

# 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, 2007. 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 18 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, 2007, by \$271,045 (net assets). Of this amount, \$62,961 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$25,781 during the fiscal year ended June 30, 2007, with an \$11,653 increase resulting from governmental activities and a \$14,128 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 \$211,566. Approximately 29 percent of this total amount, \$62,462, 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 \$46,334 or 32 percent of the total general fund expenditures.
- Charleston County's long-term debt decreased by \$20,928 (7 percent) during the current fiscal year. A full discussion of the County's changes in long-term debt can be found on Pages 92-106.

## 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 41 and 42 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 64 through 66 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2007. 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), Radio Communications, 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 43 through 49, 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 50 through 55 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, 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 152 through 157.

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 159 through 163 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 165 through 167 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 62 through 119 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 172.

### **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 \$271,045 at the close of fiscal year 2007.

Of this amount, \$103,380 (38 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 \$27,975 (10 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, \$76,729 (28 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net assets, \$62,961 (24 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, 2007  
(Recapped from page 41)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$349,555	\$337,908	\$102,080	\$ 79,969	\$451,635	\$417,877
Capital assets	219,755	226,155	45,360	40,764	265,115	266,919
<b>Total assets</b>	<u>\$569,310</u>	<u>\$564,063</u>	<u>\$147,440</u>	<u>\$120,733</u>	<u>\$716,750</u>	<u>\$684,796</u>
Long-term liabilities						
outstanding	\$235,492	\$250,644	\$ 19,405	\$ 21,530	\$254,897	\$272,174
Other liabilities	159,067	150,367	31,741	17,037	190,808	167,404
<b>Total liabilities</b>	<u>\$394,559</u>	<u>\$401,011</u>	<u>\$ 51,146</u>	<u>\$ 38,567</u>	<u>\$445,705</u>	<u>\$439,578</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 78,742	\$ 73,785	\$ 24,638	\$ 17,983	\$103,380	\$ 91,768
Restricted for future construction	22,442	32,686	5,533	21,397	27,975	54,083
Restricted - other	47,388	18,953	29,341	27,763	76,729	46,716
Unrestricted	26,179	37,628	36,782	15,023	62,961	52,651
<b>Total net assets</b>	<u>\$174,751</u>	<u>\$163,052</u>	<u>\$ 96,294</u>	<u>\$ 82,166</u>	<u>\$271,045</u>	<u>\$245,218</u>

The County's net assets increased by \$25,781 during the current fiscal year. This compares unfavorably to the fiscal year 2006 gain of \$42,888. 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.

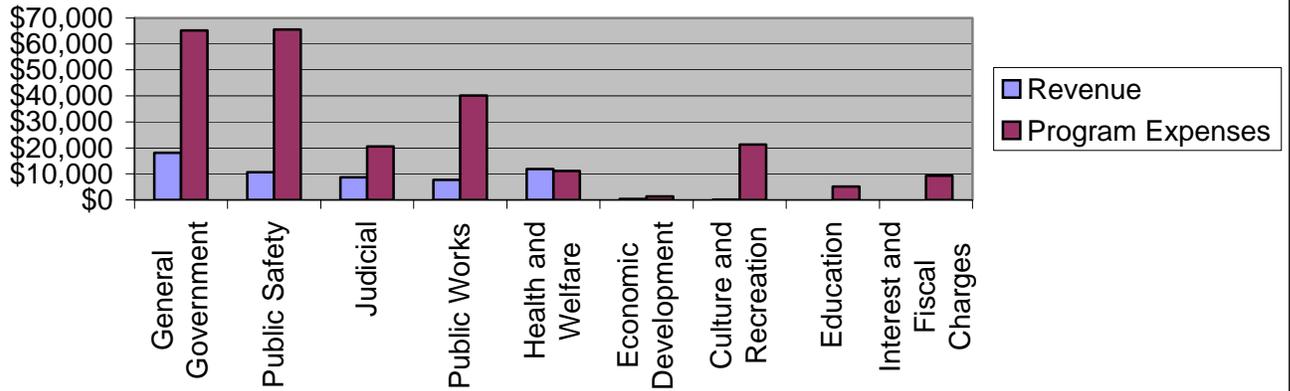
**Governmental Activities.** Governmental activity increased the County's net assets by \$11,653. Key elements of the increase:

- The transportation half cent sales tax was effective May 1, 2005. Transportation tax collected increased by \$2,405 for fiscal year 2007 (6.5 percent).
- Property taxes and local option sales tax increased by \$1,938 (1.6 percent) during the year.
- Investment earnings increased by \$4,480 (54.49 percent) during the year.
- Expenses for the year increased by \$26,467 (12.4 percent) with the substantial portion of that increase coming from public works \$16,468, general government \$10,224, judicial \$1,503 and a decrease in public safety \$1,856. The remaining increase \$128, reflects both inflation and the growth in the demand for services.

