

# 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, 2006. 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 22 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, 2006, by \$245,218 (net assets). Of this amount, \$54,630 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$42,888 during the fiscal year ended June 30, 2006, with a \$33,582 increase resulting from governmental activities and a \$9,306 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 \$204,877. Approximately twenty-seven percent of this total amount, \$55,775, 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 \$43,733 or thirty-one percent of the total general fund expenditures.
- Charleston County's long-term debt increased by \$51,338 (twenty-one percent) during the current fiscal year. A full discussion of the County's changes in long-term debt can be found on pages 91-105.

## 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 43 and 44 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 66 through 68 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2006. 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 45 through 51, 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 135 of this report.

**Proprietary Funds.** Charleston County maintains and presents two different types of proprietary funds, enterprise and internal service, shown on pages 52 through 57 of this report.

Enterprise funds report in greater detail, the same information presented as business-type activities in the government-wide financial statements for solid waste and parking garages. DAODAS and E-911 Communications are presented in one total column termed as "non-major other funds" but may be separately reviewed in the combining statements on pages 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 64 through 116 of the report.

**Other Information.** Individual statements, which present more detailed views of non-major 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 169.

### **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 \$245,218 at the close of the 2006 fiscal year.

Of this amount, \$91,768 (37 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 \$54,083 (22 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, \$46,716 (19 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$52,652 (21 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, 2006  
(Recapped from page 43)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$337,908	\$247,448	\$ 79,969	\$ 81,800	\$417,877	\$329,248
Capital assets	226,155	221,992	40,764	30,921	266,919	252,913
<b>Total assets</b>	<u>\$564,063</u>	<u>\$469,440</u>	<u>\$120,733</u>	<u>\$112,721</u>	<u>\$684,796</u>	<u>\$582,161</u>
Long-term liabilities						
outstanding	\$250,644	\$195,234	\$ 21,530	\$ 23,668	\$272,174	\$218,902
Other liabilities	150,367	143,041	17,037	16,167	167,404	159,208
<b>Total liabilities</b>	<u>\$401,011</u>	<u>\$338,275</u>	<u>\$ 38,567</u>	<u>\$ 39,835</u>	<u>\$439,578</u>	<u>\$378,110</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 73,785	\$ 57,359	\$ 17,983	\$ 20,241	\$ 91,768	\$ 77,600
Restricted for future construction	32,686	34,059	21,397	9,647	54,083	43,706
Restricted - other	18,953	26,278	27,763	1,495	46,716	27,775
Unrestricted	<u>37,628</u>	<u>13,467</u>	<u>15,023</u>	<u>41,503</u>	<u>52,651</u>	<u>54,970</u>
<b>Total net assets</b>	<u>\$163,052</u>	<u>\$131,163</u>	<u>\$ 82,166</u>	<u>\$ 72,886</u>	<u>\$245,218</u>	<u>\$204,051</u>

The County's net assets increased by \$42,888 during the current fiscal year. This compares favorably to the fiscal year 2005 gain of \$20,607. Approximately twenty-two percent of the gain came from business type activities primarily 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.

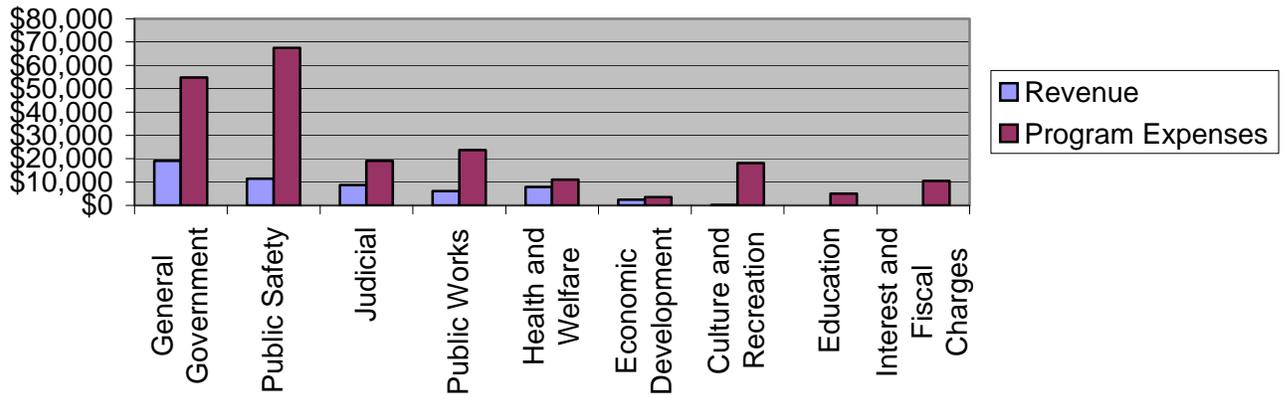
**Governmental Activities.** Governmental activity increased the County's net assets by \$33,582. Key elements of the increase:

- The new half cent transportation sales tax was effective May 1, 2005. The transportation tax was only collected for two months in fiscal year 2005. For fiscal year 2006 it was collected for the full year and increased \$31,246 (532.29 percent).
- Property taxes and local option sales tax increased by \$8,790 (7.6 percent) during the year.
- Fees, permits and service charges increased by \$2,434 (7.2 percent) during the year.
- Intergovernmental earnings increased by \$2,633 (7.4 percent).
- Investment earnings increased by \$4,009 (95.2 percent) during the year.
- Expenses for the year increased by \$23,650 (12.4 percent) with the substantial portion of that increase coming from public works \$9,148, general government \$6,493 and education \$1,074. The remaining increase \$6,935, reflects both inflation and the growth in the demand for services.

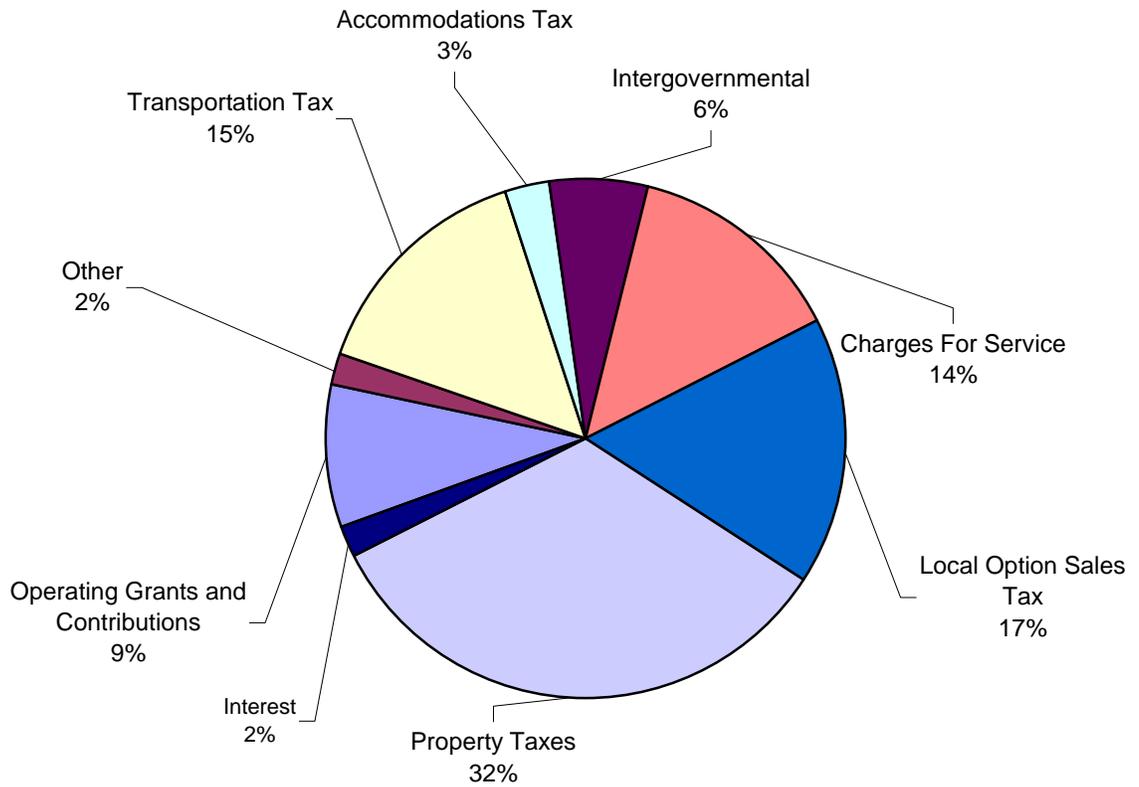
County of Charleston, South Carolina  
Changes in Net Assets (Recapped from page 44)  
For the Fiscal Year Ended June 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 34,526	\$ 32,521	\$ 43,245	\$ 43,075	\$ 77,771	\$ 75,596
Operating grants and contributions	21,436	19,298	2,933	1,138	24,369	20,436
Capital grants and contributions	-	3,132	904	-	904	3,132
<b>General Revenues:</b>						
Property taxes	82,217	77,341	-	-	82,217	77,341
Other taxes and fees	90,023	54,161	534	554	90,557	54,715
State aid to political subdivisions	14,603	13,960	-	-	14,603	13,960
Unrestricted investments earnings	5,757	2,496	1,782	833	7,539	3,329
