

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

As management of Beaufort County, South Carolina (the County), we offer the readers of the County's financial statements this narrative overview and analysis of the financial activities of Beaufort County, South Carolina for the fiscal year ended June 30, 2008. We encourage the 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 1 through 5 of this report.

FINANCIAL HIGHLIGHTS

- The assets of Beaufort County exceeded its liabilities at June 30, 2008 by \$186,562,593 (net assets). Of this amount \$45,709,829 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$50,508,667 during the fiscal year ended June 30, 2008 with a \$51,846,774 increase resulting from governmental activities and a \$1,338,107 decrease resulting from business type activities.
- At the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$155,615,408, an increase of \$46,983,609 in comparison with the prior year. Approximately 33 percent, \$51,782,717, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, the County's unreserved fund balance for the general fund was \$18,929,748, or approximately 21 percent of the general fund expenditures and transfers.
- Beaufort County's net capital assets increased by \$43,073,897 during the current fiscal year. The increase in governmental activities net capital assets of \$43,785,718 was mostly the result of several purchases of property through the Real Property Purchase Program and the construction of the Bluffton Parkway and of several other road projects throughout the County with the County's Road Improvement Program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. In particular, these statements include all assets and liabilities using the accrual basis of accounting used by most private sector companies.

The *statement of net assets* presents information on all of the County's assets less its liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the 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*). The governmental activities of the County include general government, public safety, public works, public health, public welfare, and cultural and recreation. The business-type activities include the garage,

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stormwater utility, the Lady's Island Airport, and the Hilton Head Island Airport. The business-type activities function for all practical purposes as departments of the County, and therefore have been included as integral parts of the primary government.

The government-wide financial statements can be found on pages 27 through 29 of this report.

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. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Beaufort County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions as governmental activities of the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, 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 between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, County wide general obligation bonds fund, sales tax projects fund, real property program fund, and the Bluffton Parkway project fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic fund financial statements can be found on pages 30 through 36 of this report.

Proprietary funds – The County maintains four different types of proprietary funds, all of which are *enterprise funds*. Enterprise funds are used to report the same functions as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its garage, stormwater utility, Lady's Island Airport, and Hilton Head Island Airport operations. These funds report the services provided by the County for which the County charges a user fee or charge intended to recover all or a significant portion of their costs.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the garage, stormwater utility, Lady's Island Airport, and the Hilton Head Island Airport, all of which are considered to be major funds of the County.

The basic proprietary fund financial statements can be found on pages 37 through 40 of this report.

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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 statements because the resources of those funds are not available to support the County's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The statement of fiduciary net assets can be found on page 41 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 the government-wide and the fund financial statements. The notes are presented on pages 42 through 66 of the report.

Other supplemental information – In addition to the basic financial statements and accompanying notes, this report also presents certain supplemental information that further supports the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented within this section of this report and can be found on pages 67 through 129.

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 Beaufort County, assets exceeded liabilities by \$186,562,593 as of June 30, 2008.

Of this amount, \$92,246,900 (approximately 49 percent) reflects the County's investment in capital assets (land, buildings and equipment); less any related debt used to acquire those assets that is still outstanding. The 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 repay the debt. An additional portion of the County's net assets, \$48,605,864 (approximately 26 percent), represents resources that are restricted to the repayment of the County's bonded indebtedness. The remaining balance of unrestricted net assets, \$45,709,829 (approximately 25 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Beaufort 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.

BEAUFORT COUNTY, SOUTH CAROLINA
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Beaufort County's Net Assets
June 30, 2008 and 2007

	<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>
Current and Other Assets	\$ 170,545,486	\$ 124,774,702	\$ 3,001,168	\$ 2,841,689	\$ 173,546,654	\$ 127,616,391
Capital Assets	<u>258,415,419</u>	<u>214,629,701</u>	<u>23,334,636</u>	<u>24,046,457</u>	<u>281,750,055</u>	<u>238,676,158</u>
Total Assets	<u>\$ 428,960,905</u>	<u>\$ 339,404,403</u>	<u>\$ 26,335,804</u>	<u>\$ 26,888,146</u>	<u>\$ 455,296,709</u>	<u>\$ 366,292,549</u>
Long-Term Liabilities	\$ 240,014,260	\$ 200,391,194	\$ 1,940,921	\$ 195,847	\$ 241,955,181	\$ 200,587,041
Other Liabilities	<u>24,174,156</u>	<u>26,087,494</u>	<u>2,604,779</u>	<u>3,564,088</u>	<u>26,778,935</u>	<u>29,651,582</u>
Total Liabilities	<u>\$ 264,188,416</u>	<u>\$ 226,478,688</u>	<u>\$ 4,545,700</u>	<u>\$ 3,759,935</u>	<u>\$ 268,734,116</u>	<u>\$ 230,238,623</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 70,675,038	\$ 52,776,852	\$ 21,571,862	\$ 24,046,457	\$ 92,246,900	\$ 76,823,309
Restricted for Debt Service	48,605,864	18,695,106	-	-	48,605,864	18,695,106
Unrestricted (Deficit)	<u>45,491,587</u>	<u>41,453,757</u>	<u>218,242</u>	<u>(918,246)</u>	<u>45,709,829</u>	<u>40,535,511</u>
	<u>\$ 164,772,489</u>	<u>\$ 112,925,715</u>	<u>\$ 21,790,104</u>	<u>\$ 23,128,211</u>	<u>\$ 186,562,593</u>	<u>\$ 136,053,926</u>