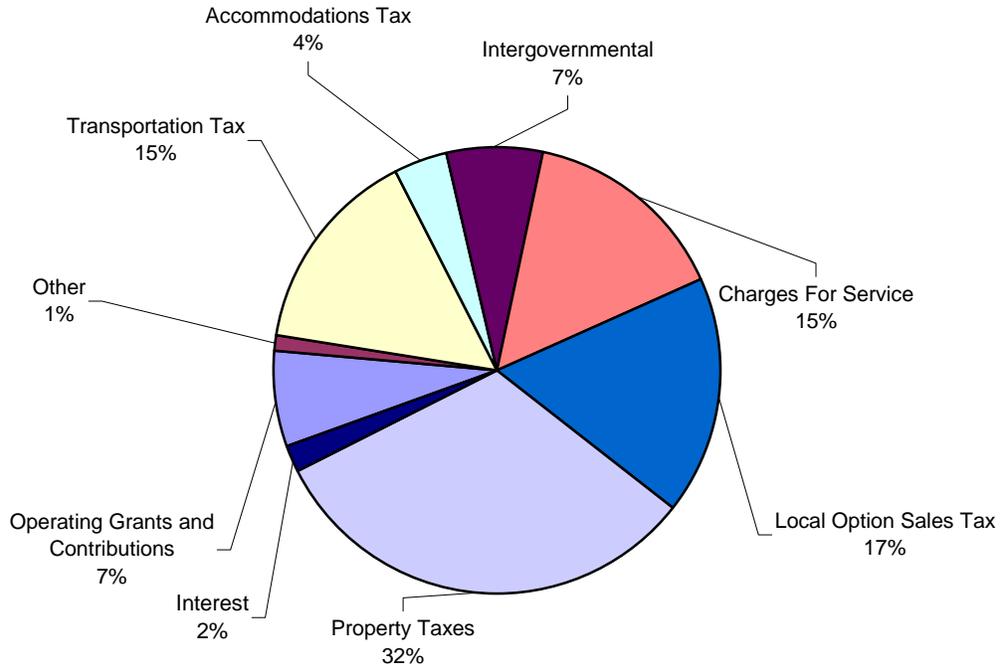
County of Charleston, South Carolina  
Changes in Net Assets (Recapped from page 42)  
For the Fiscal Year Ended June 30, 2007

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 39,400	\$ 34,526	\$ 47,867	\$ 43,245	\$ 87,267	\$ 77,771
Operating grants and contributions	18,216	21,436	979	2,933	19,195	24,369
Capital grants and contributions	-	-	1	904	1	904
<b>General Revenues:</b>						
Property taxes	82,290	82,217	-	-	82,290	82,217
Other taxes and fees	95,022	90,023	517	533	95,539	90,556
State aid to political subdivisions	16,098	14,603	-	-	16,098	14,603
Unrestricted investments earnings	5,422	5,757	3,369	1,782	8,791	7,539
Gain on sale of capital assets	-	514	95	4	95	518
<b>Total Revenues</b>	<b>256,448</b>	<b>249,076</b>	<b>52,828</b>	<b>49,401</b>	<b>309,276</b>	<b>298,477</b>
<b>Program Expenses:</b>						
<b>Governmental Activities:</b>						
General government	65,198	54,974	-	-	65,198	54,974
Public safety	65,620	67,476	-	-	65,620	67,476
Judicial	20,546	19,042	-	-	20,546	19,042
Public works	40,186	23,718	-	-	40,186	23,718
Health and welfare	11,112	10,993	-	-	11,112	10,993
Economic development	1,325	3,481	-	-	1,325	3,481
Culture and recreation	21,307	18,133	-	-	21,307	18,133
Education	5,138	5,005	-	-	5,138	5,005
Interest and fiscal changes	9,311	10,453	-	-	9,311	10,453
<b>Business-Type Activities:</b>						
Radio Communications	-	-	1,800	-	1800	-
E-911	-	-	984	888	984	888
Solid waste	-	-	30,230	32,431	30,230	32,431
Parking garages	-	-	1,754	1,712	1,754	1,712
DAODAS	-	-	8,984	8,667	8,984	8,667
<b>Total Expenses</b>	<b>239,743</b>	<b>213,275</b>	<b>43,752</b>	<b>43,698</b>	<b>283,495</b>	<b>256,973</b>
Excess of revenue over expenses	16,705	35,801	9,076	5,703	25,781	41,504
Transfers	(5,052)	(3,603)	5,052	3,603	-	-
Special item	-	1,384	-	-	-	1,384
<b>Increase (Decreases) in Net Assets</b>	<b>11,653</b>	<b>33,582</b>	<b>14,128</b>	<b>9,306</b>	<b>25,781</b>	<b>42,888</b>
Net assets, beginning	163,052	129,446	82,166	73,710	245,218	203,156
Prior Period Adjustments	46	24	-	(850)	46	(826)
Net Assets, beginning adjusted	<b>163,098</b>	<b>129,470</b>	<b>82,166</b>	<b>72,860</b>	<b>245,264</b>	<b>202,330</b>
<b>Net Assets, ending</b>	<b>\$174,751</b>	<b>\$163,052</b>	<b>\$96,294</b>	<b>\$82,166</b>	<b>\$271,045</b>	<b>\$245,218</b>