Gain (Loss) on sale of capital assets	514	-	4	-	518	-
<b>Total Revenue</b>	<b>249,076</b>	<b>202,909</b>	<b>49,402</b>	<b>45,600</b>	<b>298,478</b>	<b>248,509</b>
<b>Program Expenses:</b>						
<b>Governmental Activities:</b>						
General government	54,974	48,480	-	-	54,974	48,480
Public safety	67,476	65,412	-	-	67,476	65,412
Judicial	19,042	17,627	-	-	19,042	17,627
Public works	23,718	14,570	-	-	23,718	14,570
Health and welfare	10,993	11,824	-	-	10,993	11,824
Economic development	3,481	944	-	-	3,481	944
Culture and recreation	18,133	16,731	-	-	18,133	16,731
Education	5,005	3,931	-	-	5,005	3,931
Interest and fiscal changes	10,453	10,108	-	-	10,453	10,108
<b>Business-Type Activities:</b>						
E-911	-	-	888	1,167	888	1,167
Solid waste	-	-	32,431	29,336	32,431	29,336
Parking garages	-	-	1,712	1,922	1,712	1,922
DAODAS	-	-	8,667	8,493	8,667	8,493
<b>Total Expenses</b>	<b>213,275</b>	<b>189,627</b>	<b>43,698</b>	<b>40,918</b>	<b>256,973</b>	<b>230,545</b>
Excess of revenue over expenses	35,801	13,282	5,704	4,682	41,505	17,964
Transfers	(3,603)	(3,289)	3,603	3,289	-	-
Special item	1,384	3,471	-	-	1,384	3,471
<b>Increase (Decreases) in Net Assets</b>	<b>33,582</b>	<b>13,464</b>	<b>9,307</b>	<b>7,971</b>	<b>42,889</b>	<b>21,435</b>
Net assets, beginning	129,446	116,195	73,710	65,706	203,156	181,901
Prior Period Adjustments	23	(212)	(850)	33	(827)	(179)
Net Assets, beginning adjusted	129,469	115,983	72,860	65,739	202,329	181,722
<b>Net Assets, ending</b>	<b>\$163,051</b>	<b>\$129,446</b>	<b>\$82,167</b>	<b>\$73,710</b>	<b>\$245,218</b>	<b>\$203,156</b>