The County's total net assets increased by \$50,508,667 during the 2008 fiscal year. Key elements of this increase are as follows:

- There was an increase in the County's governmental current and other assets of \$45.7 million, which increased mostly because of the \$19.3 million increase in cash within the County's County wide general obligation bonds fund as of June 30, 2008 compared to June 30, 2007. This increase resulted from the cash realized but not spent as of June 30, 2008 from the County's \$17.5 million refunding bond issuance. Also, the County's sales tax projects fund's cash increased by approximately \$16.3 million and other current assets increased by \$3.1 million over the previous fiscal year due to the 1% referendum local sales tax monies realized for the full fiscal year. The 1% referendum local sales tax collections began in the last quarter of the 2007 fiscal year. Additionally, there was a \$5.1 million increase in the New River Tax Increment Financing's (TIF) debt service fund equity in pooled cash and investments. The \$5.1 million increase was the result of the County's TIF reconciliation and an increase of \$2 million in tax revenues from the 2007 fiscal year to the 2008 fiscal year.
- The County's governmental net capital assets increased by \$43.8 million. This increase occurred mostly from the County's \$21.6 million in purchases of land and easements, \$19.7 million of investments in infrastructure, and \$4.0 million in upgraded radios for improved communications abilities in the event of emergencies. See the capital assets and debt administration section below for more detail.
- The \$17.5 million bond issuance and a \$25.5 million bond issuance were also the main cause of the increases within the County's governmental activities restricted for debt service net assets and long-term liabilities. The increases in debt service net assets and long-term liabilities were \$39.9 million and \$39.7 million, respectively.
- For the County's business-type activities, there was an increase of approximately \$0.7 million in liabilities. This increase mostly related to the \$1.8 million note the County's general fund issued to the Hilton Head Island Airport for the construction of hangers at the airport, net of the Hilton Head Island Airport's net \$0.4 million pay-down of its current advances from the County's general fund, the Lady's Island Airport's net \$0.2 million pay-down of its current advances from the County's general fund, and a \$0.1 million decrease in Hilton Head Island Airport's accounts payable from June 30, 2007 to June 30, 2008.

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Beaufort County's Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007

	<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>
<u>Revenues:</u>						
Program Revenues:						
Charges for Services	\$ 31,413,093	\$ 32,302,521	\$ 10,385,146	\$ 8,887,802	\$ 41,798,239	\$ 41,190,323
Operating Grants and Contributions	8,312,520	6,980,330	244,468	219,079	8,556,988	7,199,409
Capital Grants and Contributions	33,285,927	8,567,228	1,004,624	1,334,933	34,290,551	9,902,161
General Revenues:						
Property Taxes	81,399,195	72,584,375	-	-	81,399,195	72,584,375
Grants and Contributions	9,621,104	7,719,639	-	-	9,621,104	7,719,639
Unrestricted Investment						
Earnings	4,701,846	4,179,902	86,760	174,319	4,788,606	4,354,221
Transfers In / (Out)	1,863,867	-	(1,863,867)	-	-	-
Miscellaneous	<u>9,342,263</u>	<u>2,838,808</u>	<u>270</u>	<u>4,320</u>	<u>9,342,533</u>	<u>2,843,128</u>
Total Revenues	<u>179,939,815</u>	<u>135,172,803</u>	<u>9,857,401</u>	<u>10,620,453</u>	<u>189,797,216</u>	<u>145,793,256</u>
<u>Program Expenses</u>						
Governmental Activities:						
General Government	27,566,886	24,863,032	-	-	27,566,886	24,863,032
Public Safety	45,505,447	40,322,590	-	-	45,505,447	40,322,590
Public Works	21,017,930	19,507,135	-	-	21,017,930	19,507,135
Public Health	9,545,159	8,434,863	-	-	9,545,159	8,434,863
Public Welfare	2,082,811	1,460,053	-	-	2,082,811	1,460,053
Cultural and Recreation	11,682,973	10,527,430	-	-	11,682,973	10,527,430
Interest	10,691,835	9,238,679	-	-	10,691,835	9,238,679
Business-Type Activities:						
Garage	-	-	4,778,275	4,186,346	4,778,275	4,186,346
Stormwater Utility	-	-	2,896,205	2,528,367	2,896,205	2,528,367
Lady's Island Airport	-	-	845,649	673,942	845,649	673,942
Hilton Head Airport	-	-	<u>2,675,379</u>	<u>2,107,556</u>	<u>2,675,379</u>	<u>2,107,556</u>
Total Expenses	<u>128,093,041</u>	<u>114,353,782</u>	<u>11,195,508</u>	<u>9,496,211</u>	<u>139,288,549</u>	<u>123,849,993</u>
Excess Revenues over Expenses	51,846,774	20,819,021	(1,338,107)	1,124,242	50,508,667	21,943,263
Net Assets, Beginning	<u>112,925,715</u>	<u>92,106,694</u>	<u>23,128,211</u>	<u>22,003,969</u>	<u>136,053,926</u>	<u>114,110,663</u>
Net Assets, Ending	<u>\$ 164,772,489</u>	<u>\$ 112,925,715</u>	<u>\$ 21,790,104</u>	<u>\$ 23,128,211</u>	<u>\$ 186,562,593</u>	<u>\$ 136,053,926</u>

