

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009. 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, 2009 by \$221,965,693 (net assets). Of this amount \$81,701,712 (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 \$35,403,100 during the fiscal year ended June 30, 2009 with a \$36,003,240 increase resulting from governmental activities and a \$600,140 decrease resulting from business type activities.
- At the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$193,420,336, an increase of \$37,804,928 in comparison with the prior year. Approximately 28 percent, \$53,255,589 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, the County's unreserved fund balance for the general fund was \$18,771,412, or approximately 19 percent of the general fund expenditures and transfers.
- Beaufort County's net capital assets increased by \$28,848,266 during the current fiscal year. The increase in governmental activities net capital assets of \$28,877,556 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, purchases relating to the County's voice-over IP system, and 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 27 through 29 of this report.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Beaufort County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the County wide general obligation bonds fund, the 2009 bond anticipation notes 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 30 through 36 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.

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

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The statement of fiduciary net assets can be found on page 41 of this report.

**Notes to the financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in both the government-wide and the fund financial statements. The notes are presented on pages 42 through 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 203.

#### 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 \$221,965,693 as of June 30, 2009.

Of this amount, \$105,500,611 (approximately 47 percent) reflects the County's investment in capital assets (land, buildings and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay the debt. An additional portion of the County's net assets, \$34,763,370 (approximately 16 percent), represents resources that are restricted to the repayment of the County's bonded indebtedness. The remaining balance of unrestricted net assets, \$81,701,712 (approximately 37 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.

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Beaufort County's Net Assets  
June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total		Percent Change
	2009	2008	2009	2008	2009	2008	
Current and Other Assets	\$ 212,379,713	\$ 171,068,490	\$ (1,202,117)	\$ 2,478,164	\$ 211,177,596	\$ 173,546,654	21.7%
Capital Assets	<u>287,524,153</u>	<u>258,646,597</u>	<u>23,074,168</u>	<u>23,103,458</u>	<u>310,598,321</u>	<u>281,750,055</u>	<u>10.2%</u>
Total Assets	<u>\$ 499,903,866</u>	<u>\$ 429,715,087</u>	<u>\$ 21,872,051</u>	<u>\$ 25,581,622</u>	<u>\$ 521,775,917</u>	<u>\$ 455,296,709</u>	<u>14.6%</u>
Long-Term Liabilities	\$ 221,352,900	\$ 240,017,202	\$ 374,809	\$ 1,937,979	\$ 221,727,709	\$ 241,955,181	(8.4%)
Other Liabilities	<u>77,591,937</u>	<u>24,742,096</u>	<u>490,578</u>	<u>2,036,839</u>	<u>78,082,515</u>	<u>26,778,935</u>	<u>191.6%</u>
Total Liabilities	<u>\$ 298,944,837</u>	<u>\$ 264,759,298</u>	<u>\$ 865,387</u>	<u>\$ 3,974,818</u>	<u>\$ 299,810,224</u>	<u>\$ 268,734,116</u>	<u>11.6%</u>
Net Assets:							
Invested in Capital Assets							
Net of Related Debt	\$ 82,426,443	\$ 70,906,216	\$ 23,074,168	\$ 21,340,684	\$ 105,500,611	\$ 92,246,900	12.5%
Restricted for Debt Service	34,763,370	48,605,864	-	-	34,763,370	48,605,864	(28.5%)
Unrestricted (Deficit)	<u>83,769,216</u>	<u>45,443,709</u>	<u>(2,067,504)</u>	<u>266,120</u>	<u>81,701,712</u>	<u>45,709,829</u>	<u>82.5%</u>
	<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>	<u>19.0%</u>

The County's total net assets increased by \$35,403,100 during the 2009 fiscal year. Key elements of this increase are as follows:

- There was an increase in the County's governmental current and other assets of \$41.3 million, which increased mostly because of \$53.8 million in bond anticipation note and general obligation bond borrowings within the 2009 fiscal year. The borrowings led to an increase within the County's 2009 bond anticipation note fund of \$21.1 million, an increase of \$15.9 million within the County's real property program fund, and a \$1.4 million increase within the County's 2009 general obligation bond fund. Additionally, the County's sales tax project fund increased by \$15.4 million within the 2009 fiscal year due to continued strong 1% sales tax referendum collections. These increases were partially offset by a \$17.3 million bond refunding, which helped to decrease the County's general obligation bonds fund by \$17.4 million in fiscal year 2009 compared to fiscal year ended 2008.
- The County's governmental net capital assets increased by \$28.9 million. This increase occurred mostly from the County's \$16.3 million investment in infrastructure related to the 1% sales tax referendum road project, \$4.8 million in purchases of land and easements, \$4.0 million in upgraded radios for improved communications abilities in the event of emergencies, \$2.9 million in other road projects, \$2.6 million for the County's voice-over IP system, and \$2.1 million for the Buckwalter Park Recreation Center. See the capital assets and debt administration section below for more detail.
- The \$18.7 million decrease within the County's governmental long-term liabilities was mainly caused by the County's \$17.3 million bond refunding within the 2009 fiscal year. Additionally, the \$52.8 million increase within the County's governmental other liabilities was mostly caused by the \$48.8 million bond anticipation note borrowing within fiscal year 2009. See the capital assets and debt administration section starting on page 24 for more detail.