### Expenses and Program Revenues - Governmental Activities

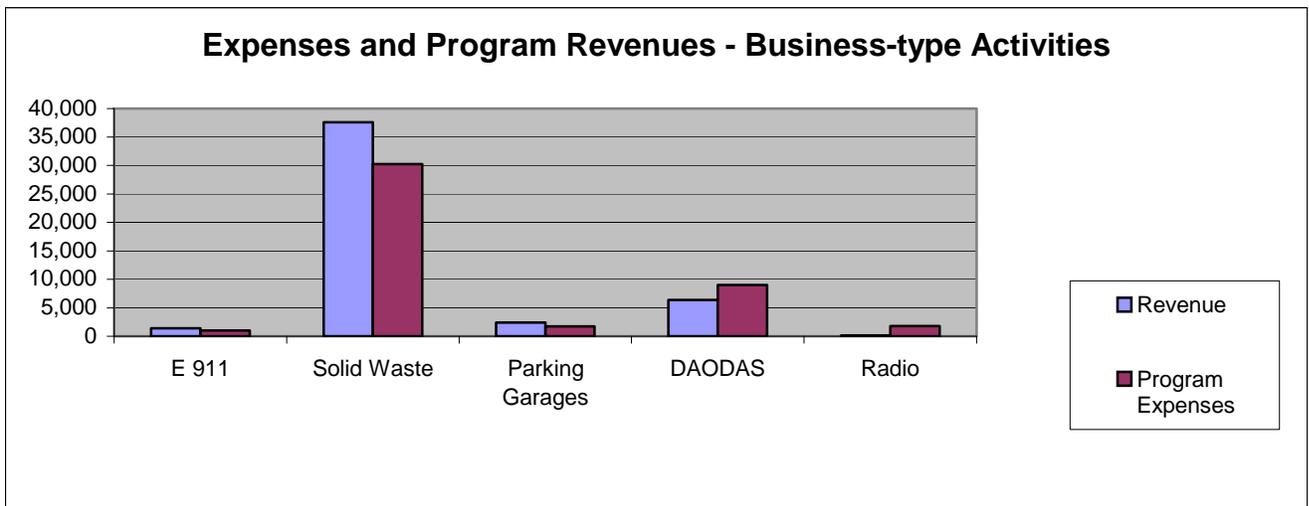
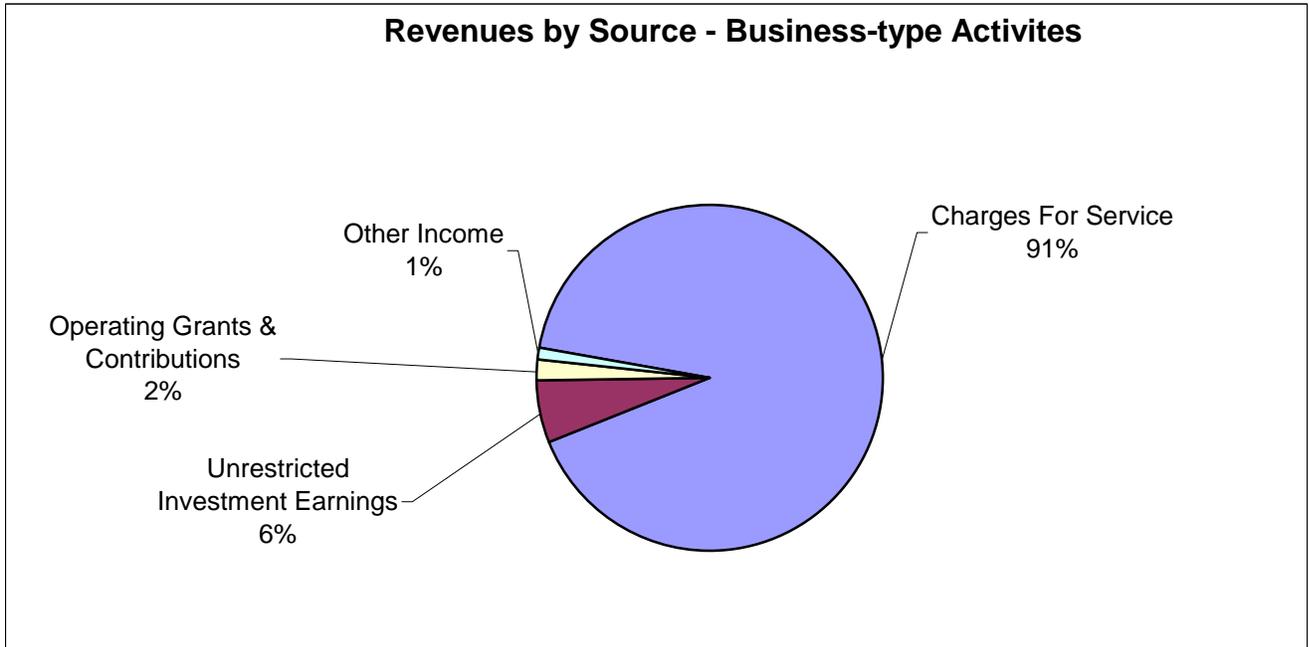


