

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF BEAUFORT, SOUTH CAROLINA

For the Fiscal Year Ended June 30, 2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF BEAUFORT, SOUTH CAROLINA
302 Carteret Street, Beaufort, South Carolina 29902

For the Fiscal Year Ended June 30, 2008

*Prepared by
City Finance Department*

THIS PAGE INTENTIONALLY LEFT BLANK

City of Beaufort, South Carolina
 Comprehensive Annual Financial Report
 Table of Contents
 For the Year Ended June 30, 2008

<i>INTRODUCTORY SECTION</i>	<u>PAGE</u>
Letter of Transmittal.....	A - 1
GFOA Certificate of Achievement	A - 5
Principal Officials.....	A - 6
Organization Chart.....	A - 7
<i>FINANCIAL SECTION</i>	
INDEPENDENT AUDITORS' REPORT.....	B - 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A).....	C - 1
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets.....	D - 1
Statement of Activities.....	D - 2
FUND FINANCIAL STATEMENTS:	
Governmental Funds:	
Balance Sheet.....	D - 4
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	D - 5
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	D - 6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	D - 7
Proprietary Funds (Enterprise):	
Statement of Net Assets.....	D - 8
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	D - 9
Statement of Cash Flows.....	D - 10
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	D - 11
NOTES TO THE BASIC FINANCIAL STATEMENTS.....	D - 12
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A:	
Description of RSI.....	E - 1
Budgetary Comparison Schedule - General Fund.....	E - 2
Budgetary Comparison Schedule - Parks and Tourism Fund.....	E - 4
Notes to Required Supplementary Information.....	E - 5

City of Beaufort, South Carolina
 Comprehensive Annual Financial Report
 Table of Contents
 For the Year Ended June 30, 2008

SUPPLEMENTARY DATA - Fund Schedules and State Mandated Program Information:	<u>PAGE</u>
Description of Nonmajor Governmental Funds.....	F - 1
Combining Balance Sheet - Nonmajor Governmental Funds.....	F - 2
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	F - 4
Budgetary Comparison Schedules - Nonmajor Governmental Funds:	
Special Revenue Funds:	
Accommodation Tax Fund.....	F - 6
Urban Development Action Grant Fund.....	F - 7
Stormwater Utility Fund.....	F - 8
Debt Service Funds:	
Tax Increment Financing Bond I.....	F - 9
Tax Increment Financing Bond II.....	F - 10
Statement of Changes in Assets and Liabilities - Agency Fund.....	F - 11
Schedule of Municipal Fines, Assessments and Surcharges.....	F - 12

STATISTICAL SECTION

Comment Relative to Statistical Section.....	G - 1
Net Assets By Component - Last Six Fiscal Year.....	G - 2
Changes in Net Assets - Last Six Fiscal Years.....	G - 3
Fund Balances, Governmental Funds - Last Ten Years.....	G - 4
Changes in Fund Balances, Governmental Funds - Last Ten Years.....	G - 5
Schedule of Tax Revenues and Franchise Fees - Last Ten Years.....	G - 7
Assessed Value and Actual Value of Taxable Property - Last Ten Calendar Years.....	G - 8
Direct and Overlapping Property Tax Rates - Last Ten Years.....	G - 10
Principal Property Taxpayers - Current and Nine Years Ago.....	G - 11
Property Tax Levies and Collections - Last Ten Calendar Years.....	G - 12
Ratio of Outstanding Debt by Type - Last Ten Fiscal Years.....	G - 13
Direct and Overlapping Governmental Activities Debt.....	G - 14
Ratio of Net General Bonded Debt Outstanding - Last Ten Fiscal Years.....	G - 15
Legal Debt Margin Information - Last Ten Fiscal Years.....	G - 16
Demographic and Economic Statistics - Last Ten Fiscal Years.....	G - 17
Principial Employers.....	G - 18
Full-time Equivalent City Employees by Function/Program - Last Ten Fiscal Years.....	G - 19
Operating Indicators by Function - Last Ten Fiscal Years.....	G - 20
Capital Asset Statistics by Function - Last Ten Fiscal Years.....	G - 21

COMPLIANCE

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	H - 1
--	-------

LETTER OF TRANSMITTAL
GFOA CERTIFICATE OF ACHEIVEMENT
LIST OF PRINCIPAL OFFICIALS
ORGANIZATIONAL CHART



September 30, 2008

To the Honorable Mayor, Members of City Council, and Citizens of the City of Beaufort:

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Beaufort for the fiscal year ended June 30, 2008.