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Beaufort County's Changes in Net Assets  
For the Fiscal Years Ended June 30, 2009 and 2008

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 28,636,708	\$ 36,326,955	\$ 4,854,807	\$ 5,471,284	\$ 33,491,515	\$ 41,798,239
Operating Grants and Contributions	8,046,928	8,312,520	124,881	244,468	8,171,809	8,556,988
Capital Grants and Contributions	4,223,966	7,754,421	986,411	1,004,624	5,210,377	8,759,045
<b>General Revenues:</b>						
Property Taxes	92,725,922	81,399,195	-	-	92,725,922	81,399,195
Sales Taxes	30,440,867	25,531,506	-	-	30,440,867	25,531,506
Grants and Contributions	10,353,360	9,621,104	-	-	10,353,360	9,621,104
<b>Unrestricted Investment</b>						
Earnings	3,728,745	4,701,846	59,803	86,760	3,788,548	4,788,606
Miscellaneous	<u>2,758,685</u>	<u>9,342,533</u>	<u>9,354</u>	<u>-</u>	<u>2,768,039</u>	<u>9,342,533</u>
<b>Total Revenues</b>	<u>180,915,181</u>	<u>182,990,080</u>	<u>6,035,256</u>	<u>6,807,136</u>	<u>186,950,437</u>	<u>189,797,216</u>
<b>Program Expenses</b>						
<b>Governmental Activities:</b>						
General Government	33,883,983	32,345,161	-	-	33,883,983	32,345,161
Public Safety	49,090,928	45,505,447	-	-	49,090,928	45,505,447
Public Works	19,920,007	21,017,930	-	-	19,920,007	21,017,930
Public Health	12,227,572	9,545,159	-	-	12,227,572	9,545,159
Public Welfare	1,935,787	2,082,811	-	-	1,935,787	2,082,811
Cultural and Recreation	16,947,113	11,682,973	-	-	16,947,113	11,682,973
Interest	10,906,551	10,691,835	-	-	10,906,551	10,691,835
<b>Business-Type Activities:</b>						
Stormwater Utility	-	-	3,027,952	2,896,205	3,027,952	2,896,205
Lady's Island Airport	-	-	1,129,236	845,649	1,129,236	845,649
Hilton Head Airport	-	-	<u>2,478,208</u>	<u>2,675,379</u>	<u>2,478,208</u>	<u>2,675,379</u>
<b>Total Expenses</b>	<u>144,911,941</u>	<u>132,871,316</u>	<u>6,635,396</u>	<u>6,417,233</u>	<u>151,547,337</u>	<u>139,288,549</u>
<b>Excess Revenues over Expenses</b>	36,003,240	50,118,764	(600,140)	389,903	35,403,100	50,508,667
<b>Transfers In / (Out)</b>	<u>-</u>	<u>1,863,867</u>	<u>-</u>	<u>(1,863,867)</u>	<u>-</u>	<u>-</u>
<b>Change in Net Assets</b>	36,003,240	51,982,631	(600,140)	(1,473,964)	35,403,100	50,508,667
<b>Net Assets, Beginning</b>	<u>164,955,789</u>	<u>112,973,158</u>	<u>21,606,804</u>	<u>23,080,768</u>	<u>186,562,593</u>	<u>136,053,926</u>
<b>Net Assets, Ending</b>	<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>

