

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies

The financial statements of Beaufort County, South Carolina, have been prepared in conformity with accounting principles (GAAP) generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) statement and interpretations issued on or before November 30, 1989 to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the government's accounting policies are described below.

Reporting Entity

Beaufort County operates under the Council/Administrator form of government with Council members elected for four-year terms from each of the eleven single-member districts. This report includes all funds of Beaufort County that are controlled by this governing body, and are considered to be the "reporting entity" known as Beaufort County.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the County that are governmental and those that are considered business -type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities for the County at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and for the business-type activities of the County. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County.

Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources management focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies – Continued:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The county wide general obligation bond fund accounts for the expenditures of the bond proceeds of the bonds issued for various capital projects throughout the County.

The sales tax projects fund accounts for the expenditure of the 1% local sales tax referendum proceeds which are used for various capital projects throughout the County.

The real property purchase program fund accounts for the expenditure of bond proceeds of the bonds issued for the purchase of rural and critical lands within the County.

The Bluffton Parkway project fund accounts for the expenditure of the bond proceeds of the bonds issued for the construction of the Bluffton Parkway and for improvements to the Buckwalter Parkway.

The County reports the following major enterprise funds:

The garage fund accounts for the activities of the County's garage operations.

The stormwater utility fund accounts for the activities of the County's stormwater utility operations.

The Lady's Island Airport fund accounts for the activities of the County's airport operations on Lady's Island.

The Hilton Head Island Airport fund accounts for the activities of the County's airport operations on Hilton Head Island.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies – Continued:

Additionally, the government reports the following fund types:

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Agency Funds

The agency funds account for monies held on behalf of school districts, special districts, and other agencies that use the County as a depository or property taxes are collected on behalf of the other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's garage function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amount reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and *expenses* from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restriction imposed by creditors, grantors, laws, or regulations of other governments. Net assets invested in capital assets net of related debt were as follows:

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies – Continued:

Net Capital Assets	\$	258,415,419
Less: Current Portion of Long Term Debt		(6,476,701)
Long Term Obligations		(234,008,390)
Add Unspent Bond Proceeds: Sales Tax Projects		22,899,230
Real Property Program		3,130,185
Bluffton Parkway Project		3,630,417
Capital Projects Funds		<u>23,084,878</u>
	\$	<u>70,675,038</u>

Deferred revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Equity in Pooled Cash and Investments - The County maintains a pooled cash and investment account for all funds for accounting and investment purposes. This gives the County the ability to invest idle cash for short periods of time and to earn the most favorable available rate of return. The "equity in pooled cash and investments" represents the amount of pooled cash and investments owned by each fund of the County. Certain individual funds may reflect a cash deficit, from time to time. These cash deficits are not considered an equity transfer since the transfer has not been approved by County Council and is considered to be temporary in nature.

Investments - Investments consist of certificates of deposit and repurchase agreements. With the majority of the County's investments maturing in less than 1 year, all investments are recorded at cost, which approximates market value.

Receivables - All receivables are reported at their gross value and when appropriate, are reduced by the estimated portion that is uncollectible.

Inventories - Inventories consist of fuels and supplies (enterprise funds) and are stated at the lower of "first-in, first-out" cost or market.

Capital Assets - Capital assets purchased or acquired with an original cost of \$3,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis starting in the month of purchase/completion over the following estimated useful lives:

Buildings	25 years
Improvements	25 years
Infrastructure	25 years
Equipment	5 – 10 years

Long-Term Obligations – In the government-wide financial statements and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of related debt.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies – Continued:

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as bond proceeds. Premiums received on debt issuances are reported as interest on investments while discounts and issuance costs are reported as interest and fees expenditures.

Compensated Absences – The County accrues compensated absences and associated employee-related costs when earned by the employee.

Due to and from Other Funds/Internal Balances – Interfund receivables and payables in the fund financial statements and internal balances in the government-wide financial statements arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Revenues – Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied.

Expenditures – Expenditures are recognized when the related fund liability is incurred.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the County's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County uses GAAP as the basis for its budgeting and uses the following procedures in establishing the budgetary data reflected in the financial statements:

- (1) The County Administrator submits to County Council, prior to June 1, proposed operating, special revenue, debt service, and capital improvement (CIP) budgets for the fiscal year commencing July 1. The operating, special revenue, debt service, and CIP budgets include proposed expenditures, revenues, and financing sources.
- (2) The Council requires such changes to be made as it deems necessary, provided the budget remains in balance and is subject to the notice of hearing requirements of Section 4-9-140 of the South Carolina Statutes.
- (3) Public hearings are held pursuant to Section 4-9-140 of the South Carolina Statutes in order for the Council to adopt the tentative and final budget.
- (4) Prior to July 1, the operating, special revenue, debt service and CIP budgets are legally enacted through passage of an ordinance setting forth anticipated revenues and appropriations by fund.
- (5) The County Administrator or his designee is authorized to transfer funds among operating accounts or among capital accounts within a department. All transfers between departments and programs or between operating and capital accounts must be authorized by the Council in accordance with Section 4-9-140 of the South Carolina Statutes. In accordance with County Ordinance #2006/14, Section 12, amounts of \$10,000 or less can be approved by the Council Chairman and/or Council Finance Committee Chairman; transfers of \$5,000 or less can be approved by the County Administrator and/or his designee.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies – Continued:

- (6) Formal budgetary integration is employed as a measurement control device for all governmental funds of the County. The level on which expenditures may not legally exceed appropriations is the fund level.
- (7) Budgets for the governmental fund types are adopted on a basis consistent with generally accepted accounting principles.
- (8) Revenues in excess of the current budget ordinance may be expended as directed by the revenue source or for the purpose for which the funds were generated without further approval by County Council, as per Section 14 of County Ordinance #2006/14.