### Expenses and Program Revenues - Governmental Activities

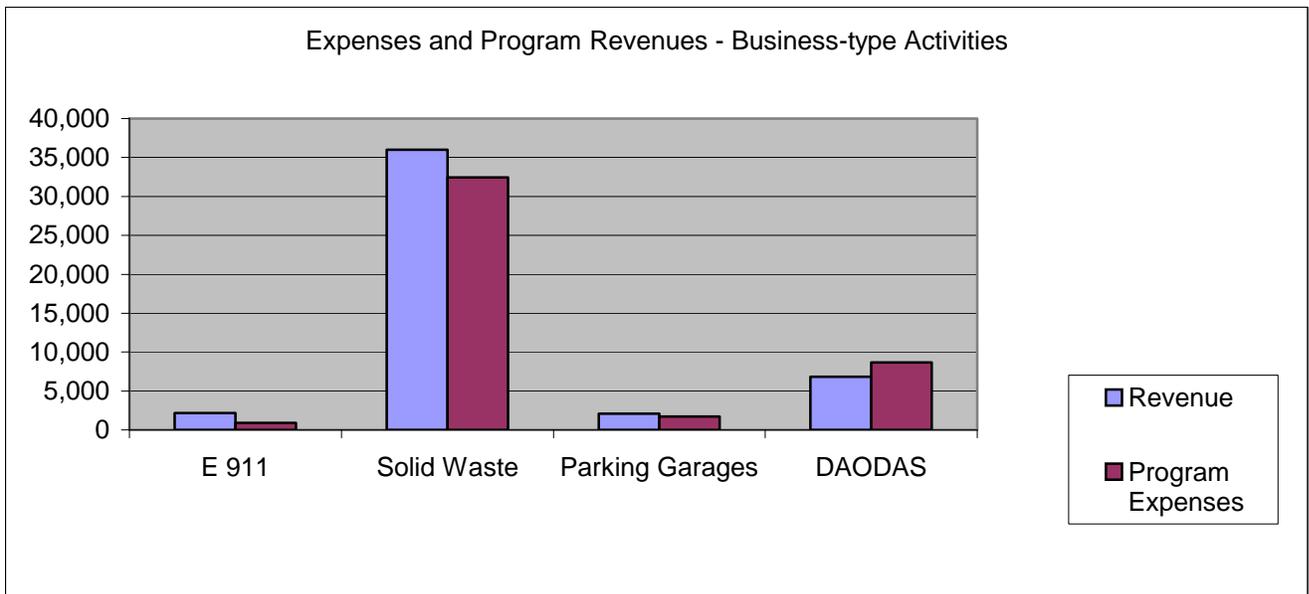
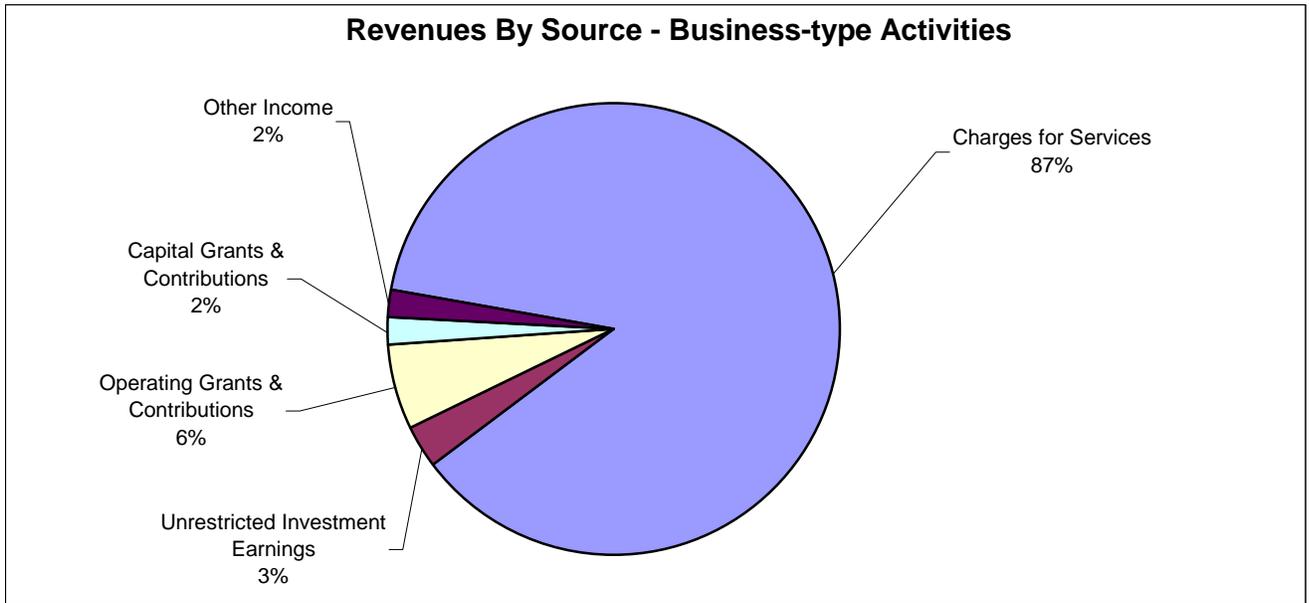