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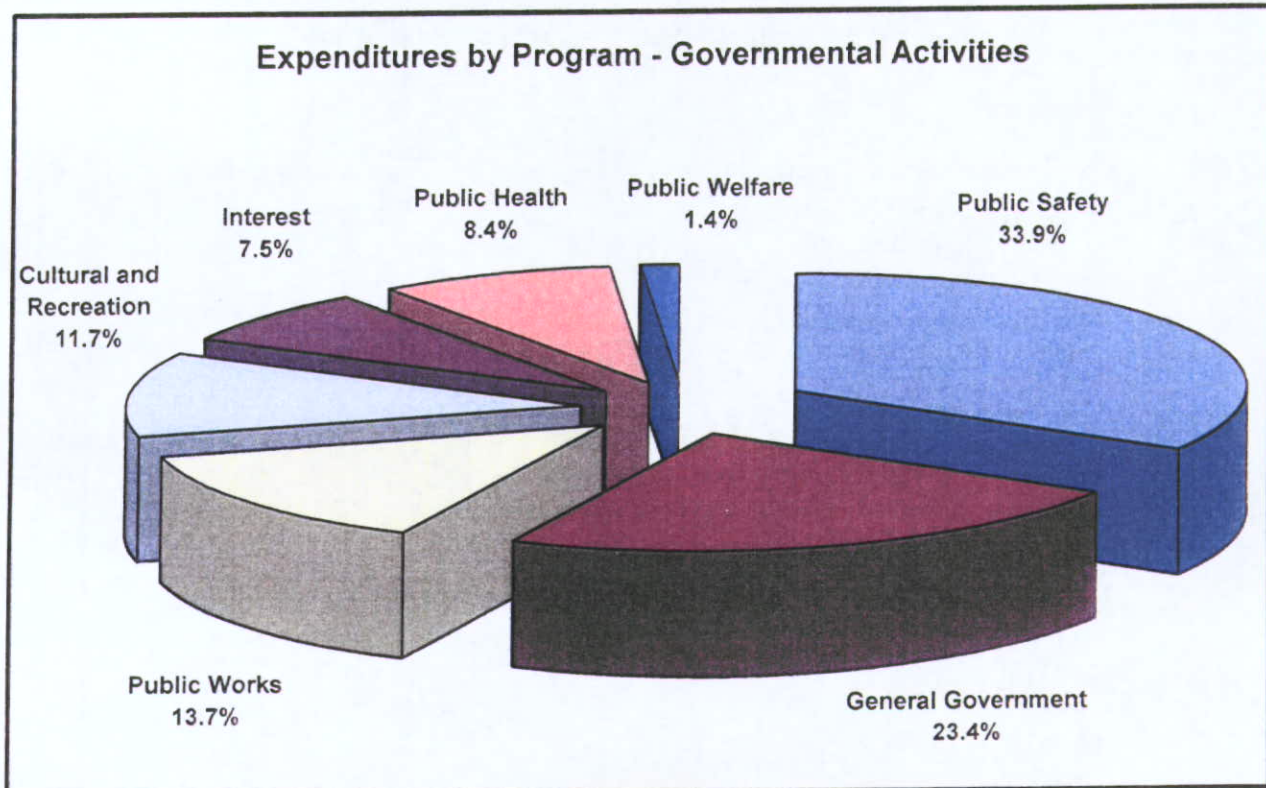
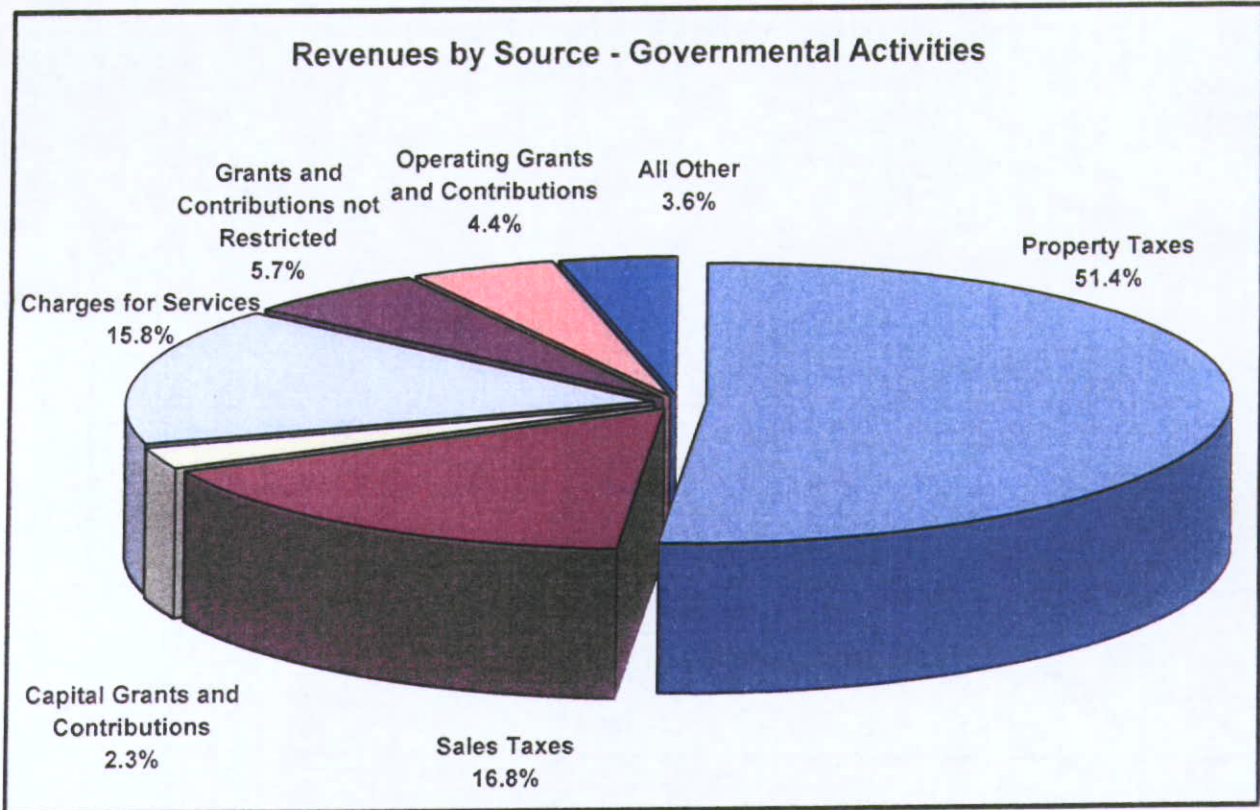
Governmental activities increased the County's net assets by \$36.0 million, thereby accounting for 102 percent of the total growth in the net assets of the County (net of the decrease in the County's business-type activities net assets). Additionally, it should be noted that the garage fund was classified as a business-type activity in the 2008 fiscal year and has been reclassified to an internal service fund and a general government expense within the governmental activities in the 2009 fiscal year. For comparative purposes, the garage's revenues and expenses have been reclassified to governmental activities within the 2008 balances. Key elements in fiscal year 2009's activity are as follows:

- In the 2009 fiscal year, property tax revenues increased by approximately \$11.3 million (or 13.9%) over the 2008 fiscal year. The 13.9% increase of property tax revenues in the 2009 fiscal year over the 2008 fiscal year is compared to an \$8.8 million or 12.1% increase in property tax revenues in the 2008 fiscal year over the 2007 fiscal year and compared to a \$3.9 million or 5.6% increase in property tax revenues in the 2007 fiscal year over the 2006 fiscal year. Increases in property taxes during the periods detailed above 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 increased by \$4.9 million (or 19.2%) due to increased County's sales tax projects fund revenues collected in fiscal year 2009 as compared to fiscal year 2008.
- The increases in governmental property tax and sales tax revenues were offset by a \$7.7 million decrease in governmental charges for services, fueled mostly by declines in impact fees, due to the stagnant economy. In this, there was a \$3.8 million decline in road impact fees, a \$1.2 million decline in parks and leisure services impact fees, and a \$0.5 million decrease in library impact fees in the 2009 fiscal year over the 2008 fiscal year. Additionally, miscellaneous revenues also decreased by \$6.5 million, which was attributable to the fact that the County received a one-time \$6.5 million litigation settlement from the builder of the County's administrative complex in fiscal year 2008.
- Also, the County's capital grants and contributions revenues decreased by \$3.5 million when comparing fiscal years 2009 and 2008, which was mostly the cause of a \$4.5 million decrease in the County's real property program intergovernmental revenues. The decrease in revenues occurred due to less property purchased in the 2009 fiscal year as opposed to the 2008 fiscal year. Additionally, the \$4.5 million decrease in revenue was partially offset by a \$1.1 million increase in public safety grant fund revenues.
- Additionally, the County's cultural and recreation expenditures increased by \$5.3 million in the 2009 fiscal year, as compared to the 2008 fiscal year. This increase was mostly due to the \$4.7 million in cultural and recreation subsidies split evenly between the University of South Carolina Beaufort and the Technical College of the Lowcountry. In prior fiscal years, the County levied continuing education millage for contributions to these higher education entities. In the 2009 fiscal year, these levies were rolled up into the County operations millage and now the County contributes to these entities directly.
- Lastly, the County's public safety expenditures increased by \$3.6 million during the 2009 fiscal year as compared to the 2008 fiscal year. The increase resulted mostly from a \$1.5 million increase in sheriff's office personnel expenditures and a \$1.1 million increase in public safety grant monies spent in the 2009 fiscal year as compared to the 2008 fiscal year.

Business-type activities decreased the County's net assets by \$0.6 million, thereby accounting for a negative 2 percent of the total growth in the net assets of the County. Key elements of this net increase are as follows:

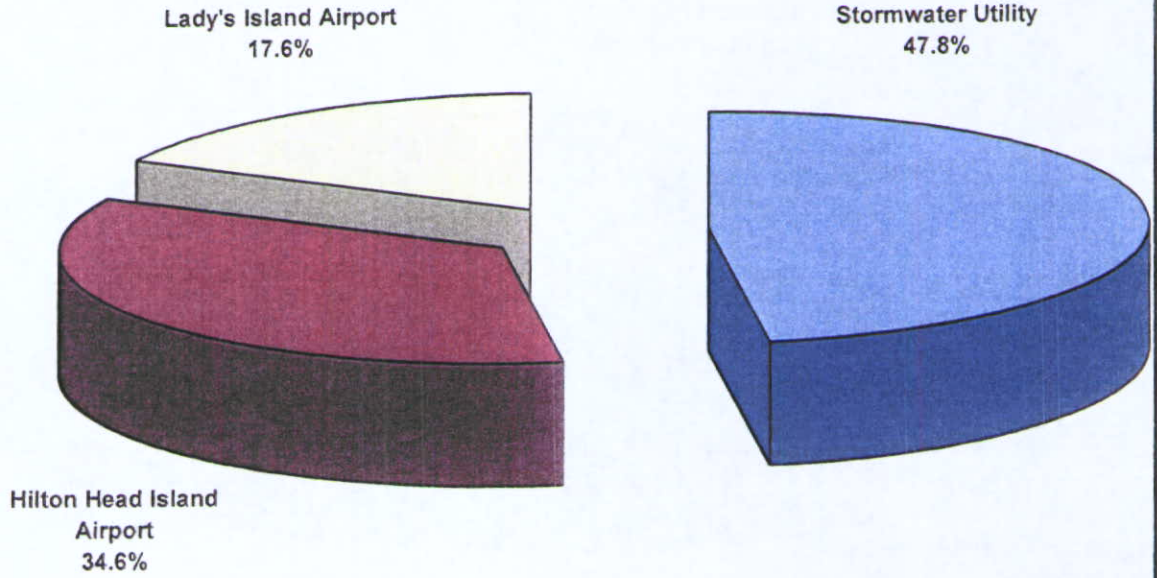
- FAA grant revenues for the Hilton Head Island Airport decreased by approximately \$405 thousand during the 2009 fiscal year compared to the 2008 fiscal year. Additionally, stormwater utility fees revenues decreased by approximately \$324 thousand during the 2009 fiscal year compared to the fiscal year ended June 30, 2008.