### Revenues by Source - Governmental Activities



**Business-type activities.** Business-type activities increased the County's net assets by \$14,128. The key element of this increase was:

- The solid waste fund had an increase in net assets of \$9,232. 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.



## 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 \$211,566, an increase of \$6,751 in comparison with the prior year. Of this amount, \$11,309 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, \$786 and transportation and road sales tax, \$12,527. Approximately 30 percent of this ending fund balance, \$62,462 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 (\$11,766), 2) to pay debt service (\$18,252), 3) to pay for capital projects as restricted by bond covenants (\$22,442), 4) reserved for inventories and prepaid items (\$622), or 5) reserved for transportation projects (\$96,022).

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 \$46,334 while total fund balance reached \$49,702. 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 34 percent of that same amount. The net increase in the fund balance of the general fund was \$786 during the current year. Highlights in the general fund were as follows:

- An increase of \$1,865 in local option sales tax which is 4.4 percent over the previous year.
- An increase of \$357 in property taxes which is less than 1 percent over the previous year.

Capital projects funds have a combined total fund balance of \$22,442. 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 \$4,189 is shown as a major fund and the remaining funds \$18,253 are all non-major ones and are shown on Pages 128 and 134.

The special revenue funds have a combined total fund balance of \$121,170. The Transportation and Road Sales Tax Special Revenue fund balance \$101,368 is shown as a major fund and the remaining funds of \$19,802 are all non-major funds. Of this amount, \$16,128 is undesignated fund balance and, of the balance, \$3,674 is reserved for encumbrances and inventory. Remaining special revenue funds are shown as non-major governmental funds 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 50 through 55, 152 through 157 and 159 through 163.

As of the end of the current fiscal year, Charleston County's proprietary funds reported combined ending net assets of \$96,294, an increase of \$14,128 in comparison with prior year. The solid waste fund accounted for \$9,230 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 \$1,793 over budgeted amounts.

The three most significant variances were taxes, which was \$1,405 over budget and interest income which was \$671 over budget and service charge income which was \$1,134 under 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 \$10,312 below the final budget amounts. The most significant contributions to this variance were the following:

Sheriff	\$737	Detention center salaries and benefits
	124	Professional medical services
	120	Juvenile detention
	67	School crossing guard
	575	Law enforcement
Public Works	\$141	Administration salaries
	200	Consultant fees
	37	Civil engineering
	363	Mosquito control
	769	Field operations
Emergency Medical Services	\$854	Salaries
County Council	\$563	Contingency
	17	Consultant fees
	15	Other
Delinquent Tax	\$439	Salaries and benefits
	50	Other
Magistrates	\$356	Salaries and benefits
Non-departmental	\$496	COLA and other salary adjustments
	250	Contingency

## 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, 2007, amounted to \$265,115 (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 .67 percent (a 2.8 percent decrease for governmental activities and an 11.28 percent increase for business-type activities).