2. Cash and Equity in Pooled Cash and Investments

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk. At June 30, 2008, the carrying amount of the County's deposits was \$28,151,959 and the bank balance was \$25,146,322. State law requires that all of the County's deposits be covered by FDIC insurance or by collateral held by the pledging financial institutions' trust department in the County's name.

Investments

As of June 30, 2008, the County has the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>	
		<u>Less than 1</u>	<u>1 - 5</u>
US Treasury Obligations	\$ 2,728,847	\$ 2,728,847	\$ -
US Government Agency Obligations	<u>199,149,403</u>	<u>196,140,013</u>	<u>3,009,390</u>
	201,878,250	198,868,860	3,009,390
South Carolina Local Government			
Investment Pool	<u>7,293,974</u>	<u>7,293,974</u>	<u>-</u>
	<u>\$209,172,224</u>	<u>\$206,162,834</u>	<u>\$ 3,009,390</u>

Interest Rate Risk

The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The County has no investment policy that would further limit its investment choices other than state law. As of June 30, 2008, the underlying security ratings of the County's investment in the South Carolina Local Government Investment Pool (LGIP) may be obtained from the LGIP's complete financial statements. These financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Box 11778
Columbia, SC 29211

The County's investments in U.S. Government Agency Obligations were rated Aa by Moody's Investors Services.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

2. Cash and Equity in Pooled Cash and Investments – Continued:

Concentration of Credit Risk

The County places no limit on the amount the County may invest in any one issuer. As of June 30, 2008, the County had investments with three issuers that exceeded 5% of total investments.

3. Receivables/Due from Other Governments

All property taxes receivable are shown net of allowances for uncollectibles. The County considers all taxes to be collectible; therefore, no allowance for uncollectibles has been established.

The following details receivables -net by fund:

	General Fund	County Wide General Obligation Bonds	Sales Tax Projects
Property Tax Receivable	\$ 745,743	\$ 149,879	\$ -
Licenses and Fees Receivable	74,678	-	-
Accounts Receivable - Other	<u>1,762,774</u>	<u>1,555,611</u>	<u>7,783,702</u>
	<u>\$ 4,063,589</u>	<u>\$ 1,705,490</u>	<u>\$ 7,783,702</u>
	Real Property Program	Bluffton Parkway Project	Nonmajor Governmental Funds
Property Tax Receivable	\$ -	\$ -	\$ 51,458
Licenses and Fees Receivable	-	-	1,443,805
Accounts Receivable - Other	<u>210,000</u>	<u>323,912</u>	<u>1,007,158</u>
	<u>\$ 210,000</u>	<u>\$ 323,912</u>	<u>\$ 2,502,421</u>

Key dates in the property tax cycle for tax year 2007 are as follows:

Assessment Date	2004
Property Taxes Levied	September 3, 2007
Tax Bills Rendered	October 1, 2007
Property Taxes Payable	March 16, 2008
Delinquency Date	March 17, 2008
Tax Sale Dates	October 6 - 7, 2008

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

3. Receivables/Due from Other Governments – Continued:

The following details the due from other governments by fund:

	General Fund	County Wide General Obligation Bonds	Nonmajor Governmental Funds
State Aid to Subdivisions	\$ 2,003,755	\$ 49	\$ -
General Government Programs	746,597	-	184,556
Public Safety Programs	-	-	585,142
Public Works Programs	-	-	1,258,394
Alcohol & Drug Programs	-	-	55,388
Disabilities and Special Needs Programs	-	-	24,488
Public Welfare Programs	-	-	18,881
Cultural & Recreational Programs	-	-	59,515
2005 Bond Projects	-	-	699,538
	<u>\$ 2,750,352</u>	<u>\$ 49</u>	<u>\$ 2,885,902</u>

4. Capital Assets

Governmental Activities

	Balance June 30, 2007	Additions	Disposals or Transfers	Balance June 30, 2008
Capital Assets not Being Depreciated:				
Land & Easements	\$ 54,310,250	\$ 21,574,623	\$ -	\$ 75,884,513
Construction in Progress	<u>29,618,525</u>	<u>33,242,802</u>	<u>47,700,965</u>	<u>15,160,362</u>
Total Capital Assets not Being Depreciated	<u>83,928,775</u>	<u>54,817,065</u>	<u>47,700,965</u>	<u>91,044,875</u>
Other Capital Assets:				
Buildings & Improvements	125,903,725	4,435,711	206,740	130,132,696
Infrastructure	37,016,835	34,727,071	-	71,743,906
Equipment	<u>34,971,638</u>	<u>8,437,590</u>	<u>994,592</u>	<u>42,414,636</u>
Total Other Capital Assets	197,892,198	47,600,372	1,201,332	244,291,238
Accumulated Depreciation –				
Buildings & Improvements	38,414,396	5,029,482	200,218	43,243,660
Accumulated Depreciation –				
Infrastructure	3,724,087	2,174,895	-	5,898,982
Accumulated Depreciation –				
Equipment	<u>25,052,789</u>	<u>3,537,160</u>	<u>811,897</u>	<u>27,778,052</u>
Total Accumulated Depreciation	<u>67,191,272</u>	<u>10,741,537</u>	<u>1,012,115</u>	<u>76,920,694</u>
Other Capital Assets, Net	<u>130,700,926</u>	<u>36,858,835</u>	<u>189,217</u>	<u>167,370,544</u>
Governmental Activities Capital Assets, Net	<u>\$ 214,629,701</u>	<u>\$ 91,675,900</u>	<u>\$47,890,182</u>	<u>\$ 258,415,419</u>

For the capital assets of the governmental activities, depreciation is computed on the straight-line method of depreciation over the estimated useful lives of the assets, which range from five to twenty-five years. Depreciation expense for the year ended June 30, 2008 was \$10,741,537 and the accumulated depreciation as of June 30, 2008 was \$76,920,694.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

4. Capital Assets – Continued:

The depreciation expense was allocated as follows:

General Government	\$ 2,605,845
Public Safety	3,175,223
Public Works	2,887,090
Public Health	80,493
Public Welfare	189,077
Cultural and Recreation	<u>1,803,809</u>
Total	<u>\$10,741,537</u>

Business-Type Activities

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Disposals or Transfers</u>	<u>Balance June 30, 2008</u>
Capital Assets not Being Depreciated:				
Land & Easements	\$ 13,802,425	\$ -	\$ -	\$ 13,802,425
Construction in Progress	<u>63,867</u>	<u>623,634</u>	<u>634,342</u>	<u>53,159</u>
Total Capital Assets not Being Depreciated	<u>13,866,292</u>	<u>623,634</u>	<u>634,342</u>	<u>13,855,584</u>
Other Capital Assets:				
Buildings & Improvements	11,499,363	228,945	-	11,728,308
Equipment	<u>4,411,370</u>	<u>76,559</u>	<u>133,998</u>	<u>4,353,931</u>
Total Other Capital Assets	15,910,733	305,504	133,998	16,082,239
Accumulated Depreciation –				
Buildings & Improvements	3,894,579	469,035	-	4,363,614
Accumulated Depreciation –				
Equipment	<u>1,835,989</u>	<u>537,582</u>	<u>133,998</u>	<u>2,239,573</u>
Total Accumulated Depreciation	<u>5,730,568</u>	<u>1,006,617</u>	<u>133,998</u>	<u>6,603,187</u>
Other Capital Assets, Net	<u>10,180,165</u>	<u>(701,113)</u>	<u>-</u>	<u>9,479,052</u>
Business-Type Activities Capital Assets, Net	<u>\$ 24,046,457</u>	<u>\$ (77,479)</u>	<u>\$ 634,342</u>	<u>\$ 23,334,636</u>

For the capital assets of the business–type activities, depreciation is computed on the straight-line method of depreciation over the estimated useful lives, which range from five to twenty-five years, of the assets. Depreciation expense for the year ended June 30, 2008 was \$989,822 and the accumulated depreciation as of June 30, 2008 was \$6,603,187.

The depreciation expense was allocated as follows:

Garage	\$ 26,574
Stormwater Utility	293,349
Lady’s Island Airport	53,412
Hilton Head Airport	<u>633,282</u>
Total	<u>\$1,006,617</u>

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

5. Long-Term Obligations

	Governmental Activities	Business-type Activities
General Obligation Bonds	\$ 177,515,000	\$ -
TIF Revenue Bonds	62,760,000	-
Note Payable	-	1,762,774
Capital Leases	210,091	-
	\$ <u>240,485,091</u>	\$ <u>1,762,774</u>

General Obligation Bonds

In June 1999, the County issued \$9,100,000 in General Obligation bonds, bearing interest rates of 4.60% to 5.25% and with varying maturity dates through 2008. The proceeds of these bonds were used for various County projects including the purchase of development rights on Lemon Island, the construction of the Buckwalter Parkway, the minor renovations of various County buildings and park facilities, and other governmental projects within the County. These bonds were retired during the 2008 fiscal year.

In April 2001, the County issued \$30,000,000 in General Obligation bonds, bearing interest rates of 4.375% to 5.25% and with varying maturity dates through 2020. The proceeds of these bonds were used as follows: \$10,000,000 for the purchase of real property programs as approved by referendum in November 2000, \$10,000,000 to pay the bond anticipation notes issued May 2000, and \$10,000,000 for various County projects including the purchase of telecommunications equipment, the construction of additional facilities for the Detention Center, the construction of additional hangars at the Lady's Island Airport, and for other governmental projects within the County.

In May 2002, the County issued \$25,100,000 in General Obligation bonds, bearing interest rates of 3.0% to 4.875% and with varying maturity dates through 2022. The proceeds of these bonds were used as follows: \$10,950,000 to pay off the outstanding bonds and related costs of the 1993 General Obligation issue and \$14,000,000 for various County projects to include the purchase of telecommunications equipment, improvements to various county parks, construction of solid waste drop off centers, and for other government construction projects within the County.

In June 2003, the County issued \$25,500,000 in General Obligation bonds, bearing interest rates of 2.0% to 5.0% and with varying maturities through 2023. The proceeds of these bonds were used as follows: \$10,000,000 for the purchase of real property program as approved by referendum in November 2000, \$5,000,000 for paving and improving roads within the County, and \$10,500,000 for various County projects including the purchase of telecommunications equipment, improvements to various County parks, and for other governmental construction projects within the County.

In November 2004, the County issued \$30,500,000 in General Obligation bonds bearing interest rates of 3.0% to 5.0% and with varying maturities through 2025. The proceeds of these bonds were used as follows: \$20,000,000 for the purchase of real property program as approved by referendum in November 2000, and \$10,500,000 for various County projects including the purchase of various public works and public safety vehicles, improvements to various County parks, and for other governmental construction projects within the County.

In November 2006, the County issued \$17,500,000 in General Obligation bonds bearing interest rates of 3.5% to 8.0% and with varying maturities through 2026. The proceeds of these bonds were used for various County projects.

In December 2006, the County issued \$30,000,000 in General Obligation bonds bearing interest rates of 4.0% to 6.75% and with varying maturities through 2026. The proceeds of these bonds were used to "pay off" the County's Bond Anticipation Notes of \$25,000,000 and provide additional funds for the construction of the Bluffton Parkway Project.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

5. Long Term Obligations – Continued:

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, as approved by referendum in November 2006, 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 2001, 2002, 2003, 2005, 2006, 2006B, 2007, and 2007B general obligation bonds are collateralized by the full faith and credit of the County and are payable from ad valorem taxes.