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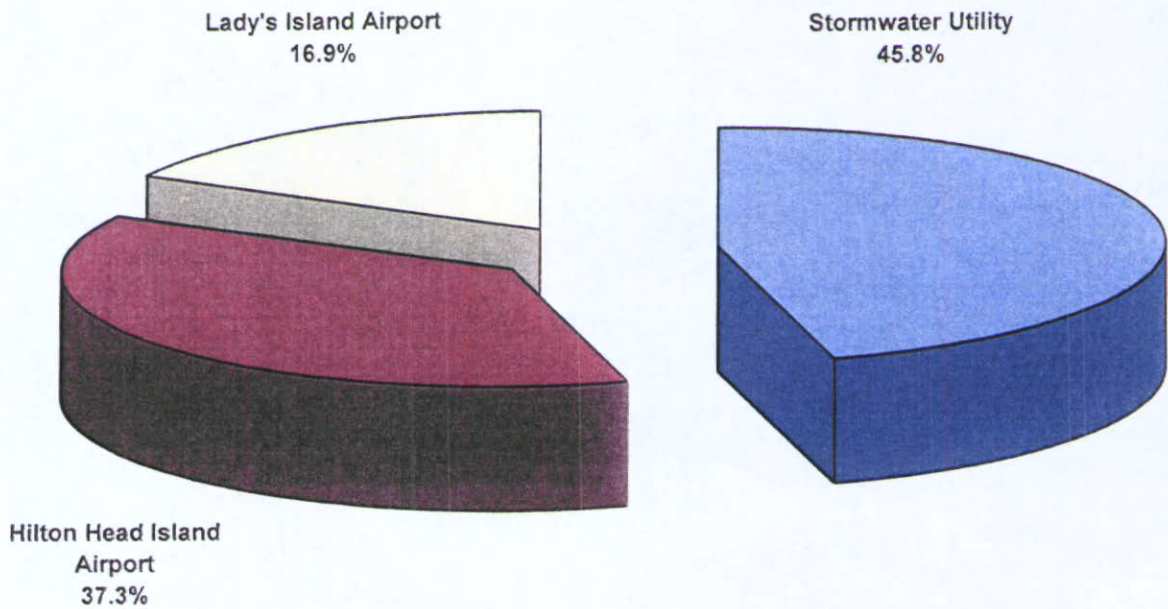


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Revenues by Source - Business-Type Activities



Expenses by Source - Business-Type Activities





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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 \$193,420,336, an increase of \$37,804,928, in comparison with the prior year. Approximately 28 percent of this total fund balance (\$53,255,589) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to 1) to liquidate contracts and purchase orders (\$28,831,750), 2) to fund planned capital projects (\$74,845,975), 3) to pay debt service (\$34,763,370), and 4) advances to other funds (1,723,652).

**General Fund** – The general fund is the main operating fund of the County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$18,771,412, while the total fund balance was \$20,940,144. 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 19% of total general fund expenditures and transfers, while total fund balance represents approximately 20% 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 \$4,361,432, all of which was reserved for debt service. The county wide general obligation bonds fund recognized revenues of \$7,565,908, total expenditures of \$29,380,048, and \$4,367,956 in other financing sources, for a net change in fund balance of (\$17,446,184). The county wide general obligation bonds fund balance experienced this significant negative net change mostly because of the partial refunding of the County's 2001 County Bonds, in which \$17,530,000 was borrowed in the 2008 fiscal year to make a bond payment of \$18,690,000 on the 2001 County Bonds in the 2009 fiscal year.

**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 \$16,800,449, all of which was reserved for debt service. The new river TIF bonds fund recognized revenues of \$7,269,267 and total expenditures of \$2,289,459, for a net change in fund balance of \$4,979,808. 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.

**2009 Bond Anticipation Notes Fund** – At the end of the current fiscal year, the total fund balance of the 2009 bond anticipation notes fund was \$17,259,309, all of which was reserved for capital projects. The 2009 bond anticipation notes fund recognized revenues of \$464,927, total expenditures of \$7,677,527, and \$28,349,707 in other financing sources, for a net change in fund balance of \$21,137,107. The bond proceeds were not realized by the County until March 2009, thus creating the significant \$21,137,107 net change in the 2009 bond anticipation notes fund balance from a (\$3,877,798) fund balance at June 30, 2008.