BEAUFORT COUNTY, SOUTH CAROLINA
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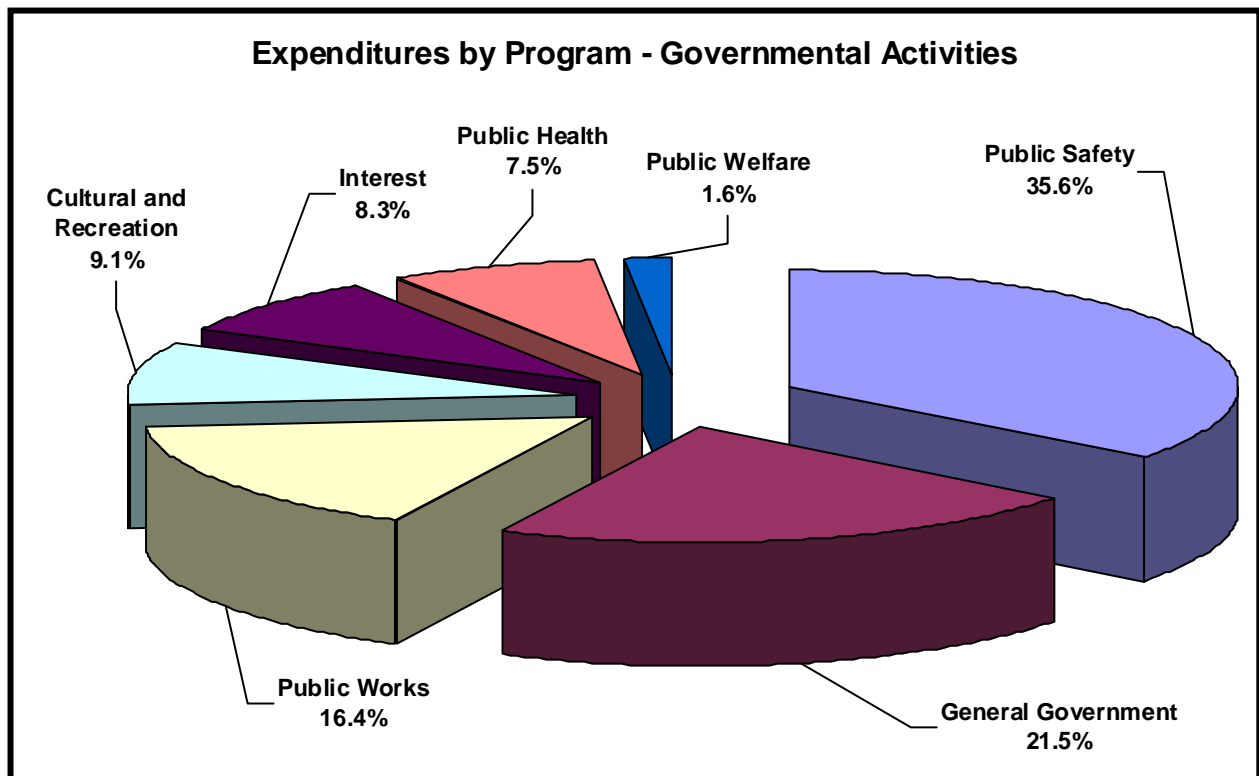
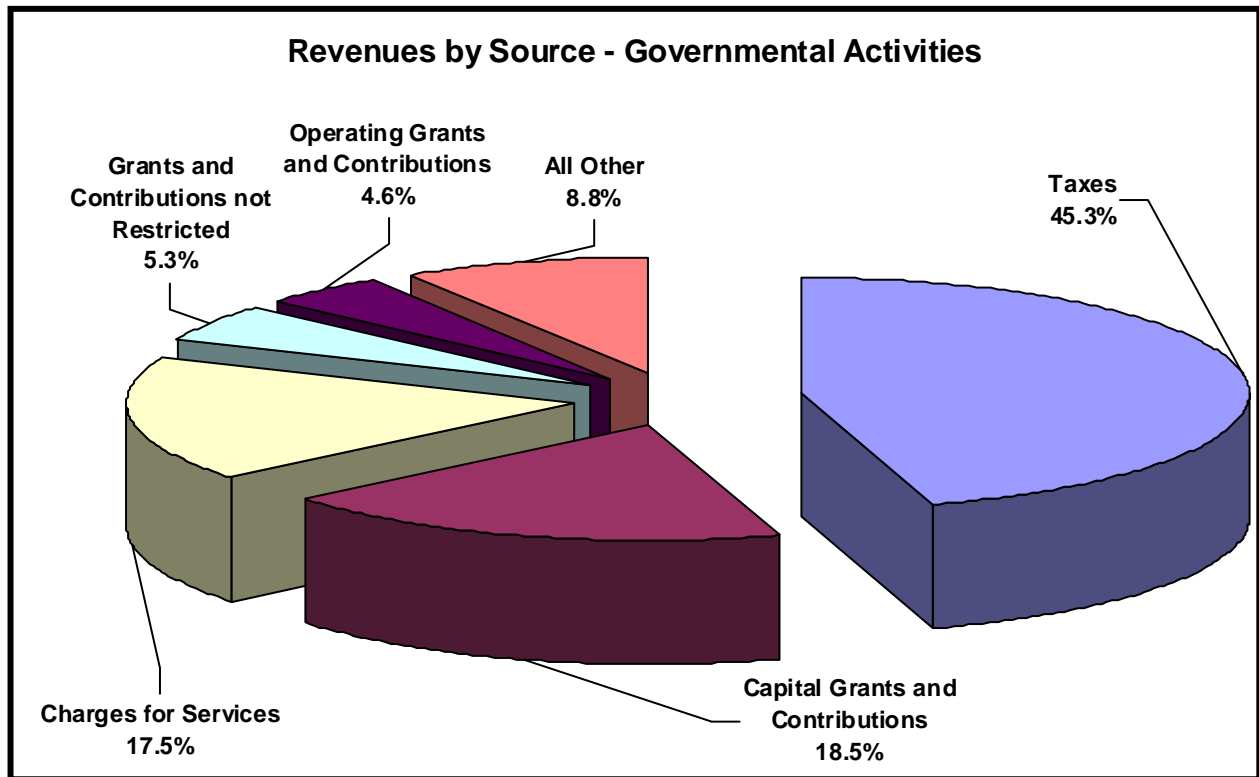
Governmental activities increased the County's net assets by \$51.8 million, thereby accounting for 103 percent of the total growth in the net assets of the County (net of the decrease in the County's business-type activities net assets). Key elements of this net increase are as follows:

- The County's governmental capital grants and contributions revenues increased by \$24.7 million compared to the 2007 fiscal year, which was mostly due to the \$20.9 million increase in the County's sales tax projects fund revenues. As stated above the sales tax projects fund relates to the 1% referendum local sales tax collections which were realized for the full 2008 fiscal year, as opposed to part of the 2007 fiscal year (the first year of collections).
- In the 2008 fiscal year property tax revenues increased by approximately \$8.8 million (or 12.1%) over the 2007 fiscal year. The 12.1% increase of property tax revenues in the 2008 fiscal year over the 2007 fiscal year is compared to a \$3.9 million or 5.6% increase in property tax revenues in the 2007 fiscal year over the 2006 fiscal year and compared to a \$3.0 million or 4.6% increase in property tax revenues in the 2006 fiscal year over the 2005 fiscal year. Increases in property taxes were due to increased millage rates, increasing property values, increasing development, and an increasing population.
- Miscellaneous revenues also increased by \$8.4 million, which was fueled mostly from \$6.5 million in litigation settlement funds realized by the County. \$6.0 of the \$6.5 million in settlement funds related to the settlement between the County and the builder of the County's administrative complex.
- The County's public safety expenditures increased by \$5.2 million during the 2008 fiscal year as compared to the 2007 fiscal year. The increase resulted mostly from a \$1.2 million other post employment benefits (OPEB) liability expenditure increase in fiscal year 2008 compared to fiscal year 2007. Starting in fiscal year 2008, the County began to recognize a total \$3.4 million annual OPEB cost, of which \$1.2 million is allocated to the County's public safety function. The recognized allocated OPEB cost is in compliance with the Governmental Accounting Standards Board (GASB) issued Statement No. 45 entitled *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which took effect in the 2008 fiscal year for the County. Additionally, purchases of non-capitalized assets increased by \$1.1 million in the 2008 fiscal year compared to the 2007 fiscal year and the book value of assets disposed totaled approximately \$.2 million in the 2008 fiscal year, compared to no net book value of assets disposed of in the 2007 fiscal year.

Business-type activities decreased the County's net assets by \$1.3 million, thereby accounting for a negative 3 percent of the total growth in the net assets of the County. Key elements of this net increase are as follows:

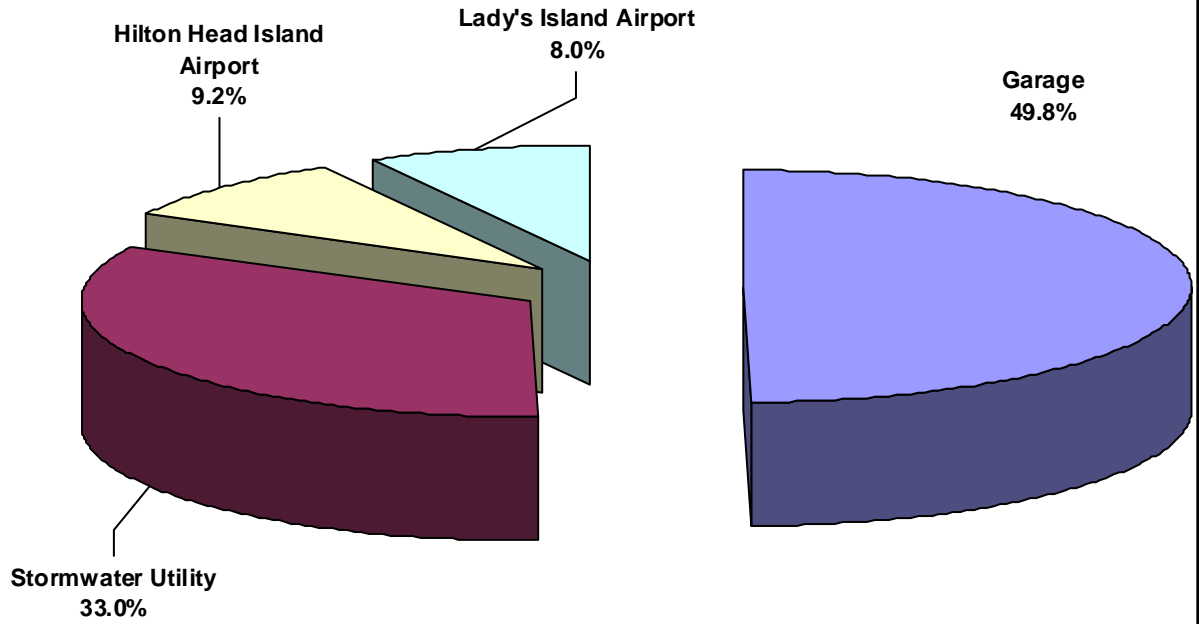
- Expenses for the Hilton Head Island Airport increased by approximately \$2.4 million during the 2008 fiscal year compared to the 2007 fiscal year. The cause of the increase resulted mostly from the County issuing a \$1.8 million note in fiscal year 2008 for hangers completed at the County's expense at the Hilton Head Island Airport in fiscal year 2007.