### Revenues by Source - Governmental Activities



**Business-type activities.** Business-type activities increased the County's net assets by \$9,306. The key element of this increase was:

- The solid waste fund had an increase in net assets of \$4,355. 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 \$204,877, an increase of \$87,835 in comparison with the prior year. Of this amount, \$6,994 resulted from decreases in the various capital projects funds as a result of the expenses incurred in the County's on-going facilities replacement and rejuvenation program. The major increases occurred in the general fund, \$12,566 and transportation and road sales tax, \$86,624. Approximately sixty-five percent of this ending fund balance, \$55,775 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 (\$18,006), 2) to pay debt service (\$18,953), 3) to pay for capital projects as restricted by bond covenants (\$32,686), 4) reserved for inventories and prepaid items (\$525), or 5) reserved for transportation projects (\$78,931).

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 \$43,732 while total fund balance reached \$48,934. 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 31 percent of total general fund expenditures, while total fund balance represents 35 percent of that same amount. The net increase in the fund balance of the general fund was \$12,566 during the current year. Highlights in the general fund were as follows:

- An increase of \$1,806 in fees, permits, licenses, and service charges (7.3 percent) over the prior year.
- An increase of \$4,059 in local option sales tax which is 10.6 percent over the previous year.
- An increase of \$5,437 in property taxes which is 7 percent over the previous year.

Capital projects funds have a combined total fund balance of \$32,685. These funds are 100 percent reserved either to cover existing encumbrances or for future capital construction. The General Obligation Bond Capital Projects \$15,498 is shown as a major fund and the remaining funds \$17,187 are all non-major ones and are shown on pages 128 through 129, and 134 through 135.

The special revenue funds have a combined total fund balance of \$104,304. The Transportation and Road Sales Tax Special Revenue Fund \$88,841 is shown as a major fund and the remaining funds of \$15,463 are all non-major funds. Of this amount, \$12,042 is undesignated fund balance and, of the balance, \$3,421 is reserved for encumbrances and inventory. Remaining special revenue funds are shown as non-major governmental funds on pages 124 through 128, and 130 through 134.

**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 52 through 57, 150 through 155 and 157 through 161.

As of the end of the current fiscal year, Charleston County's business-type funds reported combined ending net assets of \$73,913, an increase of \$6,546 in comparison with prior year. The solid waste fund accounted for \$4,356 of this increase. Highlights in the solid waste fund are as follows:

- An increase in charges for services of \$962, which is a 53% increase from prior year. This is due to an increase in landfill usage by the citizens of Charleston County.
- An increase in energy sales of \$761, which is a 10% increase from prior year.

**General Fund Budgetary Highlights** Over the course of the year, County Council amended the original budget to increase total revenues and appropriations by \$150. Actual revenues were \$14,065 over budgeted amounts.

The two most significant increases were taxes, which was \$4,701 over budget and interest income which was \$5,060 over the budgeted amount. The variance in taxes was due to an increase in the local option sales taxes collected. The variance in interest income was due to an increase in the rate earned and additional cash reserves.

Actual expenditures were \$6,820 below the final budget amounts. The most significant contribution to this variance was the expenditure for Council contingency being \$1,636 less than the budgeted amount. This schedule is shown on pages 49 through 51 of this report.

### Capital Asset and Debt Administration

**Capital Assets.** Charleston County's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$266,919 (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 8.9 percent (a 1.9 percent increase for governmental activities and a 31.8 percent increase for business-type activities).