This report consists of management's representations concerning the finances of the City of Beaufort. Consequently, management assumes all responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Beaufort has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Beaufort's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Beaufort's comprehensive framework of internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City of Beaufort's financial statements have been audited by McAbee, Talbert & Halliday & Co, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Beaufort for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Beaufort's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Beaufort's MD&A can be found immediately following the report of the independent auditors.



Profile of the Government

The City, founded in 1711 and incorporated in 1913, is located on the eastern coast of Beaufort County, South Carolina, 70 miles south of Charleston, South Carolina and 45 miles north of Savannah, Georgia and encompasses approximately 27 square miles. The 2005 population of the City was 12,950.

The City operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring both the City Manager and the City Attorney. The City's manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. The mayor and council are elected at large and serve four-year staggered terms.

The City provides a full range of services, including: police and fire protection, sanitation and recycling services, planning and code enforcement services as well as maintenance and up keep of City parks.

The annual budget serves as the foundation for the City's financial planning and control. All agencies and departments of the City are required to submit requests for appropriation to the City Manager each year. The City Manager uses these requests, along with the long range financial projections, as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review. The council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is maintained by the City Manager at the fund level and may be amended as necessary during the fiscal year. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and the Park and Tourism fund, this comparison is presented beginning on page E-1 as part of the required supplementary information other than the Management's Discussion and Analysis.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City currently enjoys a fairly stable economic environment. Unemployment in Beaufort County is less than the State average and median household income tends to be higher than the State average. The City has seen some changes related to the downturn in the housing and construction industries. However, combined with the stable



payrolls of the local military installations, other governmental employers and health care providers, the affects have been negligible. The City does rely somewhat on the Tourism Industry for both Hospitality and Accommodations tax revenues. As of June 30, Hospitality revenues are down; however, Accommodations revenues are on the upswing. The City continues to monitor both revenues. The City benefits greatly from their long-term relationships with both the Marine Corp Air Station and Parris Island Training facility. Recruit graduations are held weekly bringing families to the area. Two new hotels have added 212 rooms.

In addition, Beaufort has recently been ranked second in the top six places to retire as wells as one of the best places to visit.

Long-term financial planning. The City began development of a long range financial plan effective with the FY 2008 budget. In addition to the plan the City has formalized its Capital Improvement Plan. First year of the plan is funded through the budget appropriation process with out years estimated based on current year costs. Using a long range planning process allows the City to plan for future needs as well as up or down-turns in the economy.

City Initiatives. The City has completed and approved the Boundary Street Master Plan to be used as a guide for the redevelopment along the Boundary street corridor. In the fall of 2006 the citizens of Beaufort County voted to increase the County sales tax to pay for transportation related projects. Approximately \$22 million is earmarked for projects along the Boundary street entrance to the City. It is expected that these events will promote both development and redevelopment in the area.

Relevant financial policies. The City understands the significance of adopting financial polices to guide both short and long term planning to provide adequate resources to fund operations. The City adopted the following financial policies: Accounting to address the methods used and the manner in which revenues are collected/recognized and expenditures are disbursed/incurred; Budget to address the process used to formulate, review and adopt the operating budget, capital improvements program and five year financial plan; Fund Balance and Net Assets to guide the City in maintaining a financial operation with sound financial management principles; Investment and Deposits to serve as a guideline for managing all public funds entrusted to the City for safekeeping, and Revenue to ensure strong fiscal management practices using proper controls and general oversight.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Beaufort for its comprehensive annual financial report (CAFR) for the year ended June 30, 2007. The certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the first year that the City applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.



A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City Manager's office and the Finance Department. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and City Council for their continued support for maintaining the highest standards of professionalism in the management of the City of Beaufort.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott F. Dadson".

Scott F. Dadson, City Manager

A handwritten signature in black ink, appearing to read "Shirley D. Hughes".

