Berkeley County

Financial Audit Presentation
Year Ended June 30, 2014
2014 FINANCIAL AUDIT
BERKELEY COUNTY

• HIGHLIGHTS
  ➢ Unmodified opinion
  ➢ General Fund – fund balance increased $3.4 million
  ➢ Series 2013 General Obligation Refunding Bonds reduced future debt service payments by $363k
2014 FINANCIAL AUDIT
BERKELEY COUNTY

• OPINION
  ➢ The County’s responsibility:
    ➢ Effective internal controls
    ➢ Financial statements
  ➢ GF&H responsibility:
    ➢ Opinion – reasonable assurance that financial statements are materially correct
    ➢ Issued unmodified opinion
    ➢ BEST OPINION THE COUNTY CAN RECEIVE
• **General Fund**
  - Total fund balance increased $3.4M to almost $17M
  - Nonspendable fund balance of $158k for inventory and $88k for prepaid items
  - Assigned fund balance of $240k for Elected Officials’ Carryover and $1.7M in FY2015 budget approvals
• **General Fund**
  - Unassigned fund balance is $14.8 million, which is 26.7% of 2014 actual expenditures and 23.7% of 2015 budgeted expenditures
  - GFOA recommends a minimum of 16.7% (two months)
  - The County’s policy is to maintain a minimum unassigned fund balance of 15% of the next year’s budget, or about $9.4 million as of June 30, 2014.
• Major Reasons To Maintain An Adequate Fund Balance:
  • Cash flow through second half of calendar year; property taxes and business licenses are cyclical.
  • Significant emergencies and unanticipated expenditures.
  • Potential for better interest rates on debt issues (can save the County money).
  • Unique requirements for a coastal community due to higher potential for acts of God.
Important Points Regarding Fund Balance:

• It should not be considered a rainy day fund as general increases in expenditures and/or decreases in revenue, should be handled through the general operating budget.

• Instead, fund balance should be considered more like long-term strategic financial savings that enables the County to mitigate current and future risks.

• As the County grows, so should fund balance.
General Fund Revenues:

- $58.9 million for 2014:
  - $23.7m from property taxes
  - $5.6m in fee in lieu of taxes ("FILOT")
  - $10.5m in local options sales tax ("LOST")
  - $8.1m in fines, forfeitures and fees
  - $7.7m in intergovernmental revenues
- $4.5m (8.3%) increase from 2013
  - $1.8m increase in LOST revenues due to re-allocations approved by Council
  - $844k increase in licenses, fees and permits due to increase in building permits due to several large construction projects (Google, Nexton, Cane Bay)
  - $572k increase in property taxes and $341k increase in FILOT’s due to increased assessed values
General Fund Revenues:

- $1.8m (3.1%) over budget
  - $1.4m over budget in LOST revenues due to additional allocations approved by County Council for the General Fund during the year that were included in the budget as property tax revenues; this resulted in property tax revenues being under budget by approximately $550k
  - $725k over budget in licenses, fees and permits primarily due to building permits exceeding budget as a result of the reasons discussed above
General Fund Expenditures:

- $55.5 million for 2014:
  - $20.3m in general government
  - $23.3m in public safety
  - $5.8m in airports, highways and streets
  - $6.1m in other expenditures

- $1.3 million (2.4%) increase from 2013
  - $455k increase in general government due to increases in leave payouts, maintenance contracts, legal services and various rental payments/leases.
  - $446k increase in public safety due to increases in overtime, retirement contributions, utilities and travel/auto expenses
  - $236k increase related to ice storm costs
General Fund Expenditures:

- $2.1m (3.6%) under budget
  - $984k under budget in general government primarily due to the County budgeting for a compensation plan and various other projects which were not implemented during the fiscal year
  - $556k under budget in airport, highways and streets due to personnel costs being under budget
Enterprise Funds

• **Water & Sewer** had a $9.7m increase in net position (net of the $1.8m in bond issuance costs written off due to the implementation of GASB #65) compared to an $5.9m increase in the prior year:
  
  • Total Water and Sewer Fund operating revenues increased approximately $4.0m or 10.5% from the prior year due to a $1.0m increase in charges for sales and services related to increased customers and changes in contract customer rates and a $2.8m increase in impact and capacity reservation fees due to several large construction projects. Capital contributions from developers increased $2.3m or 54.0% also related to construction in the area.
  
