

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010. 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, 2010 by \$252,339,506 (net assets). Of this amount \$25,371,226 (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 \$30,373,813 during the fiscal year ended June 30, 2010 with a \$29,339,457 increase resulting from governmental activities and a \$1,034,356 increase resulting from business type activities.
- At the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$158,601,105, a decrease of \$34,819,231 in comparison with the prior year. Approximately 10 percent, \$16,217,306 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 \$16,217,306, or approximately 16 percent of the general fund expenditures and transfers.
- Beaufort County's net capital assets increased by \$60,458,674 during the current fiscal year. The increase in governmental activities net capital assets of \$59,727,512 was mostly the result of sales tax road project additions to construction in progress, purchases of property through the Real Property Purchase Program, purchases relating to emergency management communications enhancements and radios, several other road project additions throughout the County, and the construction of the Buckwalter Park Recreation Center.

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 29 through 31 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, the County wide general obligation bonds fund, the New River TIF bonds fund, the sales tax projects fund, the real property program fund, and the 2006 bond projects 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 32 through 38 of this report.

Proprietary funds – The County maintains four different types of proprietary funds, three 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 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 stormwater utility, Lady's Island Airport, and the Hilton Head Island Airport, all of which are considered to be major funds of the County.

Internal service funds are an accounting mechanism to accumulate and allocate costs internally for the County. The County uses internal service funds to account for its garage.

The basic proprietary fund financial statements can be found on pages 39 through 42 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 43 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 44 through 68 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 81 through 211.

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 \$252,339,506 as of June 30, 2010.

Of this amount, \$150,564,474 (approximately 60 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. Additionally, \$32,499,155 (approximately 13 percent), represents resources that are restricted for capital projects. An additional portion of the County's net assets, \$43,904,651 (approximately 17 percent), represents resources that are restricted to the repayment of the County's bonded indebtedness. The remaining balance of unrestricted net assets, \$25,371,226 (approximately 10 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, 2010 and 2009

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		Percent Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Current and Other Assets	\$ 176,202,333	\$ 212,379,713	\$ (319,140)	\$ (1,202,117)	\$ 175,883,193	\$ 211,177,596	(16.7%)
Capital Assets	<u>347,251,665</u>	<u>287,524,153</u>	<u>23,805,330</u>	<u>23,074,168</u>	<u>371,056,995</u>	<u>310,598,321</u>	<u>19.5%</u>
Total Assets	<u>\$ 523,453,998</u>	<u>\$ 499,903,866</u>	<u>\$ 23,486,190</u>	<u>\$ 21,872,051</u>	<u>\$ 546,940,188</u>	<u>\$ 521,775,917</u>	<u>4.8%</u>
Long-Term Liabilities	\$ 263,394,416	\$ 221,352,900	\$ 542,007	\$ 374,809	\$ 263,936,423	\$ 221,727,709	19.0%
Other Liabilities	<u>29,761,096</u>	<u>77,591,937</u>	<u>903,163</u>	<u>490,578</u>	<u>30,664,259</u>	<u>78,082,515</u>	<u>(60.7%)</u>
Total Liabilities	<u>\$ 293,155,512</u>	<u>\$ 298,944,837</u>	<u>\$ 1,445,170</u>	<u>\$ 865,387</u>	<u>\$ 294,600,682</u>	<u>\$ 299,810,224</u>	<u>(1.7%)</u>
Net Assets:							
Invested in Capital Assets							
Net of Related Debt	\$ 126,759,144	\$ 82,426,443	\$ 23,805,330	\$ 23,074,168	\$ 150,564,474	\$ 105,500,611	42.7%
Restricted for Capital Projects	32,499,155	74,845,975	-	-	32,499,155	74,845,975	(56.6%)
Restricted for Debt Service	43,904,651	34,763,370	-	-	43,904,651	34,763,370	26.3%
Unrestricted (Deficit)	<u>27,135,536</u>	<u>8,923,241</u>	<u>(1,764,310)</u>	<u>(2,067,504)</u>	<u>25,371,226</u>	<u>6,855,737</u>	<u>270.1%</u>
	<u>\$ 230,298,486</u>	<u>\$ 200,959,029</u>	<u>\$ 22,041,020</u>	<u>\$ 21,006,664</u>	<u>\$ 252,339,506</u>	<u>\$ 221,965,693</u>	<u>13.7%</u>

The County's total net assets increased by \$30,373,813 during the 2010 fiscal year. Key elements of this increase are as follows:

- The County's net capital assets increased by \$60.5 million. This increase occurred mostly from the County's \$43.7 million investment in infrastructure related to the 1% sales tax referendum road project, \$8.5 million in purchases of land, \$7.4 million in upgraded radios and related infrastructure for improved communications abilities in the event of emergencies, \$2.2 million for the Buckwalter Park Recreation Center, and \$2.0 million in other road projects. See the capital assets and debt administration section below for more detail.
- The \$42.0 million increase within the County's governmental long-term liabilities and corresponding \$47.8 million decrease in other governmental liabilities was mainly caused by the County's refinancing of its \$48.8 million bond anticipation note into \$48.8 million in general obligation bonds within the 2010 fiscal year. See the capital assets and debt administration section for more detail.
- These increases were also offset by a \$36.2 million decrease in the County's governmental current and other assets. The \$36.2 million decrease was mostly the result of the County spending approximately \$12 million of its 2010 bond projects fund balance, which included \$7.4 million in upgraded radios and related infrastructure for improved communications abilities in the event of emergencies and \$2.2 million for the Buckwalter Park Recreation Center. In addition, the County continued and increased work on its 1% sales tax projects, in which \$9.8 million more in cash was spent than received in the 2010 fiscal year. This was the result of the majority of the work on these projects beginning well after sales tax collections began in prior years. Additionally, another \$8.5 million in rural and critical lands program land was purchased from the real property program fund in fiscal year 2010. Lastly, the County's general fund cash and equity in pooled cash and investments decreased by approximately \$4.3 million, which was mostly due to late and declining property tax revenues related to the downturn in the economy and increased shifts to owner-occupied households, which decrease County tax billings. See the general fund and capital assets and debt administration sections below for more detail.

