

## 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, 2003. 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 15 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- The assets of Charleston County exceeded its liabilities at June 30, 2003, by \$172,974 (net assets). Of this amount, \$67,663 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$770 during the fiscal year ended June 30, 2003, with a \$5,911 decrease resulting from governmental activities and a \$6,681 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 \$98,908. Approximately thirty-five percent of this total amount, \$35,000, 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 \$22,572, or nineteen percent of the total general fund expenditures.
- Charleston County's long-term debt decreased by \$11,268 (4 percent) during the current fiscal year. The key factor in this decrease was the County not issuing any new bonds during the fiscal year while continuing to make payments on existing bonds.
- The County instituted an early retirement incentive program in the last quarter of fiscal year 2002 that resulted in a reduction in the work force during fiscal year 2003 of twenty full-time equivalents (FTEs) and a projected savings of \$1,750 (net of the cost of the program) over three years.

### Overview of the Financial Statements

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

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

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

**Government-wide financial statements.** Government-wide financial statements are designed to provide readers with a broad overview of the financial position of Charleston County and are similar to private sector financial statements. They include a statement of net assets and a statement of activities. These statements appear on pages 35 and 36 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 57 through 60 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2003. The difference between these assets and liabilities is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position.

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

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

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

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

**Governmental funds.** Governmental funds, presented on pages 37 through 40, essentially account for the same functions as those reported under 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 statements 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 1999 General Obligation (G.O.) Bond Capital Project Fund, and the 2001 General Obligation Bond Capital Project Fund. Although there are many smaller governmental funds in Charleston County Government, they have been presented in a total column termed as "other governmental funds". Combining statements for these other governmental funds have been presented on pages 114 through 125 of this report.

**Proprietary funds.** Charleston County maintains and presents two different types of proprietary funds, enterprise and internal service, shown on pages 143 through 155 of this report.

Enterprise funds report in greater detail, the same information presented as business-type activities in the government-wide financial statements for solid waste and parking garages. DAODAS and E-911 Communications are presented in one total column but may be separately reviewed in the combining statements on pages 144 through 149.

Internal service funds (ISFs) are an accounting mechanism to accumulate and allocate costs internally for Charleston County Government. The County uses internal service funds to account for fleet management, office support services, workers' compensation, and the employee benefits trust. See pages 150 through 155 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 156 through 159 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 56 through 108 of the report.

**Other information.** Individual statements, which present more detailed views of non-major funds used in governmental funds begin on page 126. 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 163.

### **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 \$172,974 at the close of the 2003 fiscal year.

Of this amount, \$62,472 (36 percent) reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. An additional \$32,037 (19 percent) is being held by the County as cash and investments to be used for the planned purchase/construction of additional capital assets already approved by County Council. Charleston County uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities. An additional portion of the County's net assets, \$10,802 (6 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$67,663 (39 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Charleston County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Charleston County's Net Assets  
June 30, 2003  
(Recapped from page35)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$230,482	\$243,908	\$69,144	\$63,222	\$299,626	\$307,130
Capital assets	216,900	222,852	41,642	42,936	258,542	265,788
<b>Total assets</b>	<u>\$447,382</u>	<u>\$466,760</u>	<u>\$110,786</u>	<u>\$106,158</u>	<u>\$558,168</u>	<u>\$572,918</u>
Long-term liabilities						
outstanding	\$208,544	\$213,083	\$43,870	\$45,185	\$252,414	\$258,268
Other liabilities	128,305	137,233	4,475	5,376	132,780	142,609
<b>Total liabilities</b>	<u>\$336,849</u>	<u>\$350,316</u>	<u>\$48,345</u>	<u>\$50,561</u>	<u>\$385,194</u>	<u>\$400,877</u>
Net assets:						
Invested in capital assets, net of related debt	\$40,126	\$38,881	\$22,346	\$20,476	\$62,472	\$59,357
Restricted for future						
construction	19,671	41,130	12,366	17,133	32,037	58,263
Restricted - other	8,750	10,227	2,052	10,350	10,802	20,577
Unrestricted	<u>41,987</u>	<u>26,206</u>	<u>25,677</u>	<u>7,638</u>	<u>67,663</u>	<u>33,844</u>
<b>Total net assets</b>	<u>\$110,533</u>	<u>\$116,444</u>	<u>\$62,441</u>	<u>\$55,597</u>	<u>\$172,974</u>	<u>\$172,041</u>