**Sales Tax Projects Fund** – At the end of the current fiscal year, the total fund balance of the sales tax projects fund was \$38,331,126, all of which was reserved for capital projects. The sales tax projects fund recognized revenues of \$30,944,249, total expenditures of \$16,332,042, and \$819,689 in other financing sources, for a net change in fund balance of \$15,431,896. The County has not completed a significant amount of its sales tax projects as of June 30, 2009, however sales tax revenues have remained at budgeted levels, causing the significant increase in fund balance during the 2009 fiscal year. The County plans to complete significant amounts of the sales tax projects over the next fiscal years.

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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 \$19,011,102, all of which was reserved for capital projects. The real property program fund recognized revenues of \$674,922, total expenditures of \$4,794,005, and \$20,000,000 in other financing sources, for a net change in fund balance of \$15,880,917. The \$15,880,917 net increase in the County's real property program fund balance was mostly caused by the County's additional \$20,000,000 within this fund for land preservation.

**2006 Bond Projects Fund** – At the end of the current fiscal year, the total fund balance of the 2006 bond projects fund was \$11,950,511, all of which was reserved for capital projects. The 2006 bond projects fund recognized revenues of \$366,483, total expenditures of \$1,976,565, and \$3,377,510 in other financing sources, for a net change in fund balance of \$1,767,428. The main reason for this significant change in fund balance were \$3,415,778 in transfers into the 2006 bond projects fund related to a consolidation of bond monies for the St. Helena Library project and the DSN administration building project.

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 \$21,006,664 an decrease of \$600,140 in comparison with the prior year.

**Stormwater Utility** – At the end of the current fiscal year, the net assets of the stormwater utility fund was \$2,934,379, of which \$1,462,519 was invested in capital assets, net of related debt, leaving a balance of \$1,471,860 in unrestricted net assets. The stormwater utility fund recognized operating revenues of \$2,845,833, total operating expenses of \$3,027,952, and \$40,105 in net non-operating revenues, for a change in net assets of (\$142,014). The decrease in net assets within the stormwater utility fund in the 2009 fiscal year was mostly the result of stormwater utility fees revenues decreasing by approximately \$324 thousand during the 2009 fiscal year compared to the fiscal year ended June 30, 2008.

**Lady's Island Airport** – At the end of the current fiscal year, the net assets of the Lady's Island Airport fund was \$3,024,483, of which \$3,457,522 was invested in capital assets, net of related debt, leaving a deficit balance of \$433,039 in unrestricted net assets. The Lady's Island Airport recognized operating revenues of \$535,016, total operating expenses of \$566,968, and \$34,953 in net non-operating expenses, for a change in net assets of (\$66,905). The decrease in net assets within the Lady's Island Airport fund in the 2009 fiscal year was mostly the result of non-operating expenses over revenues of approximately \$35 thousand, which was driven largely by tree cutting expenditures not covered by FAA grants and a \$25 thousand decrease in fuel sales profit due to the declining economy.

**Hilton Head Island Airport** – At the end of the current fiscal year, the net assets of the Hilton Head Island Airport fund was \$15,047,802, of which \$16,430,475 was invested in capital assets, net of related debt, leaving a deficit balance of \$1,382,673 in unrestricted net assets. The Hilton Head Island Airport recognized operating revenues of \$1,598,839, total operating expenses of \$2,152,953, and \$162,893 in net non-operating revenues, for a change in net assets of (\$391,221). The decrease in net assets within the Hilton Head Island Airport fund in the 2009 fiscal year was mostly the result of FAA grant revenues decreasing by approximately \$405 thousand during the 2009 fiscal year compared to the 2008 fiscal year.

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GENERAL FUND BUDGETARY HIGHLIGHTS

**Original Budget to Final Budget Comparison for the Fiscal Year Ended June 30, 2009**

	Original <u>Budget</u>	Final <u>Budget</u>	Variance with Original Budget Positive <u>(Negative)</u>
<b>Revenues:</b>			
Taxes	\$ 76,643,504	\$ 76,643,504	\$ -
Licenses and Permits	4,164,073	4,164,073	-
Intergovernmental	8,895,480	8,895,480	-
Charges for Services	11,718,496	11,718,496	-
Fines and Forfeitures	894,475	894,475	-
Interest	922,746	922,746	-
Miscellaneous	<u>456,600</u>	<u>456,600</u>	-
<b>Total Revenues</b>	<b>103,695,374</b>	<b>103,695,374</b>	<b>-</b>
<b>Expenditures:</b>			
General Government	23,175,720	23,307,182	(131,462)
Public Safety	41,264,839	41,035,968	228,871
Public Works	16,933,829	15,923,633	1,010,196
Public Health	5,280,148	5,156,111	124,037
Public Welfare	1,014,675	1,014,675	-
Culture and Recreation	<u>13,806,919</u>	<u>13,860,962</u>	<u>(54,043)</u>
<b>Total Expenditures</b>	<b>101,476,130</b>	<b>100,298,531</b>	<b>1,177,599</b>
<b>Excess of Revenues Over (Under)</b>			
Expenditures	2,219,244	3,396,843	1,177,599
<b>Other Financing Sources (Uses)</b>			
Transfers In	856,500	1,586,500	730,000
Transfers Out	<u>(3,075,744)</u>	<u>(3,716,980)</u>	<u>(641,236)</u>
<b>Total Other Financing</b>			
<b>Sources (Uses)</b>	<b>(2,219,244)</b>	<b>(2,130,480)</b>	<b>88,764</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>1,266,363</b>	<b>1,266,363</b>
<b>Fund Balance at the</b>			
<b>Beginning of the Year</b>	<u><b>19,756,991</b></u>	<u><b>19,756,991</b></u>	<u><b>-</b></u>
<b>Fund Balance at the</b>			
<b>End of the Year</b>	<u><b>\$ 19,756,991</b></u>	<u><b>\$ 21,023,354</b></u>	<u><b>\$ 1,266,363</b></u>