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Beaufort County's Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 29,584,032	\$ 28,636,708	\$ 5,639,841	\$ 4,854,807	\$ 35,223,873	\$ 33,491,515
Operating Grants and Contributions						
Contributions	8,353,023	8,046,928	133,223	124,881	8,486,246	8,171,809
Capital Grants and Contributions						
Contributions	2,654,488	4,223,966	1,862,895	986,411	4,517,383	5,210,377
General Revenues:						
Property Taxes	91,394,021	92,725,922	-	-	91,394,021	92,725,922
Sales Taxes	28,257,192	30,440,867	-	-	28,257,192	30,440,867
Grants and Contributions	9,638,402	10,353,360	-	-	9,638,402	10,353,360
Unrestricted Investment Earnings						
Earnings	4,093,395	3,728,745	48,779	59,803	4,142,174	3,788,548
Gain/Loss on Sale of Capital Assets						
Capital Assets	4,460	-	478	-	4,938	-
Miscellaneous	<u>3,352,570</u>	<u>2,758,685</u>	<u>-</u>	<u>9,354</u>	<u>3,352,570</u>	<u>2,768,039</u>
Total Revenues	<u>177,331,583</u>	<u>180,915,181</u>	<u>7,685,216</u>	<u>6,035,256</u>	<u>185,016,799</u>	<u>186,950,437</u>
Program Expenses						
Governmental Activities:						
General Government	35,336,670	33,883,983	-	-	35,336,670	33,883,983
Public Safety	50,524,200	49,090,928	-	-	50,524,200	49,090,928
Public Works	20,434,597	19,920,007	-	-	20,434,597	19,920,007
Public Health	12,267,824	12,227,572	-	-	12,267,824	12,227,572
Public Welfare	2,402,787	1,935,787	-	-	2,402,787	1,935,787
Cultural and Recreation	15,963,929	16,947,113	-	-	15,963,929	16,947,113
Interest	10,812,119	10,906,551	-	-	10,812,119	10,906,551
Business-Type Activities:						
Stormwater Utility	-	-	3,677,985	3,027,952	3,677,985	3,027,952
Lady's Island Airport	-	-	664,128	1,129,236	664,128	1,129,236
Hilton Head Airport	-	-	<u>2,558,747</u>	<u>2,478,208</u>	<u>2,558,747</u>	<u>2,478,208</u>
Total Expenses	<u>147,742,126</u>	<u>144,911,941</u>	<u>6,900,860</u>	<u>6,635,396</u>	<u>154,642,986</u>	<u>151,547,337</u>
Excess Revenues over Expenses	29,589,457	36,003,240	784,356	(600,140)	30,373,813	35,403,100
Transfers In / (Out)	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	29,339,457	36,003,240	1,034,356	(600,140)	30,373,813	35,403,100
Net Assets, Beginning	<u>200,959,029</u>	<u>164,955,789</u>	<u>21,006,664</u>	<u>21,606,804</u>	<u>221,965,693</u>	<u>186,562,593</u>
Net Assets, Ending	<u>\$ 230,298,486</u>	<u>\$ 200,959,029</u>	<u>\$ 22,041,020</u>	<u>\$ 21,006,664</u>	<u>\$ 252,339,506</u>	<u>\$ 221,965,693</u>

BEAUFORT COUNTY, SOUTH CAROLINA
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Governmental activities increased the County's net assets by \$30.4 million, thereby accounting for 97 percent of the total growth in the net assets of the County. Key elements in fiscal year 2010's activity are as follows:

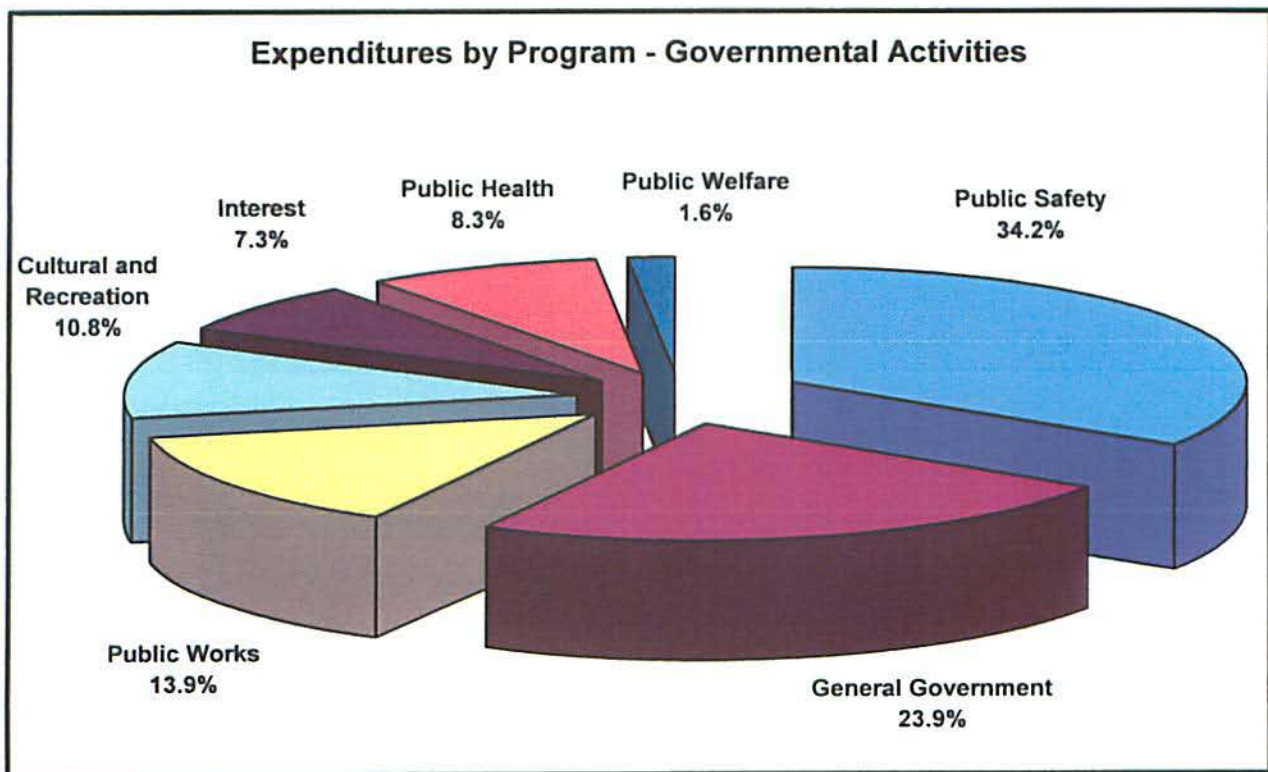
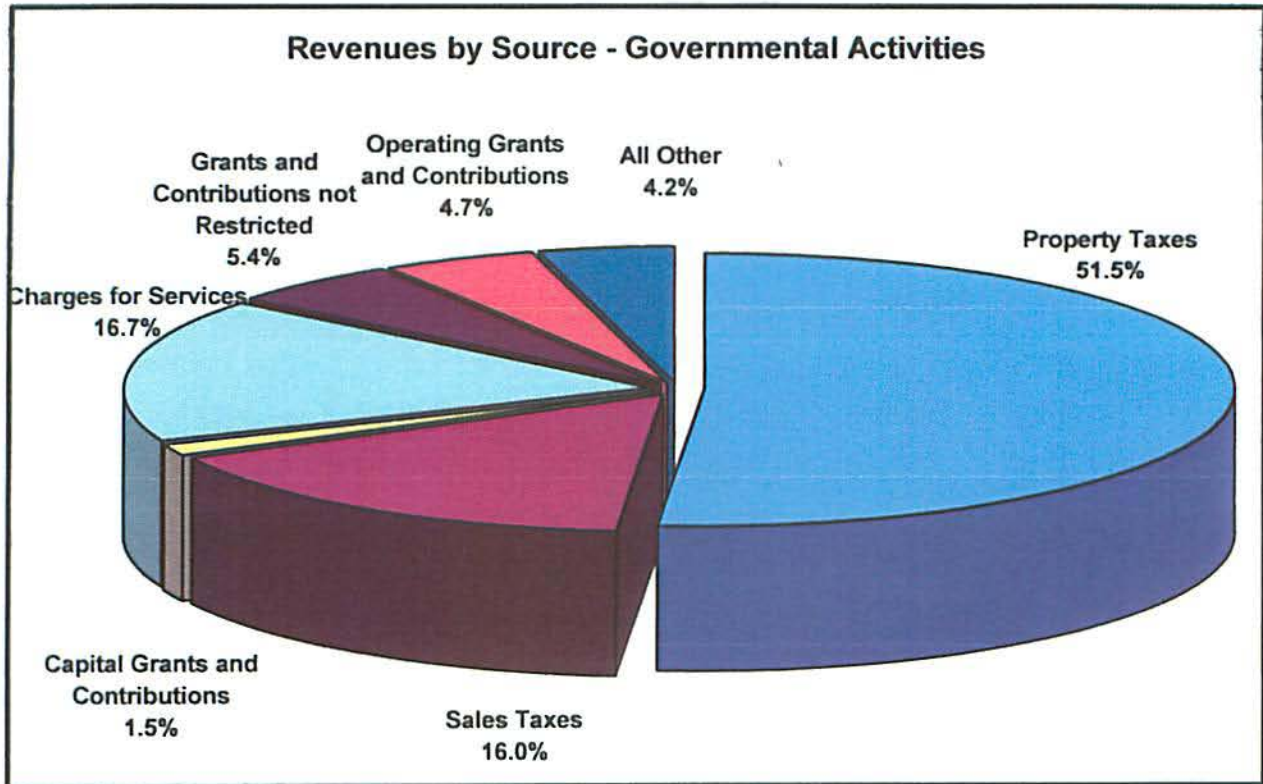
- In the 2010 fiscal year, charges for services increased by \$947,000 (or 3.3%) over the 2009 fiscal year. This was mostly fueled by a \$485,000 increase in the County's general fund master in equity fees. Additionally, there was an increase in the Treasurer's execution fees of approximately \$261,000 comparing fiscal years 2010 and 2009. Both of these charges for services revenues increased due to the downturn in the economy fueling more foreclosures and late property tax payments, respectively.
- Fiscal year 2010 capital grants and contributions decreased by approximately \$1.6 million (or 37.2%) as compared to the 2009 fiscal year. This decrease was mostly caused by U.S. Department of Homeland Security Beaufort Radio Interoperable Communications Project Grant funds of \$1.1 million recognized in the 2009 fiscal year, in which the grant also concluded within that year. Additionally, \$.5 million in private grant revenues was recognized in the County's real property program fund in the 2009 fiscal year related to land conservation, with no such revenues being recognized in the 2010 fiscal year.
- In the 2010 fiscal year, property tax revenues decreased by approximately \$1.3 million (or 1.4%) over the 2009 fiscal year. The 1.4% decrease of property tax revenues in the 2010 fiscal year over the 2009 fiscal year is compared to an \$11.3 million or 13.9% increase in property tax revenues in the 2009 fiscal year over the 2008 fiscal year and compared to a \$8.8 million or 12.1% increase in property tax revenues in the 2008 fiscal year over the 2007 fiscal year. Decreases in fiscal year 2010 property taxes were primarily due to late and declining property tax revenues related to the downturn in the economy and increased shifts to owner-occupied households, which decrease County tax billings. Increases in fiscal years 2009 and 2008 property taxes were due to larger amounts of delinquent taxes paid in subsequent fiscal years, increased millage rates, increasing property values, increasing development, and an increasing population.
- Also, the County's governmental sales taxes decreased by \$2.2 million (or 7.2%) due to decreased County's sales tax projects fund revenues collected in fiscal year 2010 as compared to fiscal year 2009. This was caused by declines in sales tax collections related to the downturn in the economy and decreased consumer spending.
- County general government expenses increased by \$1.5 million (or 4.3%) during the 2010 fiscal year as compared to the 2009 fiscal year. This was mostly due to increased credit card fees of \$1.3 million related to property tax collections throughout fiscal year 2010 within the Treasurer's Office.
- The County's public safety expenses increased by \$1.4 million (or 2.9%) when comparing the 2010 and 2009 fiscal years. The increase resulted mostly from a \$.7 million increase in sheriff's office personnel expenditures, a \$.4 million increase in other post employment benefit costs, and a \$.2 million increase in public safety-related depreciation in the 2010 fiscal year as compared to the 2009 fiscal year.
- Additionally, the County's cultural and recreation expenditures decreased by \$1.0 million (or 5.8%) in the 2010 fiscal year, as compared to the 2009 fiscal year. This decrease was mostly the result of \$802,000 of non-capitalizable repairs to buildings completed within the 2009 fiscal year, with no such repairs occurring in fiscal year 2010. In addition, the County made a \$300,000 contribution to the Coastal Discovery Museum in fiscal year 2009, with no such contributions in fiscal year 2010.