Shirley D. Hughes, Assistant City Manager/CFO

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Beaufort
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

**THE CITY OF BEAUFORT, SOUTH CAROLINA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2008**

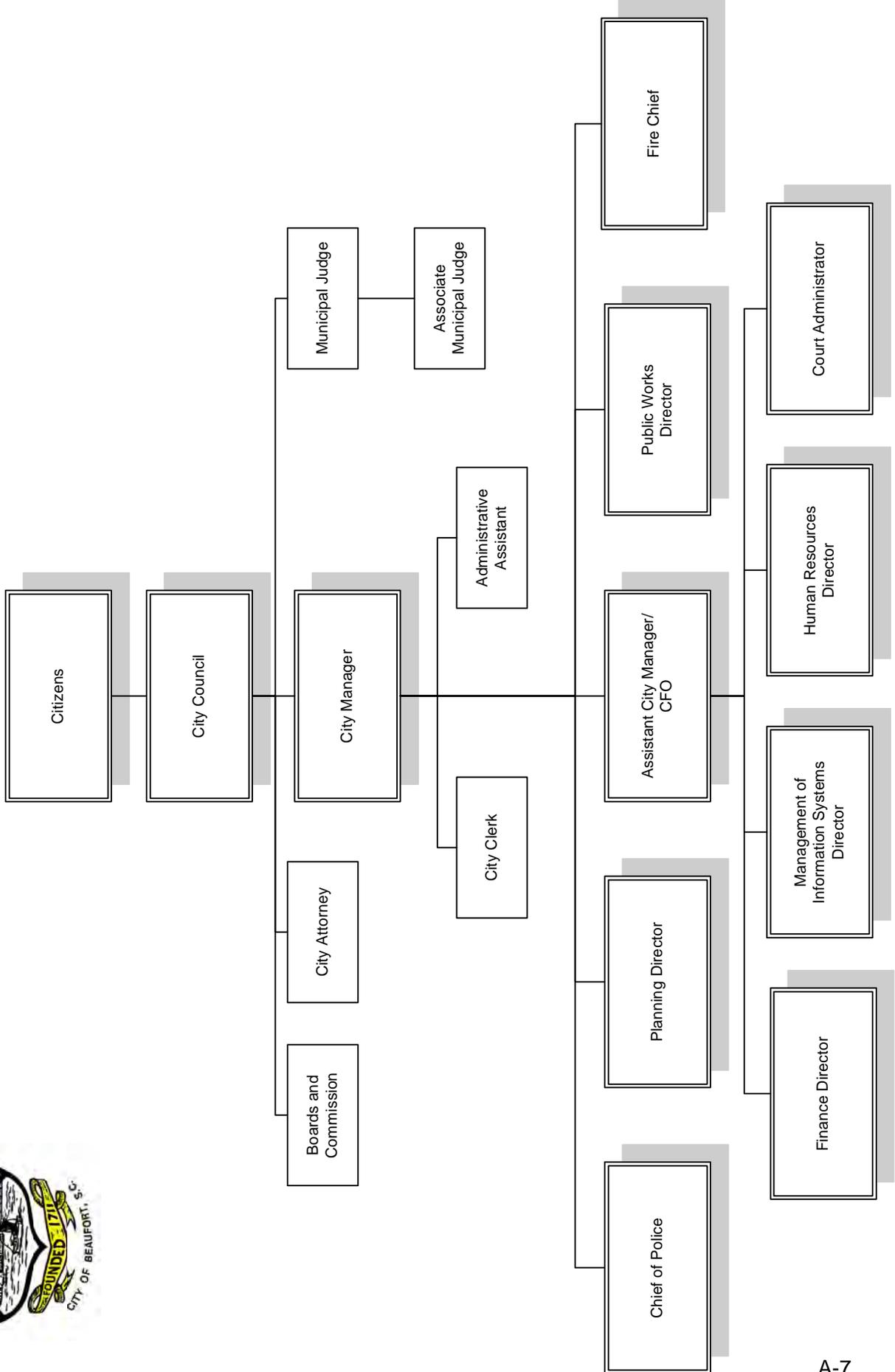
CITY COUNCIL

George O'Kelley	Mayor
Vacant	Mayor, Pro Tem
Donnie Ann Beer	Councilwoman, At Large
Gary Fordham	Councilman, At Large
Michael Sutton	Councilman, At Large

ADMINISTRATION

Scott F. Dadson	City Manager
Shirley D. Hughes	Assistant City Manager and Chief Financial Officer
Beverly Gay	City Clerk
Gail Weickhardt	Finance Manager
Mack Cook	Accounting Manager
Gerald Eller	Accounting Clerk
Glenda Pinto	Accounting Clerk
Ivette Burgess	Administrative Assistant