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The general fund original budget's net assets varied from its final budget's net assets by \$1,266,363. The key element of this net budget decrease is as follows:

- There was a decreasing \$1.0 million budget revision to the County's public works expenditures. The \$1.0 million decrease in the revised fiscal year 2009 budget as opposed to the original budget within the County's public works mostly related to waste hauling services coming in approximately \$1.5 million less than originally budgeted. As such the County revised its budget downward to accommodate these unanticipated savings as they were seen throughout the year.

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**Final Budget to Actual Comparison for the Fiscal Year Ended June 30, 2009**

	Final		Variance
	Budget	Actual	with Final Budget
			Positive
			Negative
<b>Revenues:</b>			
Taxes	\$ 76,643,504	\$ 74,049,850	\$ (2,593,654)
Licenses and Permits	4,164,073	2,787,597	(1,376,476)
Intergovernmental	8,895,480	9,064,132	168,652
Charges for Services	11,718,496	10,181,054	(1,537,442)
Fines and Forfeitures	894,475	1,063,709	169,234
Interest	922,746	1,033,426	110,680
Miscellaneous	<u>456,600</u>	<u>1,091,778</u>	<u>635,178</u>
Total Revenues	103,695,374	99,271,546	(4,423,828)
<b>Expenditures:</b>			
General Government	23,307,182	21,049,036	2,258,146
Public Safety	41,035,968	40,265,774	770,194
Public Works	15,923,633	15,392,335	531,298
Public Health	5,156,111	5,151,909	4,202
Public Welfare	1,014,675	932,425	82,250
Culture and Recreation	<u>13,860,962</u>	<u>13,354,314</u>	<u>506,648</u>
Total Expenditures	100,298,531	96,145,793	4,152,738
<b>Excess of Revenues Over (Under)</b>			
Expenditures	3,396,843	3,125,753	(271,090)
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,586,500	869,682	(716,818)
Transfers Out	<u>(3,716,980)</u>	<u>(2,812,282)</u>	<u>904,698</u>
Total Other Financing Sources (Uses)	(2,130,480)	(1,942,600)	187,880
Net Change in Fund Balance	1,266,363	1,183,153	(83,210)
<b>Fund Balance at the</b>			
Beginning of the Year	<u>19,756,991</u>	<u>19,756,991</u>	<u>-</u>
<b>Fund Balance at the</b>			
End of the Year	<u>\$ 21,023,354</u>	<u>\$ 20,940,144</u>	<u>\$ (83,210)</u>

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The actual net assets of the County's general fund varied from its final budget's net assets by (\$83,210). Key elements of this are as follows:

- The County's tax revenues were approximately \$2.6 million less than the final budget had projected. The shortfall in tax revenues was primarily caused by the downturn in the housing market and increased home foreclosures, which follows national housing and foreclosure trends.
- Additionally, actual charges for services revenues were approximately \$1.5 million less than budgeted. This was caused mostly from a \$2.2 million shortfall within the register of deeds' revenues from the original budget. This too was mostly caused from the national downturn in the housing market. The budget shortfall within the register of deeds was partially offset by master in equity fees generating \$.6 million more in revenues than budgeted, which was the result of increasing foreclosure rates.
- The County's licenses and permits revenues were also approximately \$1.4 million less than the final budget had projected due to the fact that the County's building permit revenues were \$.9 million less than budgeted and the County's business license revenues were \$.6 million less than budgeted. These shortfalls in revenues were caused primarily by the declining economy, especially within new housing construction.
- To react to the decreasing revenues, the County decreased its expenditures by approximately \$4.2 million. These decreases came mostly within a \$2.3 million positive budget to actual variance within general government expenditures, a \$.7 million positive budget to actual variance within public safety expenditures, a \$.5 million positive budget to actual variance within public works expenditures, and a \$.5 million positive budget to actual variance within cultural and recreation expenditures.
  - The \$2.3 million positive variance within the County's general government expenditures from the final budget was mostly driven by the County not using approximately \$.5 million in contingency funds within the County Council budget, the Housing Coordinator not expending approximately \$.5 million in budgeted direct subsidies, voter registration personnel expenditures coming in \$.2 million less than budgeted, the magistrate's court and assessor's office personnel expenditures each coming in \$.1 million less than budgeted, and the planning department using \$.1 million less in professional services than budgeted.
  - The \$.7 million positive variance within the County's public safety expenditures from the final budget came mostly from personnel expenditures being a combined \$1.1 million less within the County's sheriff's office, communications/traffic management department, and emergency services department. This was partially offset by actual capital expenditures being approximately \$.3 million more than budget within the County's sheriff's office.
  - The \$.5 million positive variance within the County's public works expenditures from the final budget came mostly from personnel expenditures being a combined \$.5 million less than budgeted for the County's facilities maintenance, public works, engineering, and solid waste/recycling departments.
  - The \$.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.