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Business-type activities increased the County's net assets by \$1.0 million, thereby accounting for 3 percent of the total growth in the net assets of the County. Key elements of this net increase are as follows:

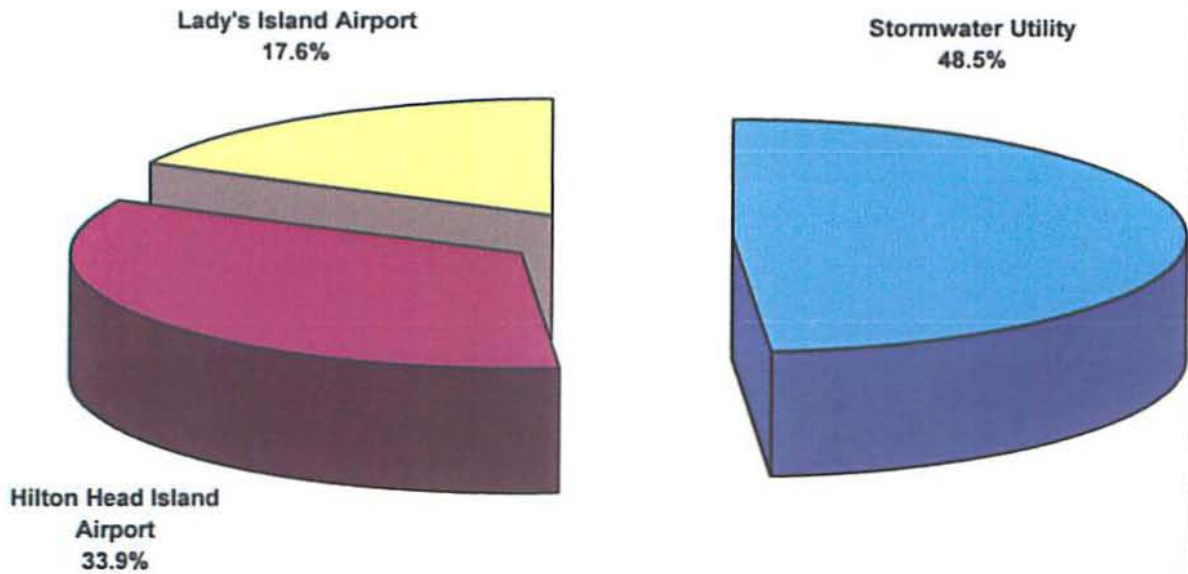
- FAA grant revenues, South Carolina Aeronautics Commission grant revenues, and other contributions increased by a combined \$876,484 in fiscal year 2010 as compared to fiscal year 2009 for the Hilton Head Island Airport and the Lady's Island Airport. Additionally, stormwater utility fees revenues increased by approximately \$868 thousand during the 2010 fiscal year compared to the fiscal year ended June 30, 2009.

BEAUFORT COUNTY, SOUTH CAROLINA
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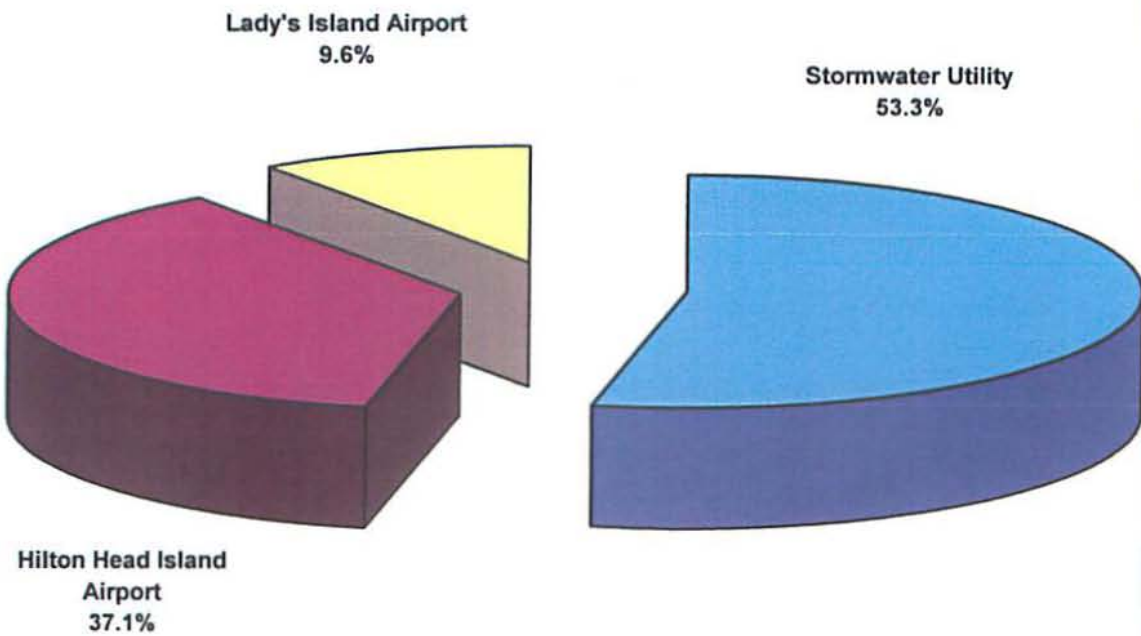