  • Water and Sewer Fund operating expenses increased $1.9m or 6.4% primarily due to a $448k increase in personnel services (3% COLA approved by Council and increased benefits), a $663k increase in repairs and maintenance, a $205k increase in utilities (mostly water purchases), and a $327k increase in depreciation expense due to increased depreciable assets.
Enterprise Funds

- **Solid Waste** had a $7.4m decrease in net position compared to a $2.4m increase in the prior year:
  - Total Solid Waste Fund operating revenues decreased $646k or 6.1% primarily due to a $330k decrease in delinquent landfill fees as a result of decreased collections and a $242k decrease in special waste tipping fees due to a decrease in charged tons accepted. In addition, non-operating grant revenues increased $4.1m due to $4.1m in federal FEMA revenues expected to be collected related to the February 2014 ice storm.
  - Solid Waste Fund operating expenses increased $7.8m or 83.8% primarily due to a $7.9m increase in landfill closure and postclosure costs due to changes in estimates as well as the expected requirements changes for closing the C&D landfill. Non-operating ice storm cleanup costs increased $5.1m related to the costs incurred from the February 2014 ice storms.
Enterprise Funds

• **Parks and Recreation** had a $93k decrease in net position compared to an $84k increase in the prior year:
  
  • Operating revenues decreased $20k or 3.6% to $547k. Non-operating revenues decreased $140k or 19.9% to $566k primarily due to decreased property tax and FILOT revenues related to the millage allocation decreasing from 1.0 to 0.75 from 2013 to 2014.
  
  • Operating expenses increased $67k or 5.6% primarily due to a $70k increase in salaries and related benefits as a result of the cost of living adjustment approved by County Council.
  
  • The total unrestricted deficit is $641k, which is planned to be funded through an $801k transfer from the General Fund approved in the FY2015 budget.
Enterprise Funds

- **Emergency Telephone** had a $523k increase in net position compared to a $7k increase in the prior year.
  - Operating revenues increased $63k or 13.6% to $525k due to an increase in sales and services. Non-operating revenues increased $408k to $525k as a result of increased state grant revenues related to reimbursements of the County’s costs for enhanced 911 services.
  - Operating expenses decreased $46k or 8.0% to $526k primarily due to slight decreases in utilities, contractual services and depreciation.
Other Funds

- **Capital Projects fund** had a $1.1m decrease in fund balance compared to a $10.9m increase in the prior year:
  - Revenues decreased $5.9m or 18.9% to $25.4m primarily due to a $7.7m decrease in intergovernmental – state and local revenues as the County received an $8.0m grant from the State Ports Authority for future infrastructure improvements in 2013. This was partially offset by a $2.9m increase in Transportation Sales Tax revenues related to increased collections in 2014.
  - Expenditures increased approximately $5.9m or 28.0% to $26.8m primarily due to increases in expenditures for large road projects (College Park Rd. widening and Henry Brown Blvd. Extension - Phase I).

- **Debt Service fund** had a $1.1m decrease in fund balance compared to a $175k decrease in the prior year:
  - Revenues increased $77k or 3.1% to $2.5m primarily due to an increase in property taxes as a result of increased assessed values. The County also received $3.5m in debt proceeds from the 2013 GO Refunding Bonds.
  - Expenditures increased $4.5m or 63.2% to $7.2m primarily due to $3.5m paid to the escrow agent for the current refunding of the 2003 GO Refunding and Improvement Bonds. The remaining increase was due to scheduled increases in principal payments.
Other Funds