General obligation bonds accounted for in the County's Statement of Net Assets consist of the following at June 30, 2008:

<u>Description</u>	<u>Rates and Dates</u>	<u>Maturity</u>	<u>Original Issue</u>	<u>Outstanding at June 30, 2008</u>
1999 Improvement Bonds	4.6% - 5.25% 2/1 and 8/1	2008	\$ 9,100,000	\$ -
2001 County Bonds	4.375% - 5.25% 2/1 and 8/1	2020	30,000,000	21,690,000
2002 County Bonds	3.0% - 4.875% 2/1 and 8/1	2022	25,100,000	15,380,000
2003 County Bonds	2.0% - 5.0% 2/1 and 8/1	2023	25,500,000	21,750,000
2005 County Bonds	3.0% - 5.0% 2/1 and 8/1	2025	30,500,000	29,900,000
2006 County Bonds	3.5% - 8.0% 3/1 and 9/1	2026	17,500,000	16,650,000
2006B County Bonds	4.0% - 6.75% 3/1 and 9/1	2026	30,000,000	29,500,000
2007 County Bonds	4.0% - 5.0% 3/1 and 9/1	2026	25,500,000	25,350,000
2007B County Bonds	4.0% - 5.0% 2/1 and 8/1	2026	<u>17,530,000</u>	<u>17,295,000</u>
			<u>\$210,730,000</u>	<u>\$ 177,515,000</u>

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

5. Long Term Obligations – Continued:

A schedule of the debt service requirements associated with the general obligation bonds follows:

<u>Fiscal Year Ending</u>	<u>2001 Improvement Bonds</u>	<u>2002 County Bonds</u>	<u>2003 County Bonds</u>	<u>2005 County Bonds</u>	<u>2006 County Bonds</u>
2009	\$ 2,493,004	\$ 2,298,225	\$ 1,773,500	\$ 1,667,875	\$ 1,203,313
2010	2,493,079	2,587,025	1,803,250	1,808,875	1,235,813
2011	2,489,869	2,568,525	1,828,312	1,795,875	1,266,563
2012	2,481,019	1,111,525	1,899,563	1,781,875	1,292,563
2013	2,476,519	1,113,681	1,966,563	1,917,250	1,319,000
2014-2018	12,265,857	5,597,375	10,409,815	10,976,750	6,836,125
2019-2023	4,849,425	4,532,175	10,467,939	18,541,250	7,035,250
2024-2027	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,572,500</u>	<u>4,235,750</u>
Total	29,548,772	20,108,531	30,148,943	48,061,750	24,424,377
Less Amount Representing Interest	<u>7,858,772</u>	<u>4,728,531</u>	<u>8,398,943</u>	<u>18,161,750</u>	<u>7,774,377</u>
Net	<u>\$ 21,690,000</u>	<u>\$15,380,000</u>	<u>\$21,750,000</u>	<u>\$29,900,000</u>	<u>\$16,650,000</u>
<u>Fiscal Year Ending</u>	<u>2006B County Bonds</u>	<u>2007 County Bonds</u>	<u>2007B County Bonds</u>	<u>Total</u>	
2009	\$ 1,841,250	\$ 1,400,031	\$ 783,500	\$13,760,698	
2010	1,917,250	1,514,031	781,900	14,141,223	
2011	1,989,250	1,623,031	785,300	14,346,226	
2012	2,057,250	1,727,031	2,368,500	14,719,326	
2013	2,151,250	1,826,031	2,363,300	15,103,594	
2014-2018	11,500,250	10,248,655	11,614,300	79,449,127	
2019-2023	14,044,250	11,436,312	4,580,000	75,486,601	
2024-2027	<u>8,664,125</u>	<u>9,906,626</u>	<u>-</u>	<u>32,379,001</u>	
Total	44,134,875	39,681,748	23,276,800	259,385,796	
Less Amount Representing Interest	<u>14,634,875</u>	<u>14,331,778</u>	<u>5,981,800</u>	<u>81,870,796</u>	
Net	<u>\$ 29,500,000</u>	<u>\$25,350,000</u>	<u>\$17,295,000</u>	<u>\$177,515,000</u>	

Total interest paid on bonds outstanding for the year ended June 30, 2008 was \$6,887,885.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

5. Long Term Obligations – Continued:

The following is a schedule of principal payments for all general obligation bonds:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2009	\$ 5,930,000
2010	6,530,000
2011	7,000,000
2012	7,645,000
2013	8,335,000
2014-2018	51,720,000
2019-2023	60,630,000
2024-2027	<u>29,725,000</u>
Total	\$ <u>177,515,000</u>

Tax Increment Financing Revenue Bonds

In December 2002, the County issued \$40,000,000 in Tax Increment Financing Revenue Bonds for the New River TIF District, bearing interest rates of 3.0% to 5.5% and with varying maturities through 2027. The proceeds of these bonds were used to provide infrastructure and other improvements within the Tax Increment Financing District, including buildings for both the University of South Carolina – Beaufort and the Technical College of the Lowcountry.

In November 2003, the County issued \$23,680,000 in Tax Increment Revenue Bonds for the Bluffton TIF District, bearing interest rates of 2.0% to 5.0% and with varying maturities through 2028. The proceeds of these bonds were used to pay the outstanding bond anticipation note and to provide infrastructure improvements within the Tax Increment Financing District.

The following is a schedule of the debt service requirements:

<u>Fiscal Year Ending</u>	<u>New River TIF</u>	<u>Bluffton TIF</u>	<u>Total</u>
2009	\$ 2,286,382	\$ 1,334,955	\$ 3,621,337
2010	2,546,463	1,395,790	3,950,063
2011	2,813,262	1,489,150	4,302,412
2012	2,993,463	1,575,275	4,568,738
2013	3,172,350	1,731,275	4,903,625
2014-2018	17,506,450	10,048,550	27,555,000
2019-2023	18,226,325	14,221,250	32,447,575
2024-2028	<u>14,934,750</u>	<u>5,582,250</u>	<u>20,517,000</u>
Total	64,479,445	37,386,305	101,865,750
Less Amount Representing Interest	<u>24,929,445</u>	<u>14,176,305</u>	<u>39,105,750</u>
Net	<u>\$39,550,000</u>	<u>\$23,210,000</u>	<u>\$62,760,000</u>

Total interest paid on bonds outstanding for the year ended June 30, 2008 as \$3,118,698.

