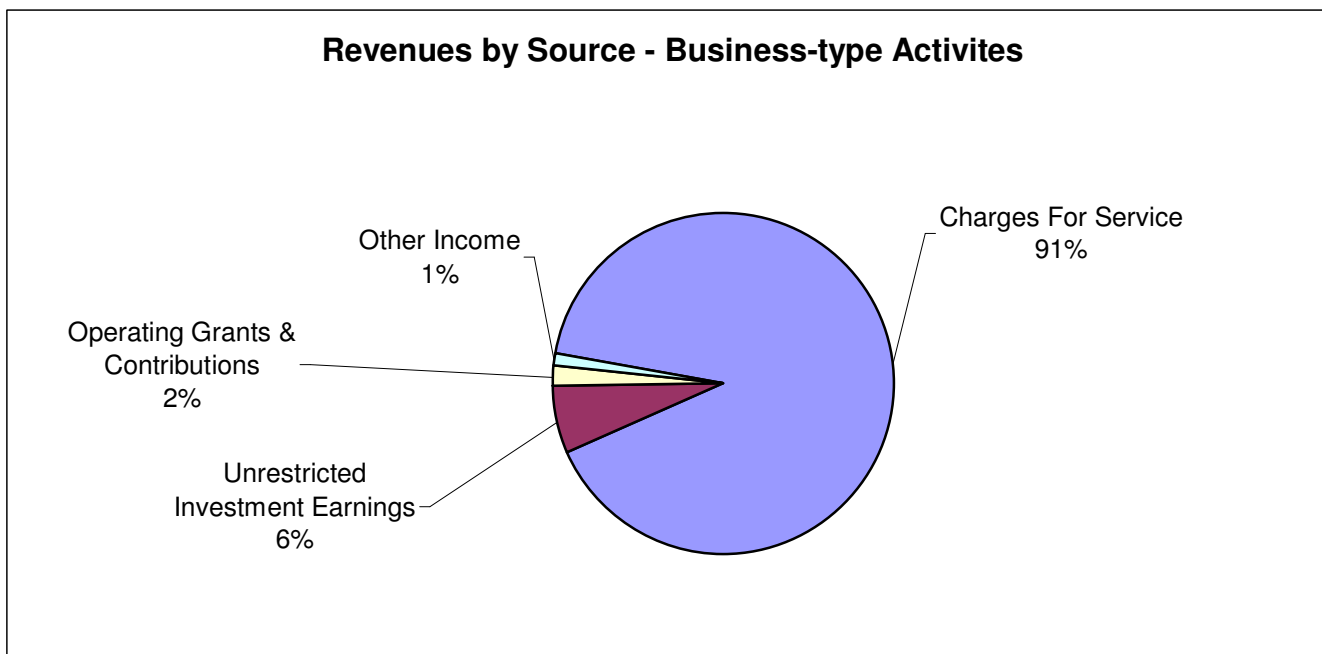


## Revenues by Source - Governmental Activities



**Business-type activities.** Business-type activities increased the County’s net assets by \$8,601. The key element of this increase was:

- The solid waste fund had an increase in net assets of \$4,470. This is primarily the result of a decision made by County Council to bank the savings from a refinancing of the bonded debt on the incinerator in 1997. Because of the substantial total balloon payments of \$33,000 starting in 2006 and running through 2010 that would result in significant user fee increases, County Council decided to hold the user fee level in 1997 instead of increasing it, therefore resulting in a much smaller increase in the years 2006 through 2010.
- This increase of \$8,835 in solid waste expenses is primarily due to a reduction in the accrual for landfill closure in fiscal year 2007 because of the capping of a cell at the Bees Ferry Landfill. This resulted in a negative provision for landfill closure of \$7,308 in fiscal year 2007.