The County's net assets increased by \$770 during the current fiscal year. This gain is net of the special item loss of \$7,574 resulting from the incorporation of the Town of James Island and the resulting transfer of infrastructure assets from the County to the Town. The gain of \$8,344 before the special item loss when compared to fiscal year 2002 when the gain was \$23,148 is reflective of the sluggish economy in which South Carolina currently finds itself. Approximately forty percent of the gain came from planned revenues in excess of expenditures in the solid waste business-type activities, where the County has large balloon payments starting in 2006 and has been placing the savings from the 1997 refinancing of the Foster Wheeler Solid Waste Bonds in a debt service reserve since that time to apply to these balloon payments. The remainder of the increases represents the degree to which increases in ongoing revenues have outpaced similar increases in ongoing expenses.

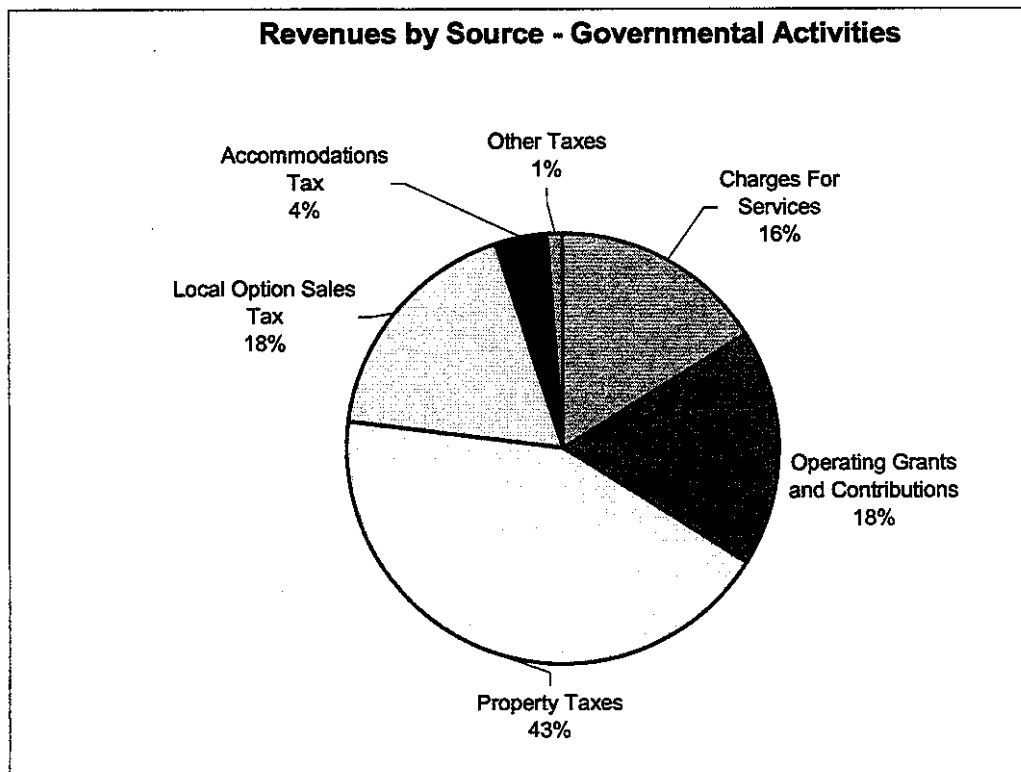
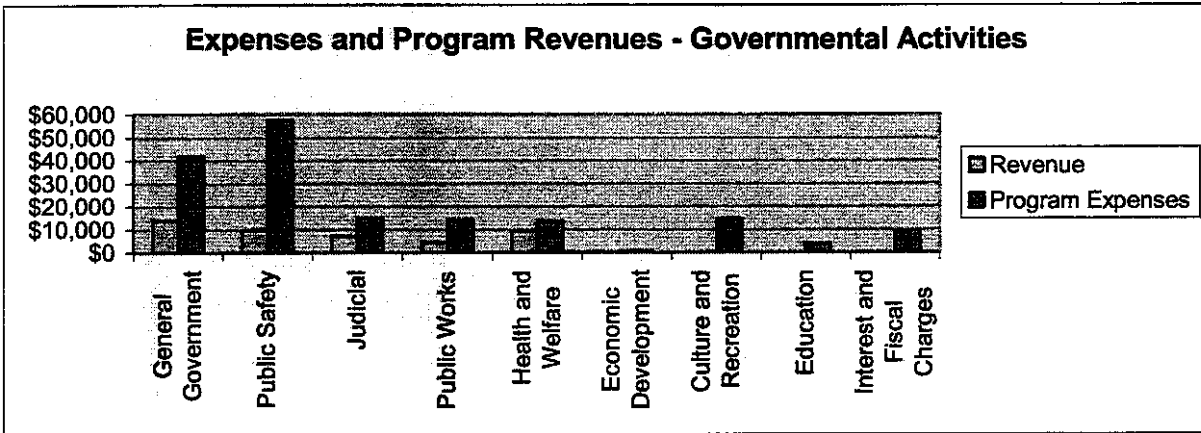
**Governmental activities.** Governmental activities decreased the County's net assets by \$5,911. Key elements of the decrease:

- Charges for services increased by \$4,916 (22 percent) during the year. This was offset by a reduction in investment earnings of \$3,230 (82 percent).
- Accrued interest on the Arthur Ravenel, Jr. Bridge was recognized for six months in the amount of \$1,127. In future years this expense will be approximately \$2,250.

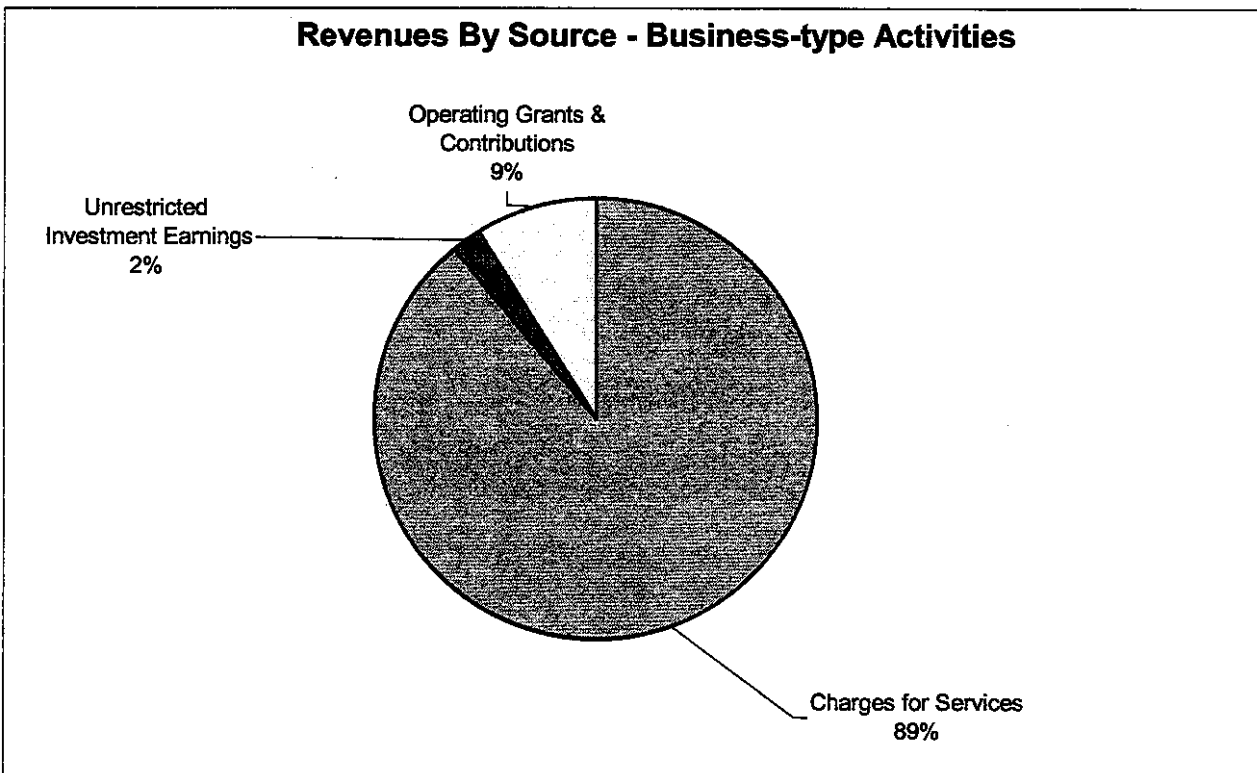
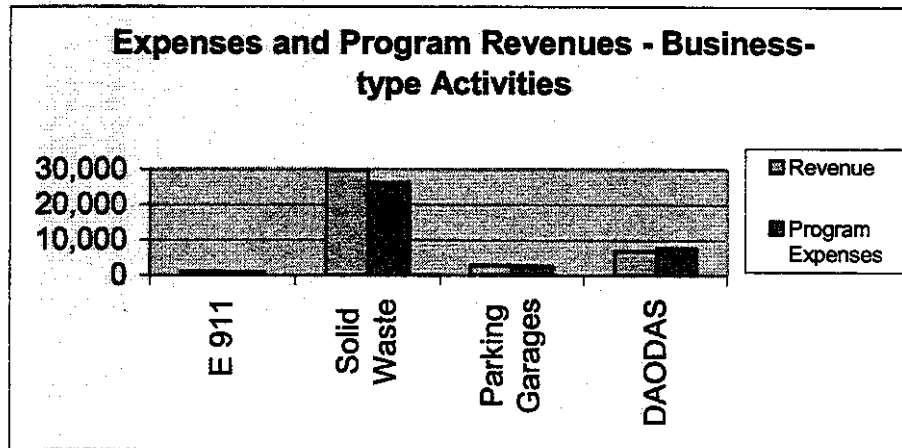
County of Charleston, South Carolina  
Changes in Net Assets (Recapped)  
For the Fiscal Year Ended June 30, 2003