BEAUFORT COUNTY, SOUTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

5. Long Term Obligations - Continued:

Notes Payable

In September 2000, the County issued a note for \$1,325,000 for the balance owed on the purchase of land for the Hilton Head Island Airport. The note was payable in annual payments of \$205,836, including interest at 5.1% through September 2008, however the note was paid off in full during the 2008 fiscal year.

Advances from the General Fund

In September 2007, the County issued a note for \$1,800,000 for the balance owed for the construction of hangers at the Hilton Head Island Airport. The note was payable in quarterly payments of \$31,634, including interest at 5.0 % through June 2032. The current portion of this note as of June 30, 2008 was \$39,122. Advances from the general fund also included \$1,710,911 at June 30, 2008 for advances for certain operating expenses.

Capital Leases

As of June 30, 2008, the County has one lease-purchase agreement to purchase communication equipment with a lease term of 10 years and an interest rate of 3.95%. The communication equipment under this capital lease is included in the equipment in Note 4.

The following is a schedule of future minimum lease payments under this capital lease, together with the present value of net minimum lease payments at June 30, 2008.

<u>Fiscal Year</u> <u>Ending</u>	<u>Amount</u>
2009	\$ 40,000
2010	40,000
2011	40,000
2012	40,000
2013	40,000
2014	<u>40,000</u>
Total	240,000
Less Amount Representing Interest	<u>29,909</u>
Net	<u>\$ 210,091</u>

The County records capital lease payments as current year expenditures in the fund to which the lease applies. The liability for capital leases and the associated assets are recorded.

Total interest paid on capital leases for the year ended June 30, 2008 was approximately \$9,503 which was recorded as an expenditure in the Special Revenue Fund for E -911 equipment.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

5. Long Term Obligations - Continued:

Governmental Activities Changes in Long -Term Obligations

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
General Obligation Bonds	\$ 141,670,000	\$ 43,030,000	\$ 7,185,000	\$177,515,000
TIF Revenue Bonds	63,190,000	-	430,000	62,760,000
Capital Leases	<u>240,588</u>	<u>-</u>	<u>30,497</u>	<u>210,091</u>
Totals	<u>\$ 205,100,588</u>	<u>\$ 43,030,000</u>	<u>\$ 7,645,497</u>	<u>\$240,485,091</u>

Business-Type Activities Changes in Long -Term Obligations

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Notes Payable	<u>\$ 382,191</u>	<u>\$ 1,800,000</u>	<u>\$ 419,417</u>	<u>\$ 1,762,774</u>

Combined Changes in Long-Term Obligations

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
General Obligation Bonds	\$ 141,670,000	\$ 43,030,000	\$ 7,185,000	\$177,515,000
TIF Revenue Bonds	63,190,000	-	430,000	62,760,000
Notes Payable	382,191	1,800,000	419,417	1,762,774
Capital Leases	<u>240,588</u>	<u>-</u>	<u>30,497</u>	<u>210,091</u>
Totals	<u>\$ 205,482,779</u>	<u>\$ 44,830,000</u>	<u>\$ 8,064,914</u>	<u>\$242,247,865</u>

Current Portion of Long Term Obligations

The current portion of long term obligations is computed as follows:

General Obligations Bonds	\$ 5,930,000
TIF Revenue Bonds	515,000
Notes Payable	39,122
Capital Leases	<u>31,701</u>
	<u>\$ 6,515,823</u>

BEAUFORT COUNTY, SOUTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

6. Accrued Compensated Absences

The County considers accrued compensated absences to be long term liabilities.

Governmental Activities Changes in Long -Term Obligations

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Accrued Compensated Absences	\$ <u>2,560,606</u>	\$ <u>3,069,788</u>	\$ <u>2,867,154</u>	\$ <u>2,763,240</u>

Business-Type Activities Changes in Long -Term Obligations

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Accrued Compensated Absences	\$ <u>62,289</u>	\$ <u>100,906</u>	\$ <u>85,784</u>	\$ <u>77,411</u>

Note: The business-type activities accrued compensated absences balance at June 30, 2007 was included in accrued payroll.

7. Interfund Transfers

The following interfund transfers were made during the year ended June 30, 2008. These transfers were permanent in nature and as such there are not any anticipated repayments.

<u>Recipient Fund</u>	<u>Transferring Fund</u>	<u>Amount</u>
General Fund	Nonmajor Special Revenue Funds	\$ 451,087
General Fund	Proprietary Funds	1,800,000
Nonmajor Special Revenue Funds	General Fund	2,241,888
Nonmajor Debt Service Funds	Nonmajor Special Revenue Funds	9,632,486
Nonmajor Debt Service Funds	Nonmajor Capital Projects Funds	461,925
Nonmajor Capital Projects Funds	Nonmajor Capital Projects Funds	4,191,525
Nonmajor Capital Projects Funds	Proprietary Funds	<u>63,867</u>
		<u>\$ 18,863,867</u>

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

8. Segment Information for Business-type Activities

The County maintains four Enterprise Funds which provide garage (vehicle repair), stormwater utility and airport services. Segment information is as follows:

Consolidated Statement of Net Assets:

	<u>Garage</u>	<u>Stormwater Utility</u>	<u>Lady's Island Airport</u>	<u>Hilton Head Airport</u>	<u>Totals</u>
Assets:					
Current Assets	\$ 523,004	\$ 1,870,977	\$ (112,041)	\$ 719,228	\$ 3,001,168
Capital Assets, Net	<u>231,178</u>	<u>1,432,554</u>	<u>3,399,380</u>	<u>18,271,524</u>	<u>23,334,636</u>
Total Assets	<u>\$ 754,182</u>	<u>\$ 3,303,531</u>	<u>\$ 3,287,339</u>	<u>\$ 18,990,752</u>	<u>\$26,335,804</u>
Liabilities:					
Current Liabilities	\$ 567,940	\$ 87,577	\$ 191,395	\$ 1,757,867	\$ 2,604,779
Accrued Compensated					
Absences	145	44,457	1,759	31,050	77,411
Net Other Postemployment					
Benefits Obligation	2,797	95,104	2,797	39,160	139,858
Advances Payable to					
General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,723,652</u>	<u>1,723,652</u>
Total Liabilities	570,882	227,138	195,951	3,551,729	4,545,700
Net Assets:					
Invested in Capital Assets,					
Net of Related Debt	231,178	1,432,554	3,399,380	16,508,750	21,571,862
Unrestricted (Deficit)	<u>(47,878)</u>	<u>1,643,839</u>	<u>(307,992)</u>	<u>(1,069,727)</u>	<u>218,242</u>
Total Net Assets	<u>183,300</u>	<u>3,076,393</u>	<u>3,091,388</u>	<u>15,439,023</u>	<u>21,790,104</u>
Total Liabilities and					
Net Assets	<u>\$ 754,182</u>	<u>\$ 3,303,531</u>	<u>\$ 3,287,339</u>	<u>\$ 18,990,752</u>	<u>\$26,335,804</u>

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

8. Segment Information for Business-type Activities – Continued:

Consolidated Statement of Revenues, Expenses, and Net Assets:

	<u>Garage</u>	<u>Stormwater Utility</u>	<u>Lady's Island Airport</u>	<u>Hilton Head Airport</u>	<u>Totals</u>
Operating Revenues	\$ 4,913,862	\$ 3,233,196	\$ 729,620	\$ 1,752,936	\$10,629,614
Cost of Sales and Services	2,893,750	-	438,114	-	3,331,864
Operating Expenses before Depreciation	1,857,951	2,602,856	289,899	1,571,043	6,321,749
Depreciation	<u>26,574</u>	<u>293,349</u>	<u>53,412</u>	<u>633,282</u>	<u>1,006,617</u>
Operating Income (Loss)	<u>\$ 135,587</u>	<u>\$ 336,991</u>	<u>\$ (51,805)</u>	<u>\$ (451,389)</u>	<u>\$ (30,616)</u>
Nonoperating Revenues/ (Expenses):					
FAA Grants	-	-	90,703	864,230	954,933
SCAC Grants	-	-	31,804	18,607	49,691
Nonoperating Grant Expenditures	-	-	(64,224)	(376,873)	(441,097)
Transfers Out	-	-	(63,867)	(1,800,000)	(1,863,867)
Gain (Loss) on Sale of Equipment	270	-	-	-	270
Interest Earned	-	19,681	-	67,079	86,760
Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(94,181)</u>	<u>(94,181)</u>
Total Nonoperating Revenues/ (Expenses)	<u>270</u>	<u>19,681</u>	<u>(6,304)</u>	<u>(1,321,138)</u>	<u>(1,307,491)</u>
Change in Net Assets	135,857	356,672	(58,109)	(1,772,527)	(1,338,107)
Net Assets, Beginning	<u>47,443</u>	<u>2,719,721</u>	<u>3,149,497</u>	<u>17,211,550</u>	<u>23,128,211</u>
Net Assets, Ending	<u>\$ 183,300</u>	<u>\$ 3,076,393</u>	<u>\$ 3,091,388</u>	<u>\$ 15,439,023</u>	<u>\$21,790,104</u>

Consolidated Statement of Cash Flows:

	<u>Garage</u>	<u>Stormwater Utility</u>	<u>Lady's Island Airport</u>	<u>Hilton Head Airport</u>	<u>Totals</u>
Net Cash Provided (Used) By:					
Operating Activities	124,015	305,131	(57,563)	67,547	439,130
Noncapital Financing Activities	-	-	57,563	(7,635)	49,928
Capital and Related Financing Activities	(121,846)	(109,556)	-	(126,991)	(358,393)
Investing Activities	<u>-</u>	<u>19,681</u>	<u>-</u>	<u>67,079</u>	<u>86,760</u>
Net Increase / (Decrease)	2,169	215,256	-	-	217,425
Beginning Cash and Cash Equivalents	<u>-</u>	<u>1,175,507</u>	<u>372</u>	<u>200</u>	<u>1,176,079</u>
Ending Cash and Cash Equivalents	<u>\$ 2,169</u>	<u>\$ 1,390,763</u>	<u>\$ 372</u>	<u>\$ 200</u>	<u>\$ 1,393,504</u>

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

9. Operating Leases

The County leases certain office space and machinery and equipment under cancelable operating leases. Under the terms of the lease agreements, the County's obligation to continue rental obligations is contingent upon the continued appropriation of funds by the County for that purpose. Total rental expenses for the year ended June 30, 2008 were approximately \$625,000.

The following is a schedule of minimum commitments for operating lease payments:

Fiscal Year Ending	Amount
2009	\$ 417,496
2010	165,902
2011	133,856
2012	44,296
2013	8,774
2014-2026	138
Total	\$ 770,462

10. Deferred Compensation Plans

All state and local government employees can participate in a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, administered by the state public employee retirement system through a state approved nongovernmental third party, permits governmental employees to defer a portion of their salary until future years. The deferred compensation is not available to an employee until termination, retirement, death, or unforeseeable emergency. Contributions by employees under the 457 program totaled \$245,814 for the year ended June 30, 2008. There are no employer contributions made by the County to this plan. Participant account balances are not included in these financial statements.

County employees may participate in a 401(k) deferred compensation plan available to state and local governmental employees through the state public employee retirement system. The 401(k) program is administered by a state approved nongovernmental third party. Contributions by employees under the 401(k) program totaled \$864,928 for the year ended June 30, 2008. There are no employer contributions made by the County to this plan. Participant account balances are not included in these financial statements.

