BERKELEY COUNTY

Financial Audit Presentation
for the
Year Ended
June 30, 2011

www.gfhhlp.com  February 2012  864-232-5204
Berkeley County – Financial Audit-June 30, 2011

- The Financial Statements are the County’s responsibility
- Our responsibility is to express an opinion on the Financial Statements
- Reasonable assurance that the financial statements are materially correct
- We issued an unqualified opinion
  - Best opinion the County can receive
UNDERSTANDING OF AUDITS - FRAUD

- Maintaining an effective internal control system (to prevent and detect errors and fraud) is the County’s responsibility
- Expectation gap
- Reasonable assurance essentially means the external auditors should find fraud if it is material in a fiscal year, but most fraud is not material to the financial statements
- The most common methods for initially finding fraud are through:
  - Tips (including those through a hot line)
  - Accidental detection
  - Internal audit
  - Internal controls
  - External audit
  - Police
General Fund

- Fund balance increased $3.0 million to $12.6 million
- Unassigned fund balance is $12.4 million –
  - Included in this total is $8.2 million for the County’s Fund Balance policy
    - represents 15% of 2012 budgeted appropriations
    - County fully met its fund balance policy
  - Total unassigned fund balance is 22.6% of 2012 budgeted appropriations
Why is a Healthy Fund Balance Important?

• Provides the necessary cash flow through December, before significant property tax revenues are collected again
• More important in uncertain economic times like now
• Helps the County obtain lower interest rates and interest cost savings through a stronger bond rating
• Allows for emergencies and revenue losses (continuing State funding cuts in 2011)
• Provides flexibility for discretionary funding needs
General Fund Revenues

- Revenues were $51.7M, down 2.1%, or $1.1M vs. 2010:
  - Taxes, including FILOT and LOST, were $35.6M, up 0.6%, or $0.2 million compared to 2010 - Taxes represent 69% of total revenues
  - Fines, Forfeitures & Fees were virtually unchanged, remaining at $7.7M
  - Intergovernmental Revenues were down $0.5M to $6.8M
  - All other revenues (primarily licenses, fees and permits) were down $0.8M to $1.6M due to a decrease in building permits
- $325k under budgeted revenues (0.6%)
  - Primarily due to building permits coming in under budget

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General Fund Expenditures

- Expenditures were $52.1M, down $0.4M (0.8%) vs. 2010:
  - Capital outlay decrease of $0.5M – decrease was budgeted
  - Debt Service – decrease of $0.8M due to lower scheduled principal payments
  - General Gov’t - $19.1M, down $0.1M (0.4%)
  - Public Safety - $20.9M, up $0.7M (3.6%)
  - Airport, Highway and Streets - $5.9M, up $0.1M (1.6%)
  - All Others - $5.1M, up $0.2M (4.0%)
- $1.6M less than budget of $53.7M, primarily due to unspent elected officials’ allocations, unfilled vacancies and other cost cutting measures
Other Significant Governmental Funds

- **Capital Projects** - $67.5M fund balance, representing unspent bond proceeds and transportation sales tax collections, to be used for approved capital projects

- **Debt Service** - $2.3M fund balance, restricted for future debt service payments

- **Special Revenue Funds** - $10.3M fund balance, earmarked for specific items (Impact Fees - $5.1M, Economic Development funds - $3.4M, the Sangaree Tax District - $0.7M and other funds)
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Water and Sewer Fund

- Operating Revenues of $35.3M – increase of $0.7M (2.1%) from 2010
  - Recurring water and sewer charges were $30.2M, up $0.4M or 1.3% due to higher usage
  - Impact and connection fee revenues were $4.2M, up $0.3M or 8.5% - increase in development compared to 2010
  - Other revenues of $0.9M, same as the prior year
- Operating Expenses of $27.3M, including $10.2M for depreciation – total increase in operating expenses of $0.9M (3.4%) from 2010, primarily due to higher maintenance and repairs
- Operating Income of $8.0M, compared to $8.1M for 2010
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Water and Sewer Fund (continued)

• Net non-operating Revenues/(Expenses), which includes interest expense of $7.3M, were ($6.7M), an increase of $1.8M from the prior year primarily due to an increase in interest expense of $1.6M due to lower amounts capitalized

• This fund also recognized $3.9M in water/sewer systems contributed by developers ($2.8M in 2010) and received $0.5M transferred from the County ($0.5M in 2010)

• Total increase in Net Assets of $4.4M for 2011, compared to an increase of $1.1M for 2010

• As of 6/30/11, total Net Assets were $181.1M, including $21.2M in Unrestricted Net Assets
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Water and Sewer Fund (continued)