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 27,280	\$ 22,364	\$ 37,091	\$ 37,443	\$ 64,371	\$ 59,807
Operating grants and contributions	17,389	15,694	3,629	4,173	21,018	19,867
<b>General Revenues:</b>						
Property taxes	76,262	76,212	-	-	76,262	76,212
Other taxes	41,490	41,093	525	492	42,015	41,585
State aid to political subdivisions	13,655	13,840	-	-	13,655	13,840
Grants and contributions not restricted to specific programs	-	217	-	-	-	217
Unrestricted investments earnings	728	3,958	640	1,155	1,368	5,113
Loss on sale of capital assets	(215)	(44)	(23)	(111)	(238)	(155)
<b>Total Revenue</b>	<b>176,589</b>	<b>173,334</b>	<b>41,862</b>	<b>43,152</b>	<b>218,451</b>	<b>216,486</b>
<b>Program Expenses:</b>						
<b>Governmental Activities:</b>						
General government	42,031	40,355	-	-	42,031	40,355
Public safety	57,667	49,425	-	-	57,667	49,425
Judicial	15,151	13,275	-	-	15,151	13,275
Public works	14,249	12,372	-	-	14,249	12,372
Health and welfare	13,699	11,240	-	-	13,699	11,240
Economic development	585	731	-	-	585	731
Culture and recreation	14,744	14,146	-	-	14,744	14,146
Education	3,593	3,549	-	-	3,593	3,549
Interest and fiscal changes	10,698	9,931	-	-	10,698	9,931
<b>Business-Type Activities:</b>						
E-911	-	-	924	945	924	945
Solid waste	-	-	26,266	26,372	26,266	26,372
Parking garages	-	-	2,705	2,669	2,705	2,669
DAODAS	-	-	7,796	8,786	7,796	8,786
<b>Total Expenses</b>	<b>172,417</b>	<b>155,024</b>	<b>37,691</b>	<b>38,772</b>	<b>210,108</b>	<b>193,796</b>
Excess of revenue over expenses	4,172	18,310	4,171	4,380	8,343	22,690
Transfers	(2,510)	(2,816)	2,510	2,816	-	-
Transfers of infrastructure due to incorporation	(7,573)	-	-	-	(7,573)	-
<b>Increase (Decreases) in Net Assets</b>	<b>(5,911)</b>	<b>15,494</b>	<b>6,681</b>	<b>7,196</b>	<b>770</b>	<b>22,690</b>
Net assets 7/1/02	116,444	100,951	55,759	48,564	172,204	149,515
<b>Net Assets 6/30/03</b>	<b>\$ 110,533</b>	<b>\$ 116,445</b>	<b>\$ 62,440</b>	<b>\$ 55,760</b>	<b>\$ 172,974</b>	<b>\$ 172,205</b>

- Public Safety expenses increased by \$8,242 (17 percent) during the year.
- The remaining increase in expenses of \$8,023 (7 percent) reflect both inflation and the growth in the demand for services. Included in the \$8,023 is an increase of \$1,743 in worker's compensation and health insurance costs.