City of Beaufort Organizational Chart As of 9-17-2007



INDEPENDENT AUDITORS' REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
BASIC FINANCIAL STATEMENTS

To the Honorable Mayor and City Council of
City of Beaufort, South Carolina
Beaufort, South Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Beaufort, South Carolina, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Beaufort, South Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaufort, South Carolina, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated September 30, 2008, on our consideration of the City of Beaufort, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, on pages H-1 through H-2, is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

B-1

To the Honorable Mayor and City Council of
City of Beaufort, South Carolina
Page Two

The management's discussion and analysis and budgetary comparison information on pages C-1 through C-8 and E-1 through E-5, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Beaufort, South Carolina's basic financial statements. The introductory section on pages A-1 through A-7, supplementary data on pages F-1 through F-12, and statistical section on pages G-1 through G-21, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McAfee Tatham Halliday & Co.

Spartanburg, South Carolina
September 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of the financial performance of the City of Beaufort provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. The intent of this management discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of the City's financial performance.

The basic financial statements contain three components:

- 1) Government-wide financial statements including the Statement of Net Assets and the Statement of Activities which provide a broad, long-term overview of the City's finances.
- 2) Fund financial statements, including the balance sheets, that provide a greater level of detail of revenues and expenditures and focus on how well the City has performed in the short term in the most significant funds, and
- 3) Notes to the financial statements.

This report presents the financial highlights for last year and contains other supplementary information.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at June 30, 2008 by \$30,048,702 (net assets). Of this amount, \$11,477,090 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$795,711 from the previous year with an \$876,685 increase resulting from governmental activities and an \$80,974 decrease resulting from business-type activities.
- Key factors resulting in the increase in net assets include:
 - 1) Continuing development and construction of the Municipal Complex project
 - 2) Increase in construction in progress at year-end
- At June 30, 2008, the City's governmental funds balance sheet reports combined ending fund balances of \$27,823,160, an increase of \$12,089,275 over the previous fiscal year due primarily to the issuance of \$15,000,000 in General Obligations bonds. Of this total fund balance, \$17,587,870 remains in the various fund types of the City as unreserved.
- The General Fund reported an unreserved fund balance of \$5,956,711, a decrease from last fiscal year of \$229,852.
- Total long-term liabilities of the City increased \$15,328,015 from the previous fiscal year. The key factors in this net increase were the issuance of a \$15,000,000 General Obligation Bond; \$1,500,000 in additional financing for the construction of the Waterfront Park; additional capital leases of \$197,087 for the acquisition of vehicles; transfer of \$274,259 in capital lease obligations from Governmental Funds to the Enterprise Fund; and a \$356,738 provision for compensated absences; less debt reduction payments and transfers of \$1,735,793.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of the City's assets and 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 City is improving or deteriorating.

The Statement of Activities presents information showing how the City'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 compensated absences).

Both statements attempt to distinguish functions of the City 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).

Governmental activities reported in the statements include General Government, Public Safety, Public Works, and Interest on Long-Term Debt. Business-type activities in the City include solid waste and recycling collection services.

The government-wide financial statements can be found on pages D-1 and D-3 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. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City government can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds - Governmental funds, presented on pages D-4 to D-7, essentially account for the same functions as those reported under the government-wide statement of net assets and statement of activities. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide financial statements. Such information may be useful in evaluating the City's near-term financing requirements and available resources.

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 City'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. These reconciliations are on pages D-5 and D-7, respectively.

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. The majority of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the City's operations and the services it provides.

Proprietary funds - The City maintains and presents one type of proprietary fund, an enterprise fund found on pages D-8 to D-10 of this report.

Enterprise funds report, in greater detail, the same information presented as business-type activities in the Government-wide Financial Statements. The Solid Waste Fund is the only major proprietary fund.

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 statement because the resources of those funds are not available to support the City of Beaufort's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement for the Agency fund can be found on pages D-11 of this report.

Notes to the Financial Statements - The notes provide additional information that are essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages D - 12 to D - 30 of the report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for its general and special revenue fund. A budgetary comparison schedule has been provided for the General Fund as required supplementary information. This required supplementary information begins on page E-1 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business-type activities) totaled \$30.0 million at June 30, 2008.