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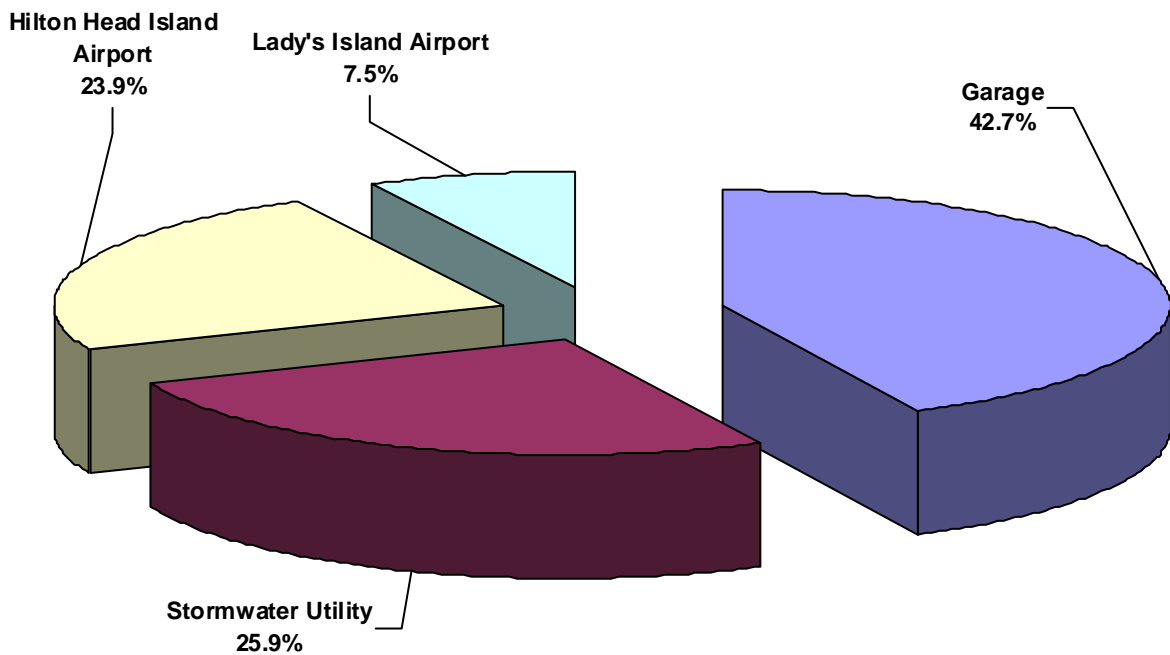


BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Revenues by Source - Business-Type Activities



Expenses by Source - Business-Type Activities



BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Beaufort 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.

At the of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$155,615,408, an increase of \$46,983,609 in comparison with the prior year. Approximately one third of this total amount (\$51,782,717) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to 1) to liquidate contracts and purchase orders (\$22,899,299), 2) to fund planned capital projects (\$32,327,528), and 3) to pay debt service (\$48,605,864).

General Fund – The general fund is the main operating fund of the County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$18,929,748, while the total fund balance was \$19,756,991. As a measure of the general fund's liquidity, a comparison is made of both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 21% of total general fund expenditures and transfers, while total fund balance represents approximately 22% of total general fund expenditures.

County Wide General Obligation Bonds Fund – At the end of the current fiscal year, the total fund balance of the county wide general obligation bonds fund was \$21,807,616, all of which was reserved for debt service. The county wide general obligation bonds fund recognized revenues of \$11,527,395, total expenditures of \$12,416,747, and \$21,605,128 in other financing sources, for a net change in fund balance of \$20,715,776.

Sales Tax Projects Fund – At the end of the current fiscal year, the total fund balance of the sales tax projects fund was \$22,899,230, of which \$20,771,536 was reserved for encumbrances and \$2,127,694 was reserved for capital projects. The sales tax projects fund recognized revenues of \$25,930,718 and total expenditures of \$6,846,156, for a net change in fund balance of \$19,084,562.

Real Property Program Fund – At the end of the current fiscal year, the total fund balance of the real property program fund was \$3,130,185, all of which was reserved for capital projects. The real property program fund recognized revenues of \$5,498,156, total expenditures of \$20,908,819, and \$20,000,000 in other financing sources, for a net change in fund balance of \$4,589,337.

Bluffton Parkway Project Fund – At the end of the current fiscal year, the total fund balance of the Bluffton Parkway project fund was \$3,630,417, of which \$1,283,116 was reserved for encumbrances and \$2,347,301 was reserved for capital projects. The Bluffton Parkway project fund recognized revenues of \$134,620, total expenditures of \$10,597,211, and \$5,500,000 in other financing sources, for a net change in fund balance of (\$4,962,591).

Details of the County's governmental funds are shown in the government-wide financial statements. Further details of the County's general fund are shown on Schedule "A" and further details of the County's nonmajor governmental funds are shown on Schedules "B", "C", "D" and "E".