• Total debt service was $15.1M for 2011, representing 47% of total
  expenditures (excluding capital outlay)
• Debt Service Coverage Ratio for 2011 was 1.41 – (Water, Sewer and Solid
  Waste operations, combined as a result of the Combining Ordinances
  approved in fiscal 2011) - revenue bonds require a minimum of 1.20
  – The coverage ratio was met due in part to the reliance on one-time fees
  – Excluding the one-time fees, the coverage ratio for 2011 would have been 1.15
• Unrestricted Net Assets for the Water and Sewer Fund are not relatively
  large at all
  – About $15-16M in annual debt service expenditures required for numerous years
  – The risk of storm or other damage to a water / sewer line requires having
    significant funds on hand to deal with an emergency or contingency
Solid Waste Fund

- Operating Revenues of $10.3M, up $0.6M or 6.0% from 2010, primarily due to an increase in special waste received from industries in 2011
- Operating Expenses of $8.7M, down $0.9M or 9.6% from 2010
  - Landfill Closure and Post Closure Care Costs were $151k, down $1,312k from 2010’s total of $1,463k - expenses for trenches and infiltration soil layers are estimated to be eliminated by using a new closure turf
  - All other costs increased a total of 380k (4.6%) due in part to an increase in personnel costs
- Operating Income of $1,556k, compared to $40k for 2010
Solid Waste Fund (continued)

- Net non-operating Revenues/(Expenses), which includes interest expense of $323k, were $0.1M, an increase of $213k from 2010 primarily due to $208k gain on disposal of capital assets in 2011.
- Total increase in Net Assets of $1.6M for 2011, compared to a decrease in 2010 of $103k.
- As of 6/30/11, the Net Assets were $22.6M, including $4.4M in Unrestricted Net Assets.
- Total debt service was $1.7M, representing 21% of total expenditures (excluding capital outlay).
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Parks and Recreation Fund (Cypress Gardens)

• County Council has addressed the deficit in Unrestricted Net Assets in this fund
• Positive results of $86k in 2011, compared to $547k loss in 2010 – 1.0 mill in property taxes resulted in $631k in additional revenues in 2011
• Cypress Gardens repaid the General Fund $86k in 2011; still owes $854k at 6/30/11
• As of 6/30/11, total Net Assets were $755k –
  – Unrestricted Net Assets is a deficit of $933k
  – However, this is an improvement of $142k from the prior year’s deficit of $1,075k
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County-wide (GASB 34)

- Assets-$676.2M
  - $448.9M is capital assets
  - $167.5M is cash and investments
- Liabilities-$341.4M
  - $270.9M is debt

- Net Assets-$334.8M
- Revenues-$163.4M
- Expenses-$133.4M
  - $21.1M is non-cash depreciation
Other Items of Note

The County’s total outstanding long-term obligations were $283.5M at June 30, 2011 – decrease of $5.7M vs. 2010:

- $191.3M in Revenue bonds for the Water and Sanitation Department
- $71.0M in General Obligation bonds
- $8.6M in notes payable
- $12.6M in compensated absences and estimated landfill closure and post closure care costs
Other Items of Note (continued)

• OPEB (Other Post-Employment Benefits) – retiree health, etc.
  – Total Actuarial Accrued Liability was $8.9M at 6/30/11
  – The County did not fund the Annual Required Contribution (ARC) of approximately $1.1M in 2011
  – Council voted to change the OPEB plan, effective October 1, 2011:
    • this is estimated to reduce the Actuarial Accrued Liability by $3.9M and reduce the ARC by $565K, which will positively impact fiscal 2012
  – However: the County has NOT funded its OPEB for the past three years:
    • County Council still needs to address the funding for OPEB
New Accounting Pronouncement – GASB 54 was implemented in 2011:

- No changes in the total Fund Balance amount, but changes in the definitions, categories and components of Fund Balance
- Instead of Reserved, Designated and Undesignated categories, you now have Nonspendable, Restricted, Committed, Assigned and Unassigned
- The Library Fund did not meet the new definition for Special Revenue funds – now included in with the General Fund for GASB reporting purposes, which resulted in an insignificant reclass of this fund’s beginning fund balance of $26k to the General Fund
Pension - Proposed New Accounting Pronouncement:

- Expect changes in the accounting for pensions (this includes the SCRS and the PORS) in the future, as the GASB has an exposure draft in the works – this is not expected to be implemented before 2014
Compliance and Single Audit - Findings

- Two minor items on the Airport Improvement grant; both have been corrected by the County

Management Letter

- Required communications to management and those charged with governance
- Comment: OPEB long-term funding challenges
Summary

• Unqualified opinion on the Financial Statements
• Good management of finances by Council and management
• General Fund: Net Unassigned Fund Balance of $12.4M at June 30, 2011
  – County fully met its Fund Balance policy of maintaining 15% ($8.2M) of next year’s budgeted appropriations
• The economy continues to struggle – tough decisions may still need to be made