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 3,970	\$ 3,970	\$ 3,951	\$ 3,951	\$ 7,921	\$ 7,921
Buildings	154,042	158,406	18,564	19,126	172,606	177,532
Improvements other than buildings	1,757	1,832	414	467	2,171	2,299
Machinery and equipment	34,741	24,902	6,477	5,664	41,218	30,566
Infrastructure	20,965	29,689	-	-	20,965	29,689
Construction in progress	4,280	7,356	15,954	11,556	20,234	18,912
Total	<u>\$ 219,755</u>	<u>\$ 226,155</u>	<u>\$ 45,360</u>	<u>\$ 40,764</u>	<u>\$ 265,115</u>	<u>\$ 266,919</u>

The major capital asset event during the current year was the incorporation of the Town of James Island. This resulted in a loss of disposal of infrastructure of \$8,570. This loss was recorded as a Public Works expense.

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 COP's and bonded debt outstanding of \$224,749. Of this amount, \$146,395 comprises debt backed by the full faith and credit of the government, \$67,863 is comprised of certificates of participation secured by the capital assets constructed with their proceeds, and \$10,491 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, 2007, this obligation is recorded at a net present value of \$36,108 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 146,395	\$ 153,448	\$ -	\$ -	\$ 146,395	\$ 153,448
Certificates of participation	57,631	62,427	10,232	11,057	67,863	73,484
Revenue bonds	-	-	10,491	11,724	10,491	11,724
Intergovernmental note payable	<u>36,108</u>	<u>36,988</u>	<u>-</u>	<u>-</u>	<u>36,108</u>	<u>36,988</u>
<b>Total</b>	<b><u>\$ 240,134</u></b>	<b><u>\$ 252,863</u></b>	<b><u>\$ 20,723</u></b>	<b><u>\$ 22,781</u></b>	<b><u>\$ 260,857</u></b>	<b><u>\$ 275,644</u></b>

The County's total bonded debt decreased by \$13,907 (5.8 percent) during the current fiscal year.

Charleston County achieved an "AAA" rating from Standard & Poor's Rating Group and maintains an "Aa1" rating from Moody's Investors Service, and an "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 8 percent of its total assessed value. The current G.O. debt limit for Charleston County is \$216,724 which is significantly in excess of the County's current G.O. outstanding balance of \$64,575 subject to the debt limitations.

Additional information on the County's long-term debt can be found in Note III. I. on Pages 92 through 106 of this report.

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

- The unemployment rate for Charleston County at the close of 2006 was 5.1%.
- The net tax supported debt per capita was reduced by 7.5% during the 2007 fiscal year.
- The assessed value of all property in Charleston County increased by over 2 billion dollars in 2007.
- The operating and debt service millage remain the same for fiscal year 2008.
- The Local Option Sales Tax Credit remains unchanged.

The General Fund budgeted revenues for fiscal year 2008 increased by \$6,200 or 4.0 percent from 2007. The major increases are:

Local Option Sales Tax revenues	\$3,000	6.9% Increase
Property Tax Revenue	2,288	4.0% Increase
State Aid to Local Governments	1,765	11.0% Increase
EMS Charges	1,050	22.8% Increase
Federal Prisoner reimbursements	400	25.0% Increase

- The solid waste, recycling & disposal fee is increased by \$10 to a total of \$99 per residential property.
- State aid distribution is based on the ratio of the counties' population to the population of the state as a whole. Charleston County's population is growing faster than the state as a whole.
- Increase in the federal prisoner reimbursement is due to a projected increase in the number of federal prisoners housed in the county's facilities.

The General Fund budgeted expenditures for fiscal year 2008 increased by \$19,000 or 13.1% from fiscal year 2007. The major increases are:

Personnel increases	\$3,090	671.7% Increase
Sheriff Dispatch department	1,635	100.0% Increase
Technology Services	1,562	25.9% Increase
EMS Dispatch	1,290	100.0% Increase
Sheriff Detention Center	1,180	4.4% Increase
Sheriff Law Enforcement	-1,925	8.0% Decrease

- The largest increase in the general fund is from salary adjustments, the 2.5 percent cost of living increase.
- The changes to the Sheriff's budgeted expenditures result from separating the dispatch from the law enforcement division and adding additional personnel to the detention center.
- The EMS dispatch department was separated from the Emergency Medical Services Department. In addition, the decrease in the departmental budget is offset by the cost of transitioning to an outside billing agency.
- Expenditures for Technology Services reflect an increase in management contracts for technology services. A portion of the increase is due to transitioning to a new tax system.

### 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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