Proprietary funds – The focus of the County's proprietary funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County proprietary funds' financing requirements. As restrictions, commitments, and other limitations on net assets significantly affect the availability of fund resources for future use, unreserved net assets may serve as a useful measure of a government's proprietary net resources available for spending at the end of the fiscal year.

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As of the end of the current fiscal year, the County's proprietary funds reported combined ending net assets of \$21,790,104 an decrease of \$1,338,107 in comparison with the prior year. The decrease was mostly the result of the transfer of \$1.8 million from the Hilton Head Island Airport to the County's general fund, which corresponded to hangers the County built for the airport in the fiscal years 2007 and prior. In fiscal year 2008, the County reclassified the hangers from a contribution to a liability and issued a \$1.8 million note to the Hilton Head Island Airport.

Garage – At the end of the current fiscal year, the net assets of the garage fund was \$183,300, of which \$231,178 was invested in capital assets, net of related debt, leaving a deficit balance of \$47,878 in unrestricted net assets. The garage fund recognized operating revenues of \$4,913,862, total operating expenses of \$4,778,275, and \$270 in net non-operating revenues, for a change in net assets of \$135,857.

Stormwater Utility – At the end of the current fiscal year, the net assets of the stormwater utility fund was \$3,076,393, of which \$1,432,554 was invested in capital assets, net of related debt, leaving a balance of \$1,643,839 in unrestricted net assets. The stormwater utility fund recognized operating revenues of \$3,233,196, total operating expenses of \$2,896,205, and \$19,681 in net non-operating revenues, for a change in net assets of \$356,672.

Lady's Island Airport – At the end of the current fiscal year, the net assets of the Lady's Island Airport fund was \$3,091,388, of which \$3,399,380 was invested in capital assets, net of related debt, leaving a deficit balance of \$307,992 in unrestricted net assets. The Lady's Island Airport recognized operating revenues of \$729,620, total operating expenses of \$781,425, and \$6,304 in net non-operating expenses, for a change in net assets of (\$58,109).

Hilton Head Island Airport – At the end of the current fiscal year, the net assets of the Hilton Head Island Airport fund was \$15,439,023, of which \$16,508,750 was invested in capital assets, net of related debt, leaving a deficit balance of \$1,069,727 in unrestricted net assets. The Hilton Head Island Airport recognized operating revenues of \$1,752,936, total operating expenses of \$2,204,325, and \$1,321,138 in net non-operating expenses, for a change in net assets of (\$1,772,527).

BEAUFORT COUNTY, SOUTH CAROLINA
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GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget Comparison for the Fiscal Year Ended June 30, 2008

	Original Budget	Final Budget	Variance with Original Budget Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 61,828,000	\$ 61,828,000	\$ -
Licenses and Permits	5,461,603	5,461,603	-
Intergovernmental	7,894,349	7,894,349	-
Charges for Services	11,649,817	11,649,817	-
Fines and Forfeitures	864,440	864,440	-
Interest	705,000	705,000	-
Miscellaneous	<u>315,100</u>	<u>315,100</u>	<u>-</u>
Total Revenues	88,718,309	88,718,309	-
Expenditures:			
General Government	23,054,464	21,512,717	1,541,747
Public Safety	39,010,991	39,941,525	(930,534)
Public Works	16,727,486	17,557,837	(830,351)
Public Health	2,665,656	3,067,186	(401,530)
Public Welfare	471,585	986,085	(514,500)
Culture and Recreation	<u>8,693,301</u>	<u>8,828,337</u>	<u>(135,036)</u>
Total Expenditures	90,623,483	91,893,687	(1,270,204)
Excess of Revenues Over (Under)			
Expenditures	(1,905,174)	(3,175,378)	(1,270,204)
Other Financing Sources (Uses)			
Transfers In	4,957,500	5,812,500	855,000
Transfers Out	<u>(3,060,572)</u>	<u>(3,060,572)</u>	<u>-</u>
Total Other Financing Sources (Uses)	1,896,928	2,751,928	855,000
Net Change in Fund Balance	(8,246)	(423,450)	(415,204)
Fund Balance at the			
Beginning of the Year	<u>21,642,520</u>	<u>21,642,520</u>	<u>-</u>
Fund Balance at the			
End of the Year	<u>\$ 21,634,274</u>	<u>\$ 21,219,070</u>	<u>\$ (415,204)</u>

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The general fund original budget's net assets varied from its final budget's net assets by (\$415,204). Key elements of this net budget increase are as follows:

- The County's general government original expenditures budget was revised downward by approximately \$1.5 million during the 2008 fiscal year. In this, there was a \$1.6 million decrease in the County's general contingency budget and a \$.7 million decrease in the County's various agency subsidies from their original budgeted amounts. These decreases were actually allocations out of the general government's expenditures budget to other general fund expenditure types. See the other key elements below for more detail. The decreases in the County's general government budget were offset mostly by increases of approximately \$.2 million in purchased professional services within the County planning and comprehensive plan's budget, approximately \$.2 million in purchased services budget increases within the County business license office relating to professional services purchases for the business license audit, and approximately \$.2 million in direct subsidies budget increases for the County's housing coordinator.
- The public safety expenditures budget was revised upward by \$.9 million. This mostly came from \$1.2 million in capital expenditure additions to the County's public safety budget. These extra expenditures included approximately \$.9 million in capital expenditures on vehicles for the Sheriff's Department. The \$1.2 million increase in capital expenditures was mostly offset by budget adjustments that decreased the Sheriff's Office personnel budget. Some of the \$1.2 million in public safety expenditure budget increases were allocations from the County's general government expenditures general contingency. See above for more detail.
- There also was an increased \$.8 million budget revision to the County's public works expenditures. This included an additional \$.5 million in budget increases for the County's facilities maintenance department and public works department for capital asset expenditures. Additionally, there was a \$.2 million original to final budget increase within the public works department's purchased services, most of which was attributable to cleaning services.
- Additionally, there was a net \$.5 million County public welfare expenditure budget increase relating to subsidy budget increases. In this, the County increased the original subsidy budgets of the Lowcountry Regional Transit Authority by \$247,000 and the budgets of Senior Services of Beaufort and Together for Beaufort by \$70,000 each. These public welfare expenditure budget increases came mostly from the \$.7 million general government agency subsidy allocation. See above for more detail.
- The public health expenditure budget was revised upward by approximately \$.4 million mostly due to a \$.2 million increase in the County's mosquito control department's capital asset expenditures budget and a \$.2 million increase in the County's public health subsidies, \$140,000 of which went to an increased subsidy budget for Coastal Empire Mental Health. These public health expenditure budget increases came mostly from the \$.7 million general government agency subsidy allocation. See above for more detail.
- Lastly, the original budget for transfers into the County's general fund was increased by approximately \$.9 million. This was accounting for an additional expected \$855,000 draw down of fund balance by the County's general fund.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Final Budget to Actual Comparison for the Fiscal Year Ended June 30, 2008

	Final <u>Budget</u>	Actual	Variance with Final Budget Positive Negative
Revenues:			
Taxes	\$ 61,828,000	\$ 60,474,820	\$ (1,353,180)
Licenses and Permits	5,461,603	3,894,583	(1,567,020)
Intergovernmental	7,894,349	8,649,634	755,285
Charges for Services	11,649,817	10,568,767	(1,081,050)
Fines and Forfeitures	864,440	1,029,600	165,160
Interest	705,000	1,015,196	310,196
Miscellaneous	<u>315,100</u>	<u>565,823</u>	<u>250,723</u>
Total Revenues	88,718,309	86,198,423	(2,519,886)
Expenditures:			
General Government	21,512,717	20,963,806	548,911
Public Safety	39,941,525	38,617,353	1,324,172
Public Works	17,557,837	15,946,656	1,611,181
Public Health	3,067,186	2,975,284	91,902
Public Welfare	986,085	931,321	54,764
Culture and Recreation	<u>8,828,337</u>	<u>8,658,731</u>	<u>169,606</u>
Total Expenditures	91,893,687	88,093,151	3,800,536
Excess of Revenues Over (Under)			
Expenditures	(3,175,378)	(1,894,728)	1,280,650
Other Financing Sources (Uses)			
Transfers In	5,812,500	2,251,087	(3,561,413)
Transfers Out	<u>(3,060,572)</u>	<u>(2,241,888)</u>	<u>818,684</u>
Total Other Financing Sources (Uses)	2,751,928	9,199	(2,742,729)
Net Change in Fund Balance	(423,450)	(1,885,529)	(1,462,079)
Fund Balance at the			
Beginning of the Year	<u>21,642,520</u>	<u>21,642,520</u>	<u>-</u>
Fund Balance at the			
End of the Year	<u>\$ 21,219,070</u>	<u>\$ 19,756,991</u>	<u>\$ (1,462,079)</u>

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The actual net assets of the County's general fund original budget's net assets varied from its final budget's net assets by (\$415,204). Key elements of this net budget increase are as follows:

- The County's tax revenues were approximately \$1.4 million less than the final budget had projected. The shortfall in tax revenues was primarily caused by the downturn in the housing market and increased home foreclosures, which follows national housing and foreclosure trends.
- The County's licenses and permits revenues were also approximately \$1.6 million less than the final budget had projected due to the fact that the County's building permit revenues were \$.9 million less than budgeted and the County's business license revenues were \$.7 million less than budgeted. These shortfalls in revenues were caused primarily by the declining economy, especially within new housing construction.
- Additionally, actual charges for services revenues were approximately \$1.0 million less than budgeted. This was caused mostly from a \$1.2 million shortfall within the register of deeds' revenues from the original budget. This too was mostly caused from the national downturn in the housing market.
- To react to the decreasing revenues, the County decreased its expenditures by approximately \$3.8 million. These decreases came mostly within a \$1.3 million positive budget to actual variance within public safety expenditures and a \$1.6 million positive budget to actual variance within public works expenditures.
 - The \$1.3 million positive variance within the County's public safety expenditures from the final budget came mostly from personnel expenditures being a combined \$.7 million less within the County's sheriff's office, communications/traffic management department, and emergency services department. Additionally, actual capital expenditures were approximately \$.3 million less than budget within the County's emergency services department.
 - The \$1.6 million positive variance within the County's public works expenditures from the final budget came mostly from \$1.1 million less in purchased solid waste disposal services used by the County's solid waste/recycling department. Also, personnel expenditures were approximately \$.5 million less than budgeted for the County's facilities maintenance, public works, engineering, and solid waste/recycling departments.
- Lastly, transfers in were approximately \$3.6 million less than budgeted. This was due to the fact that the County originally had planned to use the \$5.3 million of the general fund prior year's fund balance. The \$5.3 million prior year fund balance was not used and was offset partially by a \$1.8 million transfer from the County's Hilton Head Island Airport proprietary fund related to the County issuing a \$1.8 million note in fiscal year 2008 for hangers completed at the County's expense at the Hilton Head Island Airport in fiscal year 2007.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – Beaufort County's investment in capital assets for its governmental and business-type activities as of June 30, 2008 was \$281,750,055 (net of accumulated depreciation). This investment in capital assets includes land and easements, buildings and improvements, infrastructure, and equipment. The total increase in the County's investment in capital assets for the current fiscal year was 18 percent (in which governmental activities capital assets increased by approximately 21 percent and business-type activities capital assets decreased by approximately 3 percent).