The following table presents a summary of the City's Net Assets at June 30, 2008

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 30,439,708	\$ 16,900,209	\$ (8,335)	\$ 49,488	\$ 30,431,373	\$ 16,949,697
Capital assets, net	27,850,660	23,883,634	415,651	231,899	28,266,311	24,115,533
Total assets	58,290,368	40,783,843	407,316	281,387	58,697,684	41,065,230
Current liabilities	2,547,755	1,060,372	31,822	10,477	2,579,577	1,070,849
Noncurrent liabilities	25,861,648	10,719,191	207,757	22,199	26,069,405	10,741,390
Total liabilities	28,409,403	11,779,563	239,579	32,676	28,648,982	11,812,239
Net assets:						
Invested in capital assets, net of related debt	17,798,882	17,833,449	207,894	99,977	18,006,776	17,933,426
Restricted	564,836	3,083,990	-	-	564,836	3,083,990
Unrestricted	11,517,247	8,086,841	(40,157)	148,734	11,477,090	8,235,575
Total net assets	\$ 29,880,965	\$ 29,004,280	\$ 167,737	\$ 248,711	\$ 30,048,702	\$ 29,252,991

The largest portion of the City's net assets (60%) reflect its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 liquidate these liabilities.

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. Positive balances are reported for the City's separate governmental and business-type activities.

Within the City's governmental activities, restricted net assets decreased \$2,519,154 due to the use of externally restricted cash in the on-going construction of the municipal complex. The cash used was replaced with the proceeds from the issuance of \$15,000,000 of General Obligations Bonds. The proceeds plus interest earned thereon are included in the \$15,871,000 reported as restricted cash in the Statement of Net Assets. The Bond debt obligation is included within Long-Term Liabilities.

Within the City's business type activities, the garbage collection services were transferred from the governmental activities operations to the business type activities operation to form the solid waste enterprise fund. As a result, \$363,007 of net capital assets and the related capital lease debt of \$274,259 were transferred, thereby representing the increase in capital assets and noncurrent liabilities

Changes in net assets

The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008:

	City of Beaufort's Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services.....	\$ 7,132,971	\$ 7,357,076	\$ 863,442	\$ 242,258	\$ 7,996,413	\$ 7,599,334
Operating grants and contributions.....	1,315,290	484,642	-	-	1,315,290	484,642
Capital grants and contributions.....	200,000	376,928	-	-	200,000	376,928
General Revenues:						
Property and sales taxes.....	4,344,627	4,817,860	-	-	4,344,627	4,817,860
Franchise fees.....	1,591,321	1,567,576	-	-	1,591,321	1,567,576
Other taxes.....	1,216,930	1,339,120	-	-	1,216,930	1,339,120
Unrestricted investment earnings.....	494,489	640,115	1,052	-	495,541	640,115
Miscellaneous.....	188,436	73,025	-	-	188,436	73,025
Transfers.....	(88,748)	-	88,748	-	-	-
Total revenues	16,395,316	16,656,342	953,242	242,258	17,348,558	16,898,600
Expenses:						
General government.....	3,663,029	3,168,904	-	-	3,663,029	3,168,904
Public safety.....	7,534,013	7,268,743	-	-	7,534,013	7,268,743
Public works.....	3,783,759	3,138,718	-	-	3,783,759	3,138,718
Interest on long-term debt.....	537,830	445,493	-	-	537,830	445,493
Solid waste.....	-	-	1,034,216	182,500	1,034,216	182,500
Total expenses	15,518,631	14,021,858	1,034,216	182,500	16,552,847	14,204,358
Change in net assets	876,685	2,634,484	(80,974)	59,758	795,711	2,694,242
Net assets - beginning	29,004,280	26,396,864	248,711	188,953	29,252,991	26,585,817
Prior period adjustment		(27,068)			-	(27,068)
Net assets - ending	\$ 29,880,965	\$ 29,004,280	\$ 167,737	\$ 248,711	\$ 30,048,702	\$ 29,252,991

Approximately 46% of the City's total revenue came from taxes and franchise fees, while 45% resulted from charges for various goods and services. These percentages are the same as the prior year. Total revenue from all sources increased \$449,958. Increase in revenue classes for governmental activities were:

- Property tax levied for general purposes increased \$388,774 primarily as a result in State law whereby property is revalued for tax purposes at the time ownership transfers.
- Charges for services provided by general government and public safety increased by a combined total of \$395,145 primarily for two reasons:
 - there was an increase use of the newly completed waterfront park for private and community events,
 - rate charges for safety services provide for private and civic events increased to reflect increased costs in employee taxes and benefits.
- Revenue from operating grants substantially increased with funding for Bladen Street reconstruction project and the Block-by-Block Housing Redevelopment and Rehabilitation program.