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 3,970	\$ 3,963	\$ 3,951	\$ 3,951	\$ 7,921	\$ 7,914
Buildings	158,406	162,943	19,126	19,524	177,532	182,467
Improvements other than buildings	1,832	1,908	467	736	2,299	2,644
Machinery and equipment	24,902	25,323	5,664	5,435	30,566	30,758
Infrastructure	29,689	27,400	-	-	29,689	27,400
Construction in progress	7,356	455	11,556	1,275	18,912	1,730
Total	<u>\$ 226,155</u>	<u>\$ 221,992</u>	<u>\$ 40,764</u>	<u>\$ 30,921</u>	<u>\$ 266,919</u>	<u>\$ 252,913</u>

The major capital asset event during the current year was that the County has started on the conversion of the radio system from an analog to a digital system.

Additional information on the County's capital assets can be found in Note III. C. on pages 85 through 89 of this report.

**Long-Term Debt.** At the end of the current fiscal year, Charleston County had total bonded debt outstanding of \$238,656. Of this amount, \$153,448 comprises debt backed by the full faith and credit of the government, \$73,483 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$11,724 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 \$36,988 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 153,448	\$ 93,392	\$ -	\$ -	\$ 153,448	\$ 93,392
Certificates of participation	62,427	67,055	11,057	11,841	73,484	78,896
Revenue bonds	-	-	11,724	13,002	11,724	13,002
Intergovernmental note payable	<u>36,988</u>	<u>37,821</u>	<u>-</u>	<u>-</u>	<u>36,988</u>	<u>37,821</u>
<b>Total</b>	<b><u>\$ 252,863</u></b>	<b><u>\$ 198,268</u></b>	<b><u>\$ 22,781</u></b>	<b><u>\$ 24,843</u></b>	<b><u>\$ 275,644</u></b>	<b><u>\$ 223,111</u></b>

The County's total bonded debt increased by \$53,366 (29 percent) during the current fiscal year.

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

During May, 2006 Charleston County issued \$65,000 in new referendum General Obligation Bonds, to be repaid by the one-half cent transportation sales tax.

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 \$205,996 which is significantly in excess of the County's current G.O. outstanding balance of \$69,974 subject to the debt limitations.

Additional information on the County's long-term debt can be found in Note III. I. on pages 91 through 105 of this report.

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

- There were 8,000 single family permits issued in 2005, an increase of 18 percent over the prior year.
- Gross retail sales in 2005 finished 9 percent higher than 2004.
- Port tonnage increased 5 percent in 2005 compared to 2004.
- Combined enplanements and deplanements was 17 percent greater in 2005 than 2004.
- Hotel room revenue in fiscal year 2006 increased by 9.4 percent over 2005.

- The unemployment rate at the close of 2005 was 4.9 percent.

All of these factors were considered in preparing Charleston County's budget for the 2007 fiscal year.

The following factors were considered by Charleston County Council which allowed it to pass a general fund budget for fiscal year 2007 without an increase in millage.

- |                                                                            |         |
|----------------------------------------------------------------------------|---------|
| • Growth in the Local Option Sales Tax                                     | \$4,500 |
| • Treasurer - increased interest earnings                                  | \$3,600 |
| • Register of Mesne Conveyance – increased<br>number of Documentary Stamps | \$2,000 |
| • State Aid – improved state economy                                       | \$1,800 |

The General Fund budgeted expenditures for Fiscal Year 2007 increased by \$8,600 in expenses and transfers out. The major increases are:

- |                                                                 |           |
|-----------------------------------------------------------------|-----------|
| • Salary adjustments for Cost of Living &<br>Compensation study | \$4,400   |
| • Sheriff fleet maintenance & replacement                       | \$1,600   |
| • Increase in inmate costs at Detention Center                  | \$1,000   |
| • Decrease in County Council contingency                        | (\$1,200) |
| • Transfer out to the Library                                   | \$ 850    |
| • Transfers out to the Capital Improvement Plan                 | \$1,900   |

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.