Beaufort County's Capital Assets
(Net of Depreciation)
June 30, 2008 and 2007

	<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 and Easements	\$ 75,884,513	\$ 54,310,250	\$ 13,802,425	\$ 13,802,425	\$ 89,686,938	\$ 68,112,675
Construction in Progress	15,160,362	29,618,525	53,159	63,867	15,213,521	29,682,392
Buildings and Improvements	86,889,036	87,489,329	7,364,694	7,604,784	94,253,730	95,094,113
Infrastructure	65,844,924	33,292,748	-	-	65,844,924	33,292,748
Equipment	<u>14,636,584</u>	<u>9,918,849</u>	<u>2,114,358</u>	<u>2,575,381</u>	<u>16,750,942</u>	<u>12,494,230</u>
Total Capital Assets	<u>\$ 258,415,419</u>	<u>\$ 214,629,701</u>	<u>\$ 23,334,636</u>	<u>\$ 24,046,457</u>	<u>\$ 281,750,055</u>	<u>\$ 238,676,158</u>

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

- The County purchased approximately \$21.6 million in governmental activities land and easements for the County's rural and critical lands program.
- Also, the County made approximately \$19.7 million of investments in infrastructure, which included \$10.4 million in additional improvements to the Bluffton and Buckwalter Parkways.
- In addition, the County purchased \$4.0 million in upgraded radios for improved communications abilities in the event of emergencies, which is included in governmental activities equipment.

Additional information on the County's capital assets can be found in note 4 on pages 49 through 50 of this report.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Long-Term Debt – At the end of the current fiscal year, Beaufort County had \$242,247,865 of total long-term debt outstanding. Of this amount, \$177,515,000 comprises of debt backed by the full faith and credit of the government.

Beaufort County's Outstanding Debt
June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 177,515,000	\$ 141,670,000	\$ -	\$ -	\$ 177,515,000	\$ 141,670,000
TIF Revenue Bonds	62,760,000	63,190,000	-	-	62,760,000	63,190,000
Notes Payable	-	-	1,762,774	382,191	1,762,774	382,191
Capital Leases	<u>210,091</u>	<u>240,588</u>	<u>-</u>	<u>-</u>	<u>210,091</u>	<u>240,588</u>
Total Outstanding Debt	<u>\$ 240,485,091</u>	<u>\$ 205,100,588</u>	<u>\$ 1,762,774</u>	<u>\$ 382,191</u>	<u>\$ 242,247,865</u>	<u>\$ 205,482,779</u>

Major outstanding debt events during the current fiscal year included the following:

- In September 2007, the County issued \$25,500,000 of General Obligation Bonds bearing interest rates of 4.0% to 5.0% and with varying maturity dates through 2027. \$20,000,000 of the proceeds of these bonds was used for the County's rural and critical lands projects and the remaining \$5,500,000 of the proceeds of these bonds was used for the Buckwalter Parkway extension.
- In October 2007, the County issued \$17,530,000 of General Obligation Bonds bearing interest rates of 4.0% to 5.0% and with varying maturity dates through 2020. The proceeds of these bonds were used for various County projects.
- The County issued a \$1.8 million note from the County's general fund to the Hilton Head Island Airport for the construction of hangars at the airport, which were completed in the 2007 fiscal year.
- Lastly, there was \$8,064,914 in debt service principle paid during the fiscal year.

The County maintains an underlying, uninsured "AA" bond rating from Standard & Poor's Rating Group, an underlying, uninsured "Aa2" bond rating from Moody's Investors Service, and an underlying, uninsured "AA-" bond rating from Fitch for its most recent general obligations bonds. Additionally the County maintains an underlying, uninsured "A-" bond rating from Standard & Poor's Rating Group, and an insured "AA" bond rating from Fitch for its most recent TIF revenue bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation less debt issued by referendum and debt issued and paid by other sources. The current debt limitation for the County is \$88,104,325. Beaufort County was \$44,708,501 under this legal limit at June 30, 2008.

Additional information on the County's long-term debt can be found in note 5 on pages 51 through 56 of this report.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Beaufort County was 3.7 percent at June 30, 2008, which is a decrease from a rate of 4.3 percent a year ago. This compares favorably with the State of South Carolina's average unemployment rate of 6.1 percent at June 30, 2008 and the national average unemployment rate of 5.6 percent.
- The housing market downturn began to affect the County during the 2008 fiscal year, however the downturn in the County was much less severe than in other areas around the country.
- The cost of living in this region still compares favorably to other areas of the country.

All of these factors were considered in preparing Beaufort County's budget for the 2009 fiscal year.

During the 2008 fiscal year, unreserved, undesignated fund balance in the general fund decreased by \$624,026. No fund balance of the general fund has been appropriated for spending in the County's 2009 fiscal year original budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Beaufort County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, Post Office Box 1228, Beaufort, SC 29901-1228.