11. Retirement Plans

The Governmental Accounting Standards Board (GASB) issued Statement No. 27 entitled Accounting for Pensions by State and Local Government Employees in November 1994. This Statement supersedes the requirements of GASB Statement No. 5. The following information is provided in order to meet the disclosure requirements prescribed in paragraph 20 of GASB 27.

Substantially all full time, permanent County employees are required by law (Title 9 of the S. C. Code of Laws) to participate in statewide, cost sharing multiple-employer defined benefit pension plans administered by the State Retirement System. Generally all employees, with the exception of law enforcement personnel and certain others, participate in the South Carolina Retirement System (**SCRS**). Law enforcement personnel and certain other employees participate in the South Carolina Police Officers Retirement System (**PORS**).

Both the South Carolina Retirement System and Police Officers Retirement System offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plans' provisions are established under Title 9 of the SC Code of Laws.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

11. Retirement Plans – Continued:

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System and Police Officers Retirement System is issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211 -1960.

Actuarially established employer contribution rates are as follows:

	<u>Retirement Program</u>				<u>Total</u>
	<u>Normal</u>	<u>Unfunded Accrued Liability</u>	<u>Accidental Death Program</u>	<u>Group Life Insurance Program</u>	
SCRS	5.00%	4.06%	N/A	.15%	9.21%
PORS	8.43%	1.87%	.20%	.20%	10.70%

Contribution rates are developed by the SCRS and PORS using the entry age normal cost method. The normal contribution rate to cover current cost has been determined as a level percentage of payroll. A market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liabilities that are being amortized by regular annual contributions as a level percent of payroll within a 30 -year period, assuming 4.25 % annual payroll growth for SCRS and PORS.

All employers contribute at the actuarially required contribution rates.

<u>Contribution Information:</u>	<u>SCRS</u>	<u>PORS</u>
Covered Payroll	\$ 32,207,198	\$ 15,038,476
Employee Contributions	2,062,311	977,500
Employee Contribution Rate (Based upon Salary)	6.50%	6.50%
Employer Contribution Rate; Includes Group	9.06%	10.30%
Life Coverage in both SCRS and PORS and Accidental Death Coverage in PORS (Based upon Salary)		

The County's employer contribution to the SCRS for the years ended June 30, 2008, 2007 and 2006 were \$2,966,289, \$2,309,121, and \$1,994,176 respectively, which are equal to the required contributions.

The County's employer contribution to the PORS for the years ended June 30, 2008, 2007 and 2006 were \$1,609,117, \$1,458,815, and \$1,339,817 respectively, which are equal to the required contributions.

Vesting Requirements:

With five years of service, an employee is entitled to a deferred annuity commencing at age 60 under the SCRS and at age 55 under the PORS.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

11. Retirement Plans – Continued:

Retirement Benefits:

Retirement benefits of participants in the **SCRS** and the **PORS** are currently determined as follows:

SCRS - The maximum monthly retirement allowance at age 65 or 30 years' service is generally determined by the following formula:

- Total 12 highest consecutive quarters of salary (divide by 3).
- Multiply the amount by 1.82%.
- Multiply the results by the total months of creditable service.
- Divide results by 12.

PORS - The retirement benefit at age 55 or 25 years' service is generally determined consistent with the aforementioned **SCRS** formula, except that the average salary is multiplied by 2.14% for Class II members.

Early Retirement - SCRS

<u>Age</u>	<u>Service required</u>	<u>Early Retirement Penalty</u>
at least 60	None	5% for each year of age under 65
55	25	4% for each year of service under 30

Full formula retirement is available with 30 years of service, regardless of age, or age 65.

There are no early retirement provisions under **PORS**. A member must have 25 years service for full retirement or must be age 55 with 5 years service; both criteria provide for full formula benefit with no reduction.

Employees eligible for service retirement may participate in the Teacher and Retiree Incentive Program (TERI). TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Effective July 1, 2006, TERI participants who entered the program before July 1, 2005 do not have to contribute SCRS as long as they are covered under the TERI program.

Disability Retirement

In order to receive Disability Retirement benefits, an employee must have 5 years of credited service unless the injury is job related.

Recipients receive a service retirement benefit based upon continued service to age 65 for SCRS and to age 55 for PORS with no change in compensation.

Accidental Death Program

Under this provision of the PORS, an annuity is provided to the surviving spouse (or the specified beneficiary) of a member whose death was while in performance of duty. The annuity would equal 50% of members' compensation at the time of death.

BEAUFORT COUNTY, SOUTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

11. Retirement Plans – Continued:

Group Life Insurance Benefits

A lump-sum payment equal to one year 's salary is payable to the beneficiary upon the death of an active member with at least one year of service. There is no service requirement for death resulting from actual performance of duties. Lump-sum payments of up to \$3,000 (SCRS) or \$4,000 (PORS) are payable to a retiree's beneficiary based upon years of service at retirement.

Withdrawal of Employee Contribution

Accumulated contributions and credited interest payable are paid within 6 months but not less than 90 days after termination of all covered employment.

Post Retirement Increase

Annual increases in retirement benefits are calculated at 4% per year, provided the Consumer Price Index (CPI) for the prior calendar year was 3% or higher. If the CPI is less than 3%, CPI is granted. Increases are approved annually subject to compliance with funding policy.

Statewide Plan Actuarial Information

The South Carolina Retirement Systems do not determine separate measurements of assets and pension benefit obligations for individual employers. An actuarial valuation is performed for the systems annually. No changes in actuarial assumptions or benefit provisions have occurred subsequent to July 1, 1995. The interest rate assumption for actuarial purposes is 7.25%. An assumption of future COLA adjustments was removed (SCRS and PORS) and the method of valuing assets was changed from book value to a smoothed market value.