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Revenues by Source - Business-Type Activities



Expenses by Source - Business-Type Activities



BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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FINANCIAL ANALYSIS OF THE GOVERNMENTAL 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 end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$158,601,105, a decrease of \$34,819,231, in comparison with the prior year. Approximately 10 percent of this total fund balance (\$16,217,306) 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 1) to liquidate contracts and purchase orders (\$36,158,985), 2) to fund planned capital projects (\$32,499,155), 3) to pay debt service (\$43,904,651), 4) to fund special revenue projects (\$28,138,471), and 5) to advances to other funds (\$1,682,537).

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 \$16,217,306, while the total fund balance was \$18,240,793. 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 16% of total general fund expenditures and transfers, while total fund balance represents approximately 18% 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 \$7,107,378, all of which was reserved for debt service. The county wide general obligation bonds fund recognized revenues of \$6,685,279, total expenditures of \$12,699,701, and \$8,760,368, in other financing sources, for a net change in fund balance of \$2,745,946. The county wide general obligation bonds fund balance experienced the \$2.7 million increase in fund balance mostly due to the recognition of \$2.9 million in bond premiums in fiscal year 2010 related to the \$48.8 million bond anticipation note refinancing into the County's 2010 A and 2010 B bonds, which totaled \$48.8 million.

New River TIF Bonds Fund – At the end of the current fiscal year, the total fund balance of the New River TIF bonds fund was \$21,631,316, all of which was reserved for debt service. The New River TIF bonds fund recognized revenues of \$7,380,380 and expenditures of \$2,549,513, for a net change in fund balance of \$4,830,867. The New River TIF fund balance has annually experienced a large amount of growth in the last several years, because the TIF has a small base value and has experienced significant amounts of assessed value growth during this period.

Sales Tax Projects Fund – At the end of the current fiscal year, the total fund balance of the sales tax projects fund was \$25,197,818, all of which was reserved for capital projects. The sales tax projects fund recognized revenues of \$28,577,669, total expenditures of \$43,709,216, and \$1,998,239 in other financing sources, for a net change in fund balance of (\$13,133,308). The County had not started a significant amount of its sales tax projects work prior to the 2010 fiscal year, thus increasing its fund balance to be spent in upcoming years. These projects began to get significantly underway in fiscal year 2010, which led to a planned spending down of this fund balance. This trend will most likely continue over the remaining life of the County's 1% sales tax road improvement program.

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Real Property Program Fund – At the end of the current fiscal year, the total fund balance of the real property program fund was \$12,221,702, all of which was reserved for capital projects. The real property program fund recognized revenues of \$1,693,263 and total expenditures of \$8,482,663, for a net change in fund balance of (\$6,789,400). This planned decrease in fund balance of \$6,789,400 is solely related to the County's land preservation program that is funded by bond borrowings authorized by two voter referendums. However, it is noted that the County received \$1.7 million from a former land conservation services vendor who was holding monies for related County projects.

2006 Bond Projects Fund – At the end of the current fiscal year, the total fund balance of the 2006 bond projects fund was \$10,813,280, all of which was reserved for capital projects. The 2006 bond projects fund recognized revenues of \$973,232, total expenditures of \$1,703,900, and (\$406,563) in other financing uses, for a net change in fund balance of (\$1,137,231). This planned net fund decrease of \$1.1 million is solely related to the County expending the monies borrowed for capital projects from its 2006 general obligation bonds. But, it is noted that the County received approximately \$933,000 from state and federal grants that supplemented these projects.

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.

As of the end of the current fiscal year, the County's proprietary funds reported combined ending net assets of \$22,041,020 an increase of \$1,034,356 in comparison with the prior year.

Stormwater Utility – At the end of the current fiscal year, the net assets of the stormwater utility fund were \$2,981,246, of which \$1,291,219 was invested in capital assets, net of related debt, leaving a balance of \$1,690,027 in unrestricted net assets. The stormwater utility fund recognized operating revenues of \$3,713,687, total operating expenses of \$3,677,985, and \$11,165 in net non-operating revenues, for a change in net assets of \$46,867. The 1.6% increase in the stormwater utility fund in the 2010 fiscal year was mostly the result of an \$868,000 increase in operating revenues offset by a lesser increase in expenses from fiscal year 2009 to fiscal year 2010.