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**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, 2009 was \$310,598,321 (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 10 percent (in which governmental activities capital assets increased by approximately 11 percent and business-type activities capital assets decreased by approximately 1 percent).

Beaufort County's Capital Assets  
(Net of Depreciation)  
June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land and Easements	\$ 80,661,514	\$ 75,884,513	\$ 13,802,425	\$ 13,802,425	\$ 94,463,939	\$ 89,686,938
Construction in Progress	43,067,711	15,160,362	672,020	53,159	43,739,731	15,213,521
Buildings and Improvements	82,854,192	87,026,607	6,766,758	7,227,123	89,620,950	94,253,730
Infrastructure	65,235,335	65,844,924	-	-	65,235,335	65,844,924
Equipment	<u>15,705,401</u>	<u>14,730,191</u>	<u>1,832,965</u>	<u>2,020,751</u>	<u>17,538,366</u>	<u>16,750,942</u>
Total Capital Assets	<u>\$ 287,524,153</u>	<u>\$ 258,646,597</u>	<u>\$ 23,074,168</u>	<u>\$ 23,103,458</u>	<u>\$ 310,598,321</u>	<u>\$ 281,750,055</u>

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

- The County purchased approximately \$4.1 million in governmental activities land and easements for the County's rural and critical lands program.
- The County added approximately \$36.0 million of investments to construction in progress, which included \$16.3 million in sales tax fund projects, \$1.1 million in road improvements to Burnt Church Road, \$2.4 million for communications infrastructure improvements, \$2.1 million for the Buckwalter Park Recreation Center project, and \$2.6 million for the County's VOIP system.

Additional information on the County's capital assets can be found in note 4 on pages 50 through 51 of this report.

BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**Long-Term Debt** – At the end of the current fiscal year, Beaufort County had \$270,495,927 of total long-term debt outstanding. Of this amount, \$208,060,000 comprises of debt backed by the full faith and credit of the government.

Beaufort County's Outstanding Debt  
June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 159,305,000	\$ 177,515,000	\$ -	\$ -	\$ 159,305,000	\$ 177,515,000
TIF Revenue Bonds	60,575,000	62,760,000	-	-	60,575,000	62,760,000
Bond Anticipation Notes	48,755,000	-	-	-	48,755,000	-
Loan Payable to General Fund	-	-	1,682,537	1,762,774	1,682,537	1,762,774
Capital Leases	<u>178,390</u>	<u>210,091</u>	-	-	<u>178,390</u>	<u>210,091</u>
Total Outstanding Debt	<u>\$ 268,813,390</u>	<u>\$ 240,485,091</u>	<u>\$ 1,682,537</u>	<u>\$ 1,762,774</u>	<u>\$ 270,495,927</u>	<u>\$ 242,247,865</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. \$28,755,000 of the proceeds of the bond anticipations notes were used for various County construction projects and equipment, while the other \$20,000,000 of the proceeds of these bonds were used for the County's rural and critical lands projects.
- In March 2009, the County issued \$5,000,000 in general obligation bonds bearing interest rates of 2.5% to 3% and with varying maturity dates through 2012. The proceeds of these bonds were used for various County projects.
- In January 2009, the County paid \$18,690,000 in principal of its 2001 general obligation bonds in a partial bond refunding, which related to the \$17,530,000 2007B County general obligation bond borrowing in the 2008 fiscal year.
- Between November 2008 and January 2009, the County was able to repurchase \$1,670,000 of its Bluffton TIF bonds in open-market transactions. This allowed the County to pay down a total of \$1,875,000 of principal related to these bonds in the 2009 fiscal year.
- Lastly, there was \$25,465,823 in debt service principle paid during the fiscal year.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation less debt issued by referendum and debt issued and paid by other sources. The current debt limitation for the County is \$143,581,243. Beaufort County was \$85,910,785 under this legal limit at June 30, 2009. However, the County plans to refinance its 2009 bond anticipation notes within the next fiscal years, which would bring Beaufort County to \$37,155,785 under the legal limit at June 30, 2009.

Additional information on the County's long-term debt can be found in note 5 on pages 51 through 59 of this report.



BEAUFORT COUNTY, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Beaufort County was 9.1 percent at June 30, 2009, 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 12.1 percent at June 30, 2009 and the national average unemployment rate of 9.5 percent at June 30, 2009.
- The housing market downturn continued to affect the County during the 2009 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 2010 fiscal year.

During the 2009 fiscal year, unreserved, undesignated fund balance in the general fund decreased by \$212,629. No fund balance of the general fund has been appropriated for spending in the County's 2010 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.



*Photo by Pat Roche*

*More than 1-million visitors each year travel through the gates of Hunting Island State Park. Many of them enjoy climbing to the top of the park's historic lighthouse for a seagull's view of the beach and maritime forest.*