- **Special Revenue funds** had a $2.2m decrease in fund balance compared to a $4.6m increase in the prior year:
  - Revenues decreased $2.9m or 17.6% to $13.5m due to a $3.0m decrease in Highway C Fund revenues primarily due to revenues drawn down for prepaid expenditures in the prior year that were expended in the current year.
  - Expenditures increased $3.7m or 33.3% to $14.8m primarily due to a $2.7m increase Airport, Highways and Streets expenditures related to Highway C Fund projects completed during the current year. Capital outlay increased $1.8m due to the extension of runway 5 and acquisition of aviation easements at the airport. These increases were partially offset by an $863k decrease in community development expenditures as a result of decreased grants passed through the economic development fund.
  - Transfers in and transfers out increased primarily due to transfers from the economic development funds to the airport operations fund in order to fund the runway 5 extension project.
AUDITING/ACCOUNTING UPDATE:

• Future Significant Changes in Accounting Principles:
  • GASB #68: Accounting and Financial Reporting for Pensions. Becomes effective in 2015 for cost-sharing multiple-employer plans. Since the County participates in the state multiple-employer pension plans (SCRS and PORS), the County will be required to record its pro-rata portion of the net pension liability associated with these plans in its Statement of Net Position which is currently expected to decrease unrestricted net position for the by approximately $62.2m and 20.5m for governmental activities and business type activities, respectively, and $13.2m, $5.9m and $1.4m for the water and sewer fund, solid waste fund, and non-major enterprise funds, respectively.
Other Items of Note:
- Total capital assets were $495.8m at 6/30/14 – increase of $18.4m from 6/30/13:
  - $12.6m in donated infrastructure and equipment for governmental activities and $6.5m in contributed systems for the water and sewer fund.
  - Depreciation expense totaled $26.1m, including $11.2m for governmental activities and $14.9m for business-type activities.
  - Construction in progress is $29.8m at 6/30/14. The largest ongoing projects are the Central Berkeley Wastewater Treatment Plant diversion, the College Park Water and Sewer relocation, runway 5 extension, and county road resurfacing.
- Construction commitments total $5.7m for the Capital Projects Fund, $1.5m for the Airport Improvements Fund, $20.5m for the Water and Sewer Fund, and $92k for the Solid Waste Fund at 6/30/14. Subsequent to June 30, 2014, the County awarded an additional $459k in construction contracts for its Airport Improvements Fund.
Other Items of Note:

- Total long-term obligations outstanding at 6/30/14 were $262.0m – decrease of $14.3m from 6/30/13:
  - Governmental Activities - $72.3m
    - $55.7m in GO Bonds
    - $1.5m in premiums related to GO Bonds
    - $5.6m in SCTIB Loan
    - $2.3m in OPEB
    - $7.3m in Compensated Absences
  - Business-Type Activities - $189.7m
    - $157.4m in Revenue Bonds
    - $19.5m in premiums related to revenue bonds
    - $9.8m in estimated landfill closure and postclosure costs
    - $1.5m in compensated absences
    - $1.5m in other obligations (OPEB, loans and notes payable)
- Total debt service payments for 2015 on outstanding debt are expected to be $28.8m including $13.3m in governmental activities and $15.5m in business-type activities.
Other Items of Note:

• Subsequent Events
  • Issuance of $20.3m in Series 2014 Combined Utility System Revenue Bonds to fund the County’s portion of the Lake Moultrie Water Agency’s system expansion.
  • Transfer of $801k to Cypress Gardens.
  • Approval of the storm water utility rate structure estimated to bring in $1.7m in gross revenues in 2015.
  • Extension of the one cent transportation sales tax program.
  • Creation of the Nexton Improvement District including approving the assessments and financing plan.
  • Termination of the transportation impact fee.
Compliance
• One financial statement finding:
  • Revenue recognition for C-Funds
• Single Audit was required for 2014
  • Airport Improvements Program
  • Child Support Enforcement Program

Management Letter
• Required communications to management and those charged with governance:
  • Other Post-employment Benefits
  • Deficit Balance in the Parks and Recreation fund
  • Property Tax System
Summary

• Unmodified opinion on the Financial Statements from GF&H
• Good financial condition as of June 30, 2014
• Ongoing risks need to be addressed