## Financial Analysis of the Government's Funds

As noted earlier, Charleston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Charleston County's governmental funds reported combined ending fund balances of \$407,050, an increase of \$195,485 in comparison with the prior year. Of this increase amount, \$138,751 resulted from the transportation and road sales tax and \$64,381 occurred in the GOB Capital Projects fund. Approximately 15 percent of this ending fund balance, \$62,027, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$12,237), 2) to pay debt service (\$19,703), 3) to pay for capital projects as restricted by bond covenants (\$82,345), 4) reserved for inventories and prepaid items (\$631), or 5) reserved for transportation projects (\$230,107).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$32,766 while total fund balance reached \$44,728. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount. The net decrease in the fund balance of the general fund was \$4,973 during the current year. Highlights in the general fund were as follows:

- An increase of \$434 in local option sales tax which is 1.0 percent over the previous year
- An increase of \$766 in property taxes which is 1.3 percent over the previous year
- The decrease of \$4,973 in the fund balance is a budgeted decrease and was expected

Capital projects funds have a combined total fund balance of \$82,345. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. The fund balance for General Obligation Bond Capital Projects \$68,571 is shown as a major fund and the remaining funds \$13,775 are all nonmajor ones and are shown on pages 128 and 134.

The special revenue funds have a combined total fund balance of \$260,274. The Transportation and Road Sales Tax Special Revenue fund balance \$240,119 is shown as a major fund and the remaining funds of \$20,155 are all nonmajor funds. Of this amount, \$18,761 is designated for subsequent years' appropriations and the remaining \$1,394 is reserved for encumbrances and inventory. Nonmajor special revenue funds are shown on pages 124 through 127, and 130 through 133.

**Proprietary Funds.** The County's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. See pages 48 through 53, 150 through 155 and 157 through 161.

As of the end of the current fiscal year, Charleston County's proprietary funds reported combined ending net assets of \$104,895, an increase of \$8,601 in comparison with prior year. The solid waste fund accounted for \$4,470 of this increase.



## General Fund Budgetary Highlights

Over the course of the year, County Council did not amend the original revenue budget as in the prior year. Actual revenues were \$1,407 under budgeted amounts.

The two most significant variances were taxes, which were \$2,683 under budget and interest income which was \$1,089 under budget. Intergovernmental revenues were \$1,394 over budget. The variance in taxes was due to a decrease in the local option sales taxes collected. The variance in interest income was due to a drop in the rate earned.

Actual expenditures were \$6,487 below the final budget amounts. The most significant contributions to this variance were the following:

Technology Services	\$1,092	IT vendor contract
	180	Landlines
	165	Maintenance contracts
Emergency Medical Services	\$ 645	Salaries and benefits
	111	Supplies
	93	Consultant fees
Sheriff	\$ 754	Detention center salaries and benefits
	201	Dispatch salaries and benefits
	79	Detention center contractual services
	(602)	Law enforcement salaries and benefits
Public Works	\$ 392	Salaries and benefits
	200	Capital – It purchases
	108	Construction materials
Delinquent Tax	\$ 313	Salaries and benefits
	120	Legal services
Legal	\$ 204	Legal services
	30	Salaries and benefits
Assessor	\$ 187	Salaries and benefits
	27	Internal service charges
Magistrates	\$ 222	Salaries and benefits

## Capital Asset and Debt Administration

**Capital Assets.** Charleston County's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$280,925 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges and drainage easements. The total increase in the County's investment in capital assets for the current fiscal year was 2 percent and was attributed to the governmental activities.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 16,334	\$ 16,334	\$ 3,951	\$ 3,951	\$ 20,285	\$ 20,285
Buildings	147,844	151,981	18,002	18,564	165,847	170,545
Improvements other than buildings	1,682	1,756	362	414	2,044	2,170
Machinery and equipment	33,042	34,834	7,118	6,477	40,160	41,311
Infrastructure Construction in progress	18,798	20,980	-	-	18,798	20,980
	<u>17,833</u>	<u>4,280</u>	<u>15,958</u>	<u>15,954</u>	<u>33,791</u>	<u>20,234</u>
Total	<u>\$ 235,534</u>	<u>\$ 230,165</u>	<u>\$ 45,391</u>	<u>\$ 45,360</u>	<u>\$ 280,925</u>	<u>\$ 275,525</u>

Additional information on the County's capital assets can be found in Note III. C. on pages 83 through 87 of this report.