The Systems use a projected benefit method for actuarial valuation with level percentage entry age, normal cost and open-end unfunded accrued liability. At July 1 , 2006, based upon the actuarial method used for funding purposes:

	SCRS	PORS
Unfunded Accrued Liability	\$ 9,725,073,000	\$ 530,440,000
Liquidation Period	30 years	18 years

12. Other Post Employment Benefits (OPEB)

Plan Description

The County provides post-retirement health, life and dental care benefits, as per the requirements of a local ordinance, for certain retirees. Substantially all employees who retire under the State retirements plans are eligible to continue their coverage with the County paying 100% of the premium for those with 28 or more years of service, 75% of the premium for those with 20 years to 27 years of service and 50% of the premium for those with 15 years to 20 years of service. On June 9, 2008, the County closed these benefits to all employees hired after June 9, 2008. As of year-end there were 60 employees who had retired with the County and were receiving health insurance benefits.

BEAUFORT COUNTY, SOUTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

12. Other Post Employment Benefits (OPEB) – Continued:

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by the County. The required contribution is currently based on pay-as-you-go financing requirements. For the year ended June 30, 2008, the County recognized expenditures of \$8,694,422 for current healthcare premiums.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB:

Annual Required Contribution	\$ 3,381,788
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	<u>-</u>
Annual OPEB Cost	3,381,788
Contributions Made	<u>-</u>
Increase in Net OPEB Obligation	3,381,788
Net Obligation – Beginning of Year	<u>-</u>
Net Obligation – End of Year	<u>\$ 3,381,788</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2008 fiscal year were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 3,381,788	100.0%	\$ 3,381,788

Funded Status and Funding Progress

As of May 6, 2008, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial accrued liability for benefits was \$34.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$34.2 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$46,695,744, and the ratio of the UAAL to the covered payroll was 73.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

12. Other Post Employment Benefits (OPEB) – Continued:

Funded Status and Funding Progress

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 6, 2008 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the blended rate of the expected long-term investment returns on plan assets on the County's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9.00% in 2008 decreasing to the ultimate rate of 5.00% in 2014. Also, the actuarial assumptions included a 3.75% annual salary rate increase and 3.75% for an annual inflation rate. The UAAL is being amortized via the level percentage method, which amortizes the UAAL as a constant percent of payroll. The remaining amortization period at June 30, 2008 was 29 years.

13. Accrued Compensated Absences and Other Benefits

Effective February 15, 1993, Beaufort County adopted a new leave policy for all employees. The TOWP/SCA policy was replaced with a policy granting Personal Leave Days and Personal Disability Leave. Under the new policy, employees were entitled to a maximum Personal Leave balance of 280 hours. Upon termination, employees will be paid for all unused, unpaid Personal Leave up to this maximum. The liability recorded at June 30, 2008, to cover unused, unpaid Personal Leave including fringe benefits totaled \$2,763,940. The entire \$ 2,763,940 is considered a long-term liability.

All leave hours accrued in excess of this Personal Leave maximum were accrued to the employee's Personal Disability leave account. A maximum of 360 hours may be maintained in an employee's Personal Disability leave account. The only accrual to this balance occurs when an employee's Personal Leave account exceeds 280 hours, at which time excess hours are "rolled over" to the Personal Disability leave account. Personal Disability leave is to be used in the case of an extended or life threatening illness. This account can only be used once all accrued hours in the Personal Leave account have been used to a balance of 80 hours or less. The employee must present a doctor's statement verifying the disability or illness in order to utilize his/her Personal Disability leave. Employees with remaining SCA leave balances may retain those balances. The same rules governing the use of Personal Disability leave apply to the use of SCA leave. Upon termination of employment with Beaufort County, no payment for any unused SCA or Personal Disability leave will be made.

The County does not provide post employment health care benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the County.

14. Commitments and Contingencies

On November 22, 1991, the County entered into a 20 year lease agreement with the General Services Administration of the U. S. Government (GSA) for the use of the former Beaufort County Courthouse building by GSA as a Federal Courthouse. Under this agreement, the County renovated the building in accordance with GSA specifications at an approximate cost of \$1,933,744. Financing has been arranged for the funding of these costs and the County has assigned all rights and interest in the lease payments from GSA to the lender. The terms and required payments on the lease are the same as the terms and required payments on the loan. After the

BEAUFORT COUNTY, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

payment of the loan and the end of the lease term, the asset will remain as property of the County.

14. Commitments and Contingencies – Continued:

Arbitrage rules - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal Government. To retain the bonds' tax exempt status, local governments must comply with the regulations as adopted by the government expend all of the bond proceeds within designated periods which could be up to three years. The County is in compliance with all arbitrage rules.

As of June 30, 2008, the County has outstanding construction contracts of \$26,847,774.

15. Risk Management and Litigation

The County is exposed to various risks of losses related to torts; thefts of; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The County manages risk through employee educational and prevention programs and through the purchase of casualty and liability insurance. All risk management activities are accounted for in the General Fund.

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered.

The County is a party to several lawsuits which seek to recover property taxes paid under protest and to overturn property sold at "tax sales." The County's attorney estimates that the amount of actual or potential claims against the County at June 30, 2008 will not materially affect the financial conditions of the County. Therefore, the General Fund contains no provision for estimated claims.

16. Fund Equity Deficits and Subsequent Events

At June 30, 2008, the 2006B bond projects fund had a deficit balance of \$3,877,798 and the accommodations tax program fund had a deficit balance of \$85,490. However, these individual accounts are offset by a positive fund balance in the general fund.

After June 30, 2008, the County entered into several operating leases. The lease payments are reflected in the schedule of minimum commitments for operating lease payments in Note 9.

During November 2008 through January 2009, the County repurchased \$1,670,000 of its Bluffton TIF bonds on the open market for less than par. It is noted that the debt will not be defeased until 2009, when these bonds are cancelled.