Property taxes levied for specific purposes, which represents taxes collected for properties located within the City's two tax incentive districts (TIFs) decreased \$822,007. The decrease is due to adjustments to

tax maps that correctly located properties either within or outside of the TIF districts. This relocation of properties resulted in the City foregoing a portion of the current year property tax revenue in these special districts to adjust for overpayments received in the nine preceding years. As of June 30, 2008 the City remained liable for \$18,540 for property taxes received in error from the City's two TIF districts.

The City's expenses cover a range of services. Operating expenses increased \$2,348,489. Major increases in costs and expenses were;

- Legal Fees in connection with land use issues
- Cost of living adjustment for City employees and accompanying increase in taxes and benefit
- Continuing initiative to improve the City's technological capacities
- Increased fuel costs
- Infrastructure repair, maintenance and renovation
- Rehabilitation and upgrade of City parks

The increase of charges for services revenue of \$621,184 within business-type activities was a result of transferring the Sanitation collection services from public service of the governmental activities to the solid waste enterprise fund. A corresponding decrease in revenue of the governmental activities public services charges for services of \$619,150 is a result of this transfer of operations. This transfer of operations also resulted in the significant increase in operating expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. The governmental fund types include the general fund, capital projects fund, debt service funds and special revenue funds. The General Fund, Parks & Tourism Fund, Capital Projects Fund are reported as the City's major funds. The remaining governmental funds of the City are aggregated and presented as Other Governmental Funds. As of June 30, 2008, the City governmental funds reported combined fund balances of \$27,823,160, an increase of \$12,089,275 over the prior year's balances. The increase is primarily related to the issuance of \$15,000,000 in General Obligation Bonds to finance the construction of the Municipal complex project.

General Fund

The general fund is the chief operating fund of the City. At June 30, 2008, the total fund balance in the general fund was \$8,762,128. The total amount of unreserved fund balance for the general fund is \$5,956,711.

One measure of the general fund's liquidity is to compare its unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance and total fund balance represents 52% and 76% of total general fund expenditures respectively.

The fund balance of the general fund increased \$823,230 during the current fiscal year. Key reasons for this growth are as follows:

- Increase in Total revenues of \$438,875 over the prior year as discussed above.
- Total expenses, net of the expenses associated with the Sanitation collection services that were transferred to the Solid Waste enterprise fund; decrease \$455,769 from the prior year. This decrease is primarily attributed to a reduction in operating and personnel costs in the public safety departments.

Special Revenue Fund – Parks and Tourism Fund

The Parks and Tourism Fund ended the year with a fund balance of \$1,007,885, with current year revenues of \$1,724,964 and expenditures of \$1,887,357. The unreserved fund balance is

\$926,373. The Parks & Tourism fund activities remained stable with no significant changes affecting fund balance.

Capital Projects

The Capital Projects Fund has a total fund balance of \$13,885,598 which will be used for the development and construction of the Municipal Complex. The fund balance increased \$11,432,22 for the current fiscal year as a result of the issuance of General Obligations Bond to finance the Municipal Complex project.

Proprietary Funds:

Proprietary fund statements provide the same information as in the business activities column of the government-wide statements, only in greater detail. The City currently utilizes only one enterprise fund at this time in the proprietary fund financial statements, the Solid Waste fund. An enterprise fund is required to be used to account for the operations for which a fee is charged to external users for goods or services.

At June 30, 2008, total net assets amounted to \$167,737 for the enterprise fund as compared to \$248,711 at June 30, 2007. The change in net assets (a decrease of \$80,974) resulted from an operating loss of \$170,774 including depreciation of \$193,423 which was partially offset by transfer of vehicles and equipment from the General Fund having an equity value of \$88,748. The enterprise fund is reflected on pages D - 8 to D - 10.