**Long-Term Debt** At the end of the current fiscal year, Charleston County had total Certificates of Participation (COPs) and bonded debt outstanding of \$444,684. Of this amount, \$373,504 comprises debt backed by the full faith and credit of the government, \$61,985 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$9,195 is comprised of revenue bond debt secured solely by solid waste user fees.

In addition to the bonded debt Charleston County has signed a contract with the S.C. Infrastructure Bank to pay \$3,000 a year starting on January 1, 2004, for a period of 25 years as the County's commitment toward the new Arthur Ravenel, Jr. Bridge over the Cooper River. As of June 30, 2008, this obligation is recorded at a net present value of \$35,177 using a discount rate of 5.73%. This is the same rate the Bank is repaying its loan from the federal government, using the money received from the County.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 373,504	\$ 146,395	\$ -	\$ -	\$ 373,504	\$ 146,395
Certificates of participation	52,628	57,631	9,357	10,232	61,985	67,863
Revenue bonds	-	-	9,195	10,491	9,195	10,491
Intergovernmental note payable	35,177	36,108	-	-	35,177	36,108
<b>Total</b>	<b>\$ 461,309</b>	<b>\$ 240,134</b>	<b>\$ 18,552</b>	<b>\$ 20,723</b>	<b>\$ 479,861</b>	<b>\$ 260,857</b>

The County's total bonded debt increased by \$219,935 (98 percent) during the current fiscal year. This resulted from the issuance of a \$150,000 general obligation bond for the transportation and road sales tax program and the issuance of a \$75,000 general obligation bond for the capital projects program (primarily for the expansion of the adult detention facility.)

Charleston County achieved an "AAA" rating from Standard & Poor's Rating Group and maintains an "Aa1" rating from Moody's Investors Service for its most recent general obligation bonds. The certificates of participation and revenue bonds are all insured issues and are rated "AAA" by Moody's Investors Service and "AAA" by Standard & Poor's Rating Group.

South Carolina statutes limit the amount of general obligation (G.O.) debt a governmental entity may issue (without referendum) to 8 percent of its total assessed value. The current G.O. debt limit for Charleston County is \$235,740 which is significantly in excess of the County's current G.O. outstanding balance of \$136,260 subject to the debt limitations.

Additional information on the County's long-term debt can be found in Note III. I. on pages 90 through 104 of this report.

**Economic Factors and Next Year's Budget Rates:**

- The unemployment rate for Charleston County at the close of 2008 was 4.5%.
- The assessed value of all property in Charleston County increased by over 3.5 billion dollars in 2008.
- The operating and debt service millage remain the same for fiscal year 2009.
- The Local Option Sales Tax Credit decreased nine percent.

The General Fund budgeted revenues for fiscal year 2009 increased by \$3,931 or 2.4 percent from 2008. The major changes are:

Property Tax Revenue	\$ 6,108	10.2% Increase
Interest Income	(2,573)	56.3% Decrease

- Property tax revenue is reflective of continued growth in the County’s property tax base.
- Interest income is decreased due to declining interest rates.

The General Fund budgeted disbursements for fiscal year 2009 are decreased \$974 or 0.6 percent from fiscal year 2008. The major changes for fiscal year 2009 are:

Sheriff Law Enforcement	\$ 888	3.9% Increase
Sheriff Detention Center	594	2.0% Increase
Facilities Management	567	5.3% Increase
Technology Services	(884)	10.0% Decrease

- The largest increase in the General Fund is in the Sheriff’s Office. This reflects adding additional personnel to the detention center and rising fuel and utility costs in the law enforcement division.
- The increases in Facilities Management stem from rising fixed costs in utilities and maintenance contracts.
- The decrease in Technology Services results from cost savings realized in awarding a new management information technology contract and reduced capital spending.

Subsequent to Council approval of the fiscal year 2009 budget, the County’s finance and budget staff projected a shortfall in revenues. The Council and Administrator have taken action to reduce spending in all areas of operations. County staff will reevaluate revenues after midyear to determine if further reductions are necessary.

**Requests for Information**

This financial report is designed to provide a general overview of Charleston County's finances for all those with an interest in the government's financing. Questions concerning any of the information should be addressed to the Controller's Office, 4045 Bridge View Drive, North Charleston, SC 29405-7464.



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