**Business-type activities.** Business-type activities increased the County's net assets by \$6,681. The key element of this increase is that the solid waste fund had an increase in net assets of \$3,868. This is primarily the result of a decision made by County Council to bank the savings from a refinancing of the bonded debt on the incinerator in 1997. Because of the substantial total balloon payments of \$33,000 starting in 2006 and running through 2010 that would result in significant user fee increases, County Council decided to hold the user fee level in 1997 instead of decreasing it, therefore resulting in a much smaller increase in the years 2006 through 2010.



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Charleston County's governmental funds reported combined ending fund balances of \$98,908, a decrease of \$3,584 in comparison with the prior year. Of this amount, \$6,627 resulted from decreases in the various capital projects funds as a result of the expenses incurred in the County's on-going facilities replacement and rejuvenation program. The major increase, \$2,488, occurred in the general fund. Approximately thirty-five percent of this ending fund balance, \$35,000, 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 (\$17,633), 2) to pay debt service (\$9,212), or 3) to pay for capital projects as restricted by bond covenants (\$37,062).

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 \$22,572 while total fund balance reached \$24,900. 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 19 percent of total general fund expenditures, while total fund balance represents 21 percent of that same amount. The net increase in the fund balance of the general fund was \$2,488 during the current year. Highlights in the general fund were as follows:

- An increase in property taxes of \$2,792. This resulted primarily from an increase in the assessment base of three percent.
- A hiring freeze implemented in mid-year fiscal 2002, which resulted in a permanent reduction of sixteen FTEs in the fiscal year 2003 budget process.
- The implementation in fiscal year 2002 of an early retirement plan that resulted in a reduction of twenty FTEs countywide with a combined net savings of \$1,750 over the following three years.

The debt service fund has a total fund balance of \$9,212, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$883. This decrease was the result of a decision to fund the lease purchase of the personal computers from this fund and reduce the fund balance by a corresponding amount.

Capital projects funds have a combined total fund balance of \$45,271. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. The major funds are shown on pages 37 and 39 and the nonmajor ones on pages 123, 118 through 119, and 124 through 125.

The special revenue funds have a combined total fund balance of \$19,525. Of this amount, \$11,317 is undesignated fund balance and the balance of \$8,208 is reserved for encumbrances. All of the special revenue funds are shown as nonmajor governmental funds on pages 111 through 113, 114 through 119 and 120 through 125.

**Proprietary funds.** The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. See pages 143 through 155.

## General Fund Budgetary Highlights

There was a fifty-seven thousand dollar (\$57,000) increase in appropriations between the original budget and the final amended budget shown on pages 41 through 43 of this report. This was to adjust the Probate Court budget for the Adult Drug Court. There was a shift of \$2,660 from expenditures to transfers-out, primarily to special revenue funds to pay for grant matches and to the capital projects construction fund for multiple year projects.

## 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, 2003, amounted to \$258,552 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges and drainage easements. The total decrease in the County's investment in capital assets for the current fiscal year was 2.7 percent (a 2.6 percent decrease for governmental activities and a 3 percent decrease for business-type activities).

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

- The completion of the construction of the Judicial Center resulted in \$47,436 being moved from construction in progress to governmental activities - buildings. The total accumulated cost of the Judicial Center placed into the governmental activities - buildings was \$48,653.
- Renovations continued on the County Office Building, which resulted in an additional \$4,696 being added to governmental activities construction in progress.
- A complete physical inventory was performed on fixed assets at year-end. The completed inventory listing was used to assist in updating the fixed assets records. The fixed assets records were also updated for additions and deletions occurring during the year. These combined changes resulted in a net decrease of \$4,822 for the year. Accumulated depreciation for the year had a net increase of \$414.
- The incorporation of the Town of James Island resulted in a net loss of infrastructure assets to the County of \$7,573.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 6,313	\$ 6,313	\$ 4,009	\$ 4,013	\$ 10,322	\$ 10,326
Buildings	146,793	101,493	30,782	31,614	177,574	133,107
Improvements other than buildings	2,109	2,398	642	747	2,751	3,145
Machinery and equipment	19,749	21,330	5,531	6,357	25,280	27,687
Infrastructure	26,381	35,049	-	-	26,381	35,049
Construction in progress	15,565	56,269	678	205	16,244	56,474
<b>Total</b>	<b>\$216,910</b>	<b>\$222,852</b>	<b>\$ 41,642</b>	<b>\$ 42,936</b>	<b>\$258,552</b>	<b>\$265,788</b>