Lady's Island Airport – At the end of the current fiscal year, the net assets of the Lady's Island Airport fund were \$3,813,011, of which \$4,151,902 was invested in capital assets, net of related debt, leaving a deficit balance of \$338,891 in unrestricted net assets. The Lady's Island Airport recognized operating revenues of \$490,691, total operating expenses of \$519,129, \$716,966 in net non-operating revenues, and transfers in of \$100,000, for a change in net assets of \$788,528. The increase in net assets within the Lady's Island Airport fund in the 2010 fiscal year was mostly the result of an increase in Federal Aviation Administration (FAA) revenues of \$334,000 for mostly capital projects and a decrease of \$417,000 in non-operating grant expenses, which in fiscal year 2009 was mostly related to FAA-funded tree cutting projects around the airport, which were not as extensive in fiscal year 2010.

Hilton Head Island Airport – At the end of the current fiscal year, the net assets of the Hilton Head Island Airport fund were \$15,246,763, of which \$18,362,209 was invested in capital assets, net of related debt, leaving a deficit balance of \$3,115,446 in unrestricted net assets. The Hilton Head Island Airport recognized operating revenues of \$1,568,686, total operating expenses of \$2,031,113, \$511,388 in net non-operating revenues, and transfers in of \$150,000, for a change in net assets of \$198,961. The increase in net assets within the Hilton Head Island Airport fund in the 2010 fiscal year was mostly the result of FAA grant revenues (which were mostly for capital projects), South Carolina Aeronautics Commission grant revenues (for capital projects), and other contributions, which increased by a combined \$543,000 in fiscal year 2010 as compared to fiscal year 2009.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget to Final Budget Comparison for the Fiscal Year Ended June 30, 2010

	Original <u>Budget</u>	Final <u>Budget</u>	Variance with Original Budget Positive <u>(Negative)</u>
Revenues:			
Taxes	\$ 78,875,528	\$ 78,875,528	\$ -
Licenses and Permits	2,783,000	2,783,000	-
Intergovernmental	8,378,606	7,078,192	(1,300,414)
Charges for Services	9,957,714	10,358,464	400,750
Fines and Forfeitures	850,150	850,150	-
Interest	790,000	981,892	191,892
Miscellaneous	<u>523,500</u>	<u>523,670</u>	<u>170</u>
Total Revenues	102,158,498	101,450,896	(707,602)
Expenditures:			
General Government	20,931,975	22,821,855	(1,889,880)
Public Safety	40,924,593	41,424,524	(499,931)
Public Works	16,082,695	15,935,774	146,921
Public Health	5,626,929	5,538,440	88,489
Public Welfare	964,214	964,214	-
Culture and Recreation	13,570,464	13,523,469	46,995
Capital	<u>1,456,212</u>	<u>1,865,837</u>	<u>(409,625)</u>
Total Expenditures	99,557,082	102,074,113	(2,517,031)
Excess of Revenues Over (Under)			
Expenditures	2,601,416	(623,217)	(3,224,633)
Other Financing Sources (Uses)			
Transfers In	1,610,732	2,762,106	1,151,374
Transfers Out	<u>(4,212,148)</u>	<u>(4,241,309)</u>	<u>(29,161)</u>
Total Other Financing Sources (Uses)	(2,601,416)	(1,479,203)	1,122,213
Net Change in Fund Balance	-	(2,102,420)	(2,102,420)
Fund Balance at the Beginning of the Year	<u>20,940,144</u>	<u>20,940,144</u>	<u>-</u>
Fund Balance at the End of the Year	<u>\$ 20,940,144</u>	<u>\$ 18,837,724</u>	<u>\$ (2,102,420)</u>

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The general fund original budget's net assets varied from its final budget's net assets by (\$2,102,420). Key elements of this net budget increase are as follows:

- There were decreasing budget revisions totaling \$1.3 million to the County's general fund intergovernmental revenues. The decreasing budget revisions mostly relate to the State of South Carolina decreasing the County's general fund State aid to subdivisions contribution by approximately \$1.1 million from the 2009 fiscal year to the 2010 fiscal year.
- There were increasing budget revisions totaling \$1.9 million to the County's general fund general government expenditures. The majority of the budget increases related to increased credit card fees of \$1.3 million related to property tax collections throughout fiscal year 2010 within the Treasurer's Office. In this, the Treasurer's Office then transferred monies from the execution fee fund which increased the general fund transfers in budget (see below) to make up for the increases in expenditures.
- There were increasing budget revisions totaling \$1.2 million to the County's general fund transfers in. Of these revisions, the largest was related to \$1.3 million in transfers from the County's Treasurer's execution fee fund to the general fund, related to expenditures incurred by the Treasurer's Office for the collection of delinquent taxes. The remainder of budget revisions to general fund transfers in was netted against the \$1.3 million.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Final Budget to Actual Comparison for the Fiscal Year Ended June 30, 2010

	Final Budget	Actual	Variance with Final Budget Positive Negative
Revenues:			
Taxes	\$ 78,875,528	\$ 72,781,606	\$ (6,093,922)
Licenses and Permits	2,783,000	2,406,781	(376,219)
Intergovernmental	7,078,192	7,840,690	762,498
Charges for Services	10,358,464	10,871,664	513,200
Fines and Forfeitures	850,150	1,114,192	264,042
Interest	981,892	535,064	(446,828)
Miscellaneous	<u>523,670</u>	<u>784,642</u>	<u>260,972</u>
Total Revenues	101,450,896	96,334,639	(5,116,257)
Expenditures:			
General Government	22,821,855	22,193,897	627,958
Public Safety	41,424,524	39,621,813	1,802,711
Public Works	15,935,774	14,911,639	1,024,135
Public Health	5,538,440	5,149,329	389,111
Public Welfare	964,214	871,631	92,583
Culture and Recreation	13,523,469	13,067,668	455,801
Capital	<u>1,865,837</u>	<u>1,979,091</u>	<u>(113,254)</u>
Total Expenditures	102,074,113	97,795,068	4,279,045
Excess of Revenues Over (Under)			
Expenditures	(623,217)	(1,460,429)	(837,212)
Other Financing Sources (Uses)			
Transfers In	2,762,106	2,754,899	(7,207)
Transfers Out	<u>(4,241,309)</u>	<u>(3,993,821)</u>	<u>247,488</u>
Total Other Financing Sources (Uses)	(1,479,203)	(1,238,922)	240,281
Net Change in Fund Balance	(2,102,420)	(2,699,351)	(596,931)
Fund Balance at the			
Beginning of the Year	<u>20,940,144</u>	<u>20,940,144</u>	<u>-</u>
Fund Balance at the			
End of the Year	<u>\$ 18,837,724</u>	<u>\$ 18,240,793</u>	<u>\$ (596,931)</u>

