



County Council of Beaufort County
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To the Chairman, Members of Beaufort County Council,
And Citizens of Beaufort County
Beaufort, South Carolina

Presented herein is the Comprehensive Annual Financial Report (CAFR) of Beaufort County, South Carolina for the fiscal year ended June 30, 2008. This report has been prepared by the County's Finance Department, and the responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs are included.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

ElliottDavis, LLC, Certified Public Accountants, has issued an unqualified ("clean") opinion on the County's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF LOCAL GOVERNMENT

Beaufort County, which was formed in 1785, 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. The services provided by this reporting entity, and therefore reflected in this financial report, include, but are not limited to: General Governmental (general administrative services, tax assessment and collection, courts and criminal justice administration, economic development); Public Safety (law enforcement, detention center, emergency medical services, emergency management, building codes enforcement); Public Works (roads and drainage, engineering, solid waste); Public Health (animal control, mosquito control, alcohol and drug programs, disabilities and special needs programs, various subsidies); Public Welfare (veterans services, social services, various subsidies); and Cultural and Recreation (library, parks and leisure services).

In light of NCGA Statement 3, Defining the Governmental Reporting Entity, the County has excluded the school district, the various public service districts, the fire districts, and the municipalities located within its boundaries as County Council does not exercise oversight responsibility, and accordingly each entity has sufficient discretion in the management of its own affairs. The County Treasurer does collect property taxes and other forms of revenue on behalf of these other political entities. The results of the fiduciary responsibility are reported on the combined financial statements as Agency Funds.

LOCAL ECONOMY

Beaufort County is located in the southeastern corner of the State of South Carolina, known as the "Lowcountry." With a land area of approximately 637 square miles, it is bordered to the South and east by the Atlantic Ocean, to the west by Jasper County, and to the north by Hampton and Colleton Counties. Beaufort County stretches nearly 30 miles along the Atlantic Ocean and includes 64 major islands and hundreds of small islands.

The County is one of the fastest growing areas in South Carolina, with a population of 147,922 in 2008, up from 86,425 in 1990. The County is a center for tourism, retirement and the associated services, and the military in South Carolina. The County has a balanced and very stable economy, created by a diversity of public and private employers, with the unemployment rate well below the national average, the statewide average, and that of the neighboring counties. The local tax base has grown an average of approximately 3% to 4% per year over the last five years (discounting the reassessment year), and this trend is expected to continue.

In addition to the established resort community of Hilton Head Island, there are several major developments underway in southern Beaufort County. These developments include Sun City Hilton Head, with more 15,000 residents expected at build-out; Spring Island, Callawassie Island, Colleton River Plantation, Belfair, and Westbury park. As expected, these developments have sparked an increase in commercial construction along the Highway 278 corridor, including a Home Depot, a Lowe's, a Wal-Mart Superstore, an expanded Factory Outlet Mall, a Target department store, and several major supermarkets.

Likewise, in northern Beaufort County, communities continue to develop at Dataw Island, Lady's Island, Cat Island, Bray's Island, and Habersham and throughout the city of Beaufort, as well as the Town of Port Royal.

Beaufort County is also the location for three major military installations, the U.S. Marine Corps Recruit Depot located at Parris Island, the Marine Corps Air Station-Beaufort, and the Beaufort Naval Hospital. These locations have benefited by the Department of Defense closing certain other military bases in the nation.

MAJOR INITIATIVES

Our number one goal is to make sure that Beaufort County remains financially sound and that we maintain a respectable contingency account to take care of the true emergencies that do arise from time to time; and to provide for a sufficient fund balance to enable our cash flow to carry us through those months prior to the billing and collection of property tax revenues. We have taken a systematic, businesslike approach to the running of Beaufort County. Additionally, we want to preserve our current "AA" bond rating.

In December 1997, the County adopted a Comprehensive Plan for Beaufort County. A portion of this plan is a comprehensive land use study which proposes various "preservation areas and greenways". As a result, the County taxpayers approved a \$40,000,000 bond referendum for the purchase of rural and critical lands. During April 2001, the County issued the first bonds under this referendum for \$10,000,000, and during June 2003, the County issued bonds for an additional \$10,000,000 under this referendum. The last \$20,000,000 of bonds authorized by this referendum were issued during November 2004.

LONG-TERM FINANCIAL PLANNING

In December 1999, the County established a tax increment financing district (TIF) to fund construction of various projects within the Town of Bluffton and surrounding unincorporated areas of Bluffton, which included the Beaufort County Library System's Bluffton branch. The County borrowed \$23,680,000 in tax increment revenue bonds during November 2003 to fund these projects.

In December 2001, the County established a TIF to fund construction for the University of South Carolina Beaufort four-year campus in the New River area of Beaufort County. The New River TIF will also fund construction for the Technical College of the Lowcountry. The County borrowed \$40,000,000 in tax increment revenue bonds during December 2002 to fund these projects.

In December 2006, the County issued bonds for \$30,000,000 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. This parkway is an alternative route of US Highway 278 and is expected to significantly improve the traffic flow in Southern Beaufort County. The County had expenditures of \$10,597,211 for this project during fiscal year 2008. This project was completed in early 2008.

Additionally, in September 2007, the County issued \$25,500,000 in general obligation bonds to further the County's rural and critical lands program and to provide an extension to the Buckwalter Parkway. Also, in October 2007, the County issued \$17,530,000 in general obligation bonds, to fund various County projects.

RELEVANT FINANCIAL INFORMATION

The management of Beaufort County is responsible for developing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The County's accounting system has given consideration to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. This concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management. Accordingly, management believes that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

ACKNOWLEDGEMENTS

State statutes require an annual audit by independent certified public accountants or independent public accountants. The accounting firm of Elliott Davis, LLC was selected by County Council. In addition to meeting the requirements set forth in the statutes, the audit also was designed to meet the requirements of the Single Audit Act of 1996, and related OMB Circular A-133. The auditor's report on the financial statements is included in the financial section of this report. The auditor's reports, pertinent to the requirements of the Single Audit Act, are included in the Single Audit Section.

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the professional and dedicated services of the entire staff of the Finance Department throughout the fiscal year. We sincerely appreciate the efforts of other department heads and their employees who contributed to this report.

Additionally, we would like to express our appreciation to the County Administrator and to County Council for their continued support and understanding of the benefits of professional financial operations and reporting.

Respectfully submitted,

A handwritten signature in blue ink, reading "David A. Starkey". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

David A. Starkey, CPA
Chief Financial Officer