Additional information on the County's capital assets can be found in Note III. C. on pages 78 through 82 of this report.

**Long-term debt.** At the end of the current fiscal year, Charleston County had total bonded debt outstanding of \$208,434. Of this amount, \$101,745 comprises debt backed by the full faith and credit of the government, \$90,937 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$15,752 is comprised of revenue bond debt secured solely by solid waste user fees.

In addition to the bonded debt Charleston County has signed a contract with the S.C. Infrastructure Bank to pay \$3,000 a year starting on January 1, 2004, for a period of 25 years as the County's commitment toward the new Arthur Ravenel, Jr. Bridge over the Cooper River. The County has recorded this obligation on its records at a net present value of \$39,354 using a discount rate of 5.73%. This is the same rate the Bank is repaying its loan from the federal government, using the money received from the County.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General obligation bonds	\$101,745	\$106,850	\$ -	\$ -	\$101,745	\$106,850
Certificates of participation	71,417	74,817	19,520	20,564	90,937	95,381
Revenue bonds	-	-	15,752	16,744	15,752	16,744
Intergovernmental Note payable	39,354	39,354	-	-	39,354	39,354
<b>Total</b>	<b>\$212,516</b>	<b>\$221,020</b>	<b>\$35,272</b>	<b>\$37,308</b>	<b>\$247,788</b>	<b>\$258,329</b>

The County's total bonded debt decreased by \$10,541 (5 percent) during the current fiscal year. This is a result of no new bonded debt being issued and payments being made on existing debt.

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

South Carolina statutes limit the amount of general obligation (G.O.) debt a governmental entity may issue (without referendum) to eight percent of its total assessed value. The current G.O. debt limit for Charleston County is \$140,477 which is significantly in excess of the County's current G.O. outstanding balance of \$80,245 subject to the debt limitations.

Additional information on the County's long-term debt can be found in Note III. I. on pages 85 through 96 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- The labor force grew by three point percent from 2001 to 2002.
- Unemployment rate at the close of 2002 was three point eight percent, which is approximately 2 percent better than the state average.
- Gross retail sales finished three percent higher in 2002 than 2001.
- There were five thousand single-family housing starts for 2002, an increase of twenty-eight percent over 2001.

- Port tonnage increased three percent in 2002 compared to 2001.
- Hotel room revenue in 2002 increased five point three percent (5.3%) over 2001.

All of these factors were considered in preparing Charleston County's budget for the 2004 fiscal year.

The following actions Charleston County Council took during fiscal years 2002 and 2003 allowed it to pass a general fund budget for fiscal year 2004 without an increase in millage.

- Increases in fees:
  - Family Court - \$500
  - Federal Prisoner Per Diem - \$500
  - Business Licenses - \$400
  - Emergency Medical Services - \$400
- Growth in property tax base that generated \$2,700 without millage increases.
- Implementation of an early retirement plan that resulted in a savings in fiscal year 2004 of \$1,450.

The above revenue changes allowed County Council to adopt a general fund budget that increased by approximately \$6,000 in expenses and transfers out. The significant changes in budgeted expenditures are:

- An increase in forty full-time equivalents (FTEs) in the detention center over the original 2003 budget (Twenty in mid-year 2003 and twenty beginning in 2004) - \$1,760
- Salary adjustments for COLA - \$1,685
- Increases in health insurance and workers' compensation - \$900
- Addition in Emergency Medical Services of four FTEs (additional district supervisors) -\$220
- Transfers out to:
  - Fleet - \$1,480
  - Library - \$750

There were no adoptions of rate increases for business-type activities.

### **Requests for Information**

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