

GF&H: TRUST...VISION...LEADERSHIP...INNOVATION...VALUE

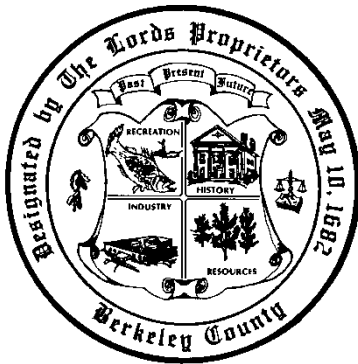
BERKELEY COUNTY

Financial Audit Presentation

for the

Year Ended

June 30, 2011





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**





Berkeley County – Financial Audit-June 30, 2011

- **UNDERSTANDING OF AUDITS - FRAUD**

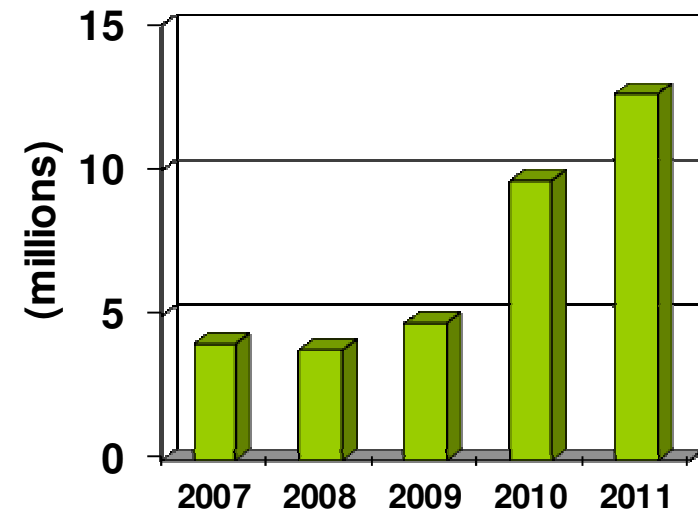
- Maintaining an effective internal control system (to prevent and detect errors and fraud) is the County's responsibility
- Expectation gap
- Reasonable assurance essentially means the external auditors should find fraud if it is material in a fiscal year, but most fraud is not material to the financial 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



Berkeley County – Financial Audit-June 30, 2011

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



■ Total Fund Balance





Berkeley County – Financial Audit-June 30, 2011

Why is a Healthy Fund Balance Important?

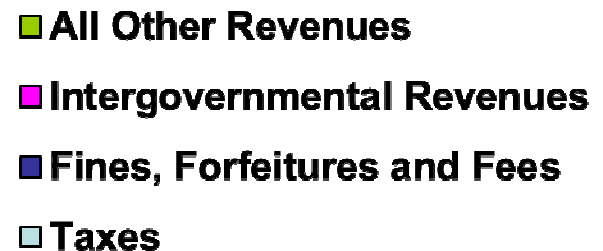
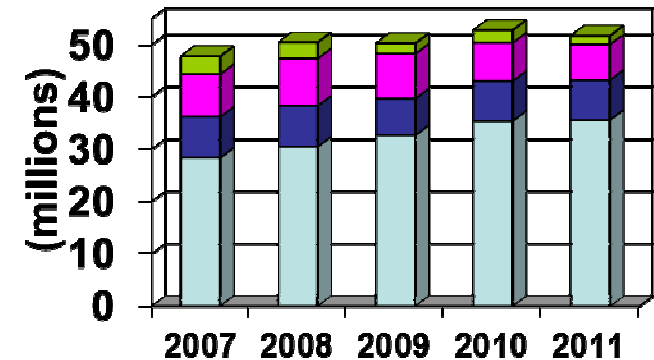
- Provides the necessary cash flow through December, before significant property tax revenues are collected again
- More important in uncertain economic times like now
- Helps the County obtain lower interest rates and interest cost savings through a stronger bond rating
- Allows for emergencies and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



Berkeley County – Financial Audit-June 30, 2011

General Fund Revenues

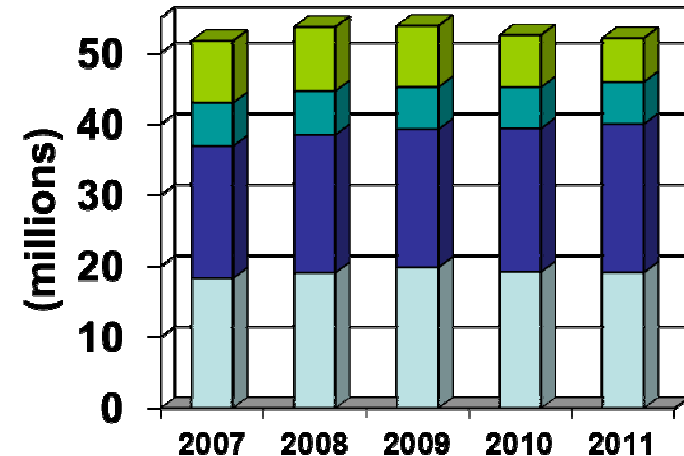
- Revenues were \$51.7M, down 2.1%, or \$1.1M vs. 2010:
 - Taxes, including FILOT and LOST, were \$35.6M, up 0.6%, or \$0.2 million compared to 2010 - Taxes represent 69% of total revenues
 - Fines, Forfeitures & Fees were virtually unchanged, remaining at \$7.7M
 - Intergovernmental Revenues were down \$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



Berkeley County – Financial Audit-June 30, 2011

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
■ Airport, Highways and Streets
■ Public Safety
■ General Government





Berkeley County – Financial Audit-June 30, 2011

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)



Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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)





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

County-wide (GASB 34)

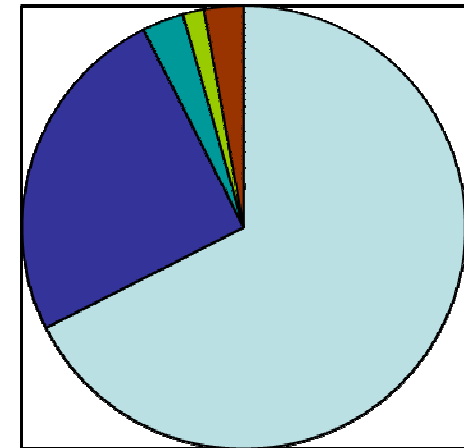
- Assets-\$676.2M
 - \$448.9M is capital assets
 - \$167.5M is cash and investments
- Liabilities-\$341.4M
 - \$270.9M is debt
- Net Assets-\$334.8M
- Revenues-\$163.4M
- Expenses-\$133.4M
 - \$21.1M is non-cash depreciation



Berkeley County – Financial Audit-June 30, 2011

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



□ Revenue Bonds ■ GO Bonds
■ Notes Payable ■ Landfill
■ Compensated Absences



Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County –
Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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





Berkeley County – Financial Audit-June 30, 2011

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