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The actual net assets of the County's general fund varied from its final budget's net assets by (\$596,931). Key elements of this are as follows:

- The County's tax revenues were approximately \$6.1 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 followed national housing and foreclosure trends. Also, late and declining property tax revenues related to increased shifts to owner-occupied households, which decrease County tax billings, also led to actual County revenues being less than budget for fiscal year 2010.
- To react to the decreasing revenues, the County decreased its expenditures by approximately \$4.3 million from its revised fiscal 2010 budget. These decreases came mostly within a \$1.8 million positive budget to actual variance within public safety expenditures, a \$1.0 million positive budget to actual variance within public works expenditures, a \$.6 million positive budget to actual variance within general government expenditures, and a \$.5 million positive budget to actual variance within cultural and recreation expenditures.
 - The net \$1.8 million positive variance within the County's public safety expenditures from the final budget came mostly from personnel expenditures being a combined \$1.3 million less within the County's sheriff's office, communications/traffic management department, and emergency services department. This was mostly the result of a partial hiring freeze enacted by the County to counteract falling revenues due to the downturn in the economy.
 - County public works' expenditures \$1.0 million positive variance from the final budget came mostly from personnel expenditures being a combined \$.7 million less than budgeted for the County's facilities maintenance, public works, engineering, and solid waste/recycling departments. This was the result of a partial hiring freeze enacted by the County to counteract falling revenues due to the downturn in the economy. Additionally, there was a \$.5 million positive variance within the County's Solid Waste/Recycling Department's professional services expenditures, which mostly related to waste and recycling pickup services being approximately \$444,000 less than budget in fiscal year 2010.
 - The net \$.6 million positive variance within the County's general government expenditures from the final budget was mostly driven by personnel expenditures being a combined \$.7 million less than budgeted for the County's general government departments, which was the result of a partial hiring freeze enacted by the County to counteract falling revenues due to the downturn in the economy.
 - The net \$.5 million positive variance within the County's cultural and recreation expenditures from the final budget came mostly from personnel expenditures being a combined \$.5 million less than budgeted for the County's parks and recreation department and the County's libraries. This was the result of a partial hiring freeze enacted by the County to counteract falling revenues due to the downturn in the economy.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010 was \$371,056,995 (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 19 percent (in which governmental activities capital assets increased by approximately 21 percent and business-type activities capital assets increased by approximately 3 percent).

Beaufort County's Capital Assets
(Net of Depreciation)
June 30, 2010 and 2009

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 77,574,420	\$ 69,117,014	\$ 13,802,425	\$ 13,802,425	\$ 91,376,845	\$ 82,919,439
Easements	11,544,500	11,544,500	-	-	11,544,500	11,544,500
Construction in Progress	91,336,163	43,067,711	2,158,942	672,020	93,495,105	43,739,731
Buildings and Improvements	84,714,625	82,854,192	6,306,393	6,766,758	91,021,018	89,620,950
Infrastructure	66,534,507	65,235,335	-	-	66,534,507	65,235,335
Equipment	<u>15,547,450</u>	<u>15,705,401</u>	<u>1,537,570</u>	<u>1,832,965</u>	<u>17,085,020</u>	<u>17,538,366</u>
Total Capital Assets	<u>\$ 347,251,665</u>	<u>\$ 287,524,153</u>	<u>\$ 23,805,330</u>	<u>\$ 23,074,168</u>	<u>\$ 371,056,995</u>	<u>\$ 310,598,321</u>

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

- The County purchased approximately \$8.5 million in governmental activities land for the County's rural and critical lands program.
- The County added approximately \$49.8 million of investments to construction in progress, which is mostly comprised of \$43.7 million in sales tax fund projects.

Additional information on the County's capital assets can be found in note 4 on pages 52 through 53 of this report.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Long-Term Debt – At the end of the current fiscal year, Beaufort County had \$262,752,537 of total long-term debt outstanding. Of this amount, \$201,355,000 is debt backed by the full faith and credit of the government.

Beaufort County's Outstanding Debt
June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 201,355,000	\$ 159,305,000	\$ -	\$ -	\$ 201,355,000	\$ 159,305,000
TIF Revenue Bonds	59,715,000	60,575,000	-	-	59,715,000	60,575,000
Bond Anticipation Notes	-	48,755,000	-	-	-	48,755,000
Loan Payable to General Fund	-	-	1,682,537	1,723,652	1,682,537	1,723,652
Capital Leases	-	178,390	-	-	-	178,390
Total Outstanding Debt	<u>\$ 261,070,000</u>	<u>\$ 268,813,390</u>	<u>\$ 1,682,537</u>	<u>\$ 1,723,652</u>	<u>\$ 262,752,537</u>	<u>\$ 270,537,042</u>

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

- In March 2009, the County issued \$48,755,000 of bond anticipation notes bearing an interest rate of 1.75% with a maturity date of March 2010. In March 2010, the County refinanced the bond anticipation notes into two bonds totaling \$48,755,000. The 2010 A General Obligation Bonds for \$24,205,000 have interest rates of 2.0% to 5.0% and the 2010 B Build America General Obligation Bonds for \$24,550,000 have interest rates of 4.7% to 5.625%. \$28,755,000 of the proceeds is being used for various County construction projects and equipment, while the other \$20,000,000 of the proceeds of these bonds is being used to fund the County's rural and critical lands projects.
- In May 2010, the County paid off its communication equipment capital lease four years early with a final principal payment of \$145,436 (after its November 2009 principal payment of \$32,954).
- Excluding the bond anticipation note refinancing, there was \$7,784,505 in debt service principal paid during the fiscal year.

The County maintains an underlying, uninsured "AA+" bond rating from Standard & Poor's Rating Group for all of its general obligation bonds, an underlying, uninsured "Aa1" bond rating from Moody's Investors Service for all of its general obligation bonds, and an underlying, uninsured "AA" bond rating from Fitch for its 2001 through 2007B general obligations bonds. Additionally the County maintains an underlying, uninsured "A+" bond rating for its TIF revenue bonds from Standard & Poor's Rating Group.

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 \$156,393,503. Beaufort County was \$59,660,414 under this legal limit at June 30, 2010.

Additional information on the County's long-term debt can be found in note 5 on pages 53 through 59 of this report.

BEAUFORT COUNTY, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Beaufort County was 9.1 percent at June 30, 2010, which is an increase from a rate of 5.2 percent a year ago. This compares favorably with the State of South Carolina's average unemployment rate of 10.7 percent at June 30, 2010 and the national average unemployment rate of 9.5 percent at June 30, 2010.
- The housing market downturn continued to affect the County during the 2010 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 2011 fiscal year.

During the 2010 fiscal year, unreserved, undesignated fund balance in the general fund decreased by \$2,554,106. No fund balance of the general fund has been appropriated for spending in the County's 2011 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.



Beaufort County

South Carolina



Photo by Larry Coffin

Sunrises and sunsets enhance the drama of the Beaufort County Landscape. On this particular foggy morning, the rising sun casts an amber glow over an oyster reef.



Beaufort County

South Carolina

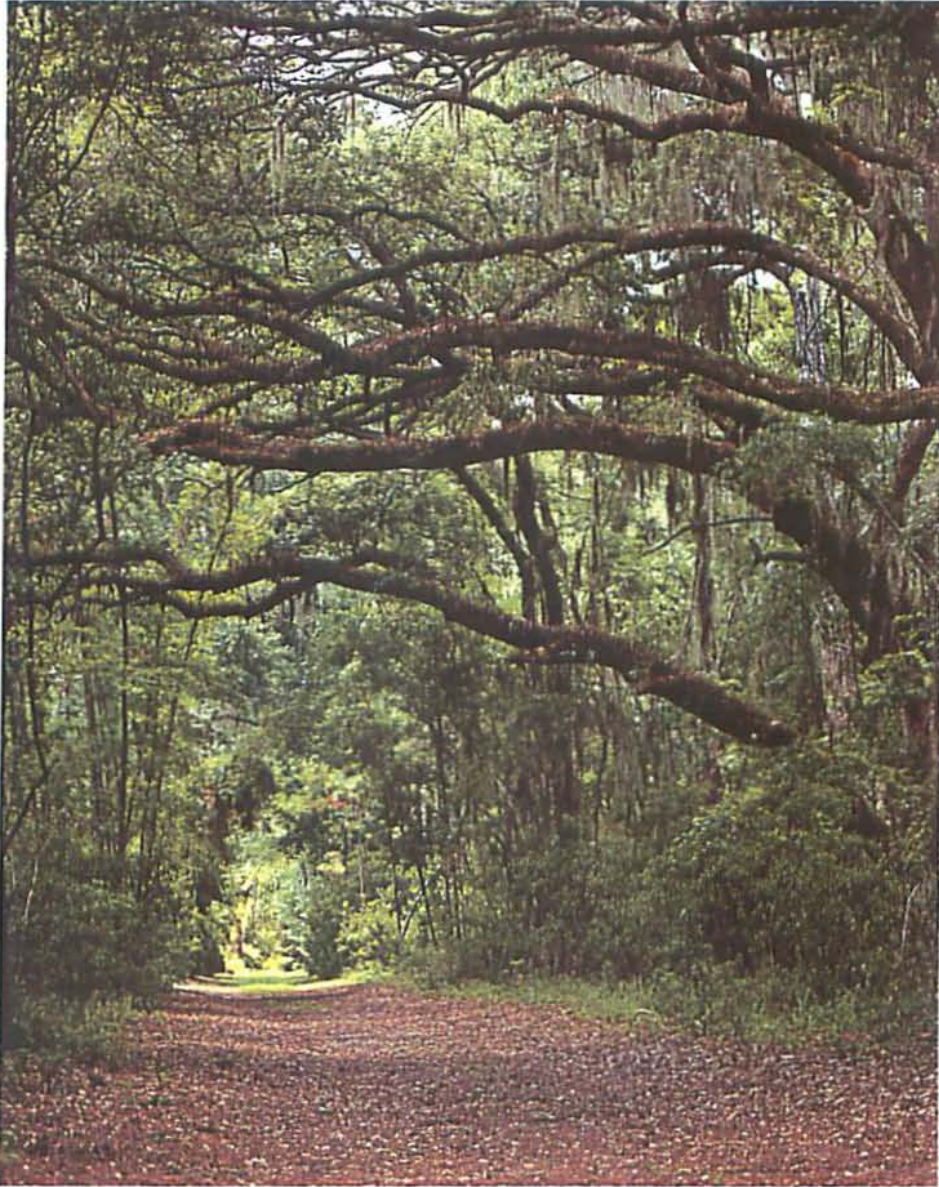


Photo by Scott Quarforth

A path through the forest at historic Altamaha – the site of a 17th century Native American Village – leads from Indian mounds to the grounds of a 19th century cotton plantation. The 100-acre parcel includes 300-year-old live oaks and stunning views of the Okatie and Colleton Rivers. The property has been preserved by Beaufort County as a passive public park.