CAPITAL ASSETS

The Statement of Net Assets present capital assets in two groups: those assets subject to depreciation, such as equipment or operational facilities and those assets not subject to depreciation such as land and construction-in-progress. At June 30, 2008, the City's net capital assets for both governmental activities and business-type activities totaled \$28,266,311. Capital assets, includes assets purchased and donated, land, buildings, system improvements and machinery and equipment. Capital Assets, before accumulated depreciation, increased \$4,860,795, or 15% between fiscal year 2007 and 2008.

Major capital asset events affecting the governmental activities during the year included the following:

- Construction of Municipal Complex and the Bladen Street Streetscape Project (\$5,323,092).
- Vehicles and equipment for various city departments (\$316,422).
- Improvements and enhancement to Infrastructure (\$229,211).

As stated previously, the transfer of net capital assets related to the garbage operations represents the increase \$409,938 of gross capital assets of the business-type activities.

Additional information on the City's capital assets can be found in Note 2.C. on page D-21.

DEBT ADMINISTRATION

The long-term liabilities at June 30, 2008 totaled \$26,069,405. Of this amount, \$25,861,648 relates to the governmental activities and \$207,757 relates to the business-type activities.

Debt of the governmental activities increased \$15,142,457 from June 30, 2007. As stated previously, the increase is primarily related to the issuance of the \$15,000,000 General Obligation Bond, an additional \$1,500,000 in sale/leaseback financing for construction of the Waterfront, \$197,087 in vehicle capital leases less related debt payments of \$1,647,092. Additional information on the City's debt can be found in Note 2.E. and 2.F. on pages D-23 to D-27.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary comparison schedule of the General Fund is provided as required supplementary information other than MD&A and can be found on pages E-2 and E-3. Additional budgetary comparison schedules of the special revenue funds can be found within other supplementary information found beginning on page F-1. Budget columns are provided for both the original budget adopted for fiscal year

2008 as well as the final budget. A column for actual resources (revenues), appropriations (expenditures), and a column for any variances between final budget and actual are also provided. Resources and appropriations are discussed net of transfer in or out.

The overall operations of the City are similar to directing a large multi-million dollar business. Budget amendments are approved throughout the year to more accurately reflect the ongoing changes and to abide by state laws. The original budget was adopted on June 26, 2008.

During the year there was a net increase of \$118,787 increase in appropriations between the original and final amended budget. The major component of the increase was the appropriation of \$120,000 in funding for development of the Southside Park derived from the sale of property.

The total revenues actually recorded for this fiscal year was \$12,214,117, which was \$614,079 more than the final budgeted figure.

Individual explanations are as follows:

- Fines and forfeitures were reported under budget by approximately \$128,920; the result of fewer traffic citations being issued during 2008
- Licenses and permits were reported over budget by \$318,027 due to increased collections from stepped up enforcement.
- Revenue from Property taxes exceeded that budgeted by \$307,699 due primarily from the previously discussed changes in State law whereby property is revalued upon transfer of ownership.

The total appropriations (expenditures) actually recorded for the fiscal year was \$11,540,226. This figure is \$29,269 less than the final budgeted figure.

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS AND RATES

The City adopted a general fund budget of \$12,458,404 for fiscal year 2009.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for the governmental operations of the City of Beaufort. It is designed for anyone with an interest in our government's finances and management. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Beaufort, Chief Financial Officer, 302 Carteret Street, Beaufort, South Carolina 29901.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

City of Beaufort, South Carolina
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments.....	\$ 12,778,412	\$ 131	\$ 12,778,543
Receivables.....	1,455,864	44,719	1,500,583
Internal balances.....	53,185	(53,185)	-
Inventories and Prepaid assets.....	136,249	-	136,249
Deferred Charges.....	144,998	-	144,998
Restricted assets			
Cash and investments.....	15,871,000	-	15,871,000
Capital assets:			
Land, improvements, and construction in progress.....	9,329,065	-	9,329,065
Other capital assets, net of depreciation.....	18,521,595	415,651	18,937,246
Total assets.....	58,290,368	407,316	58,697,684
LIABILITIES			
Accounts payable.....	2,397,711	31,822	2,429,533
Accrued interest.....	94,742	-	94,742
Unearned revenue.....	55,302	-	55,302
Long-term liabilities:			
Due within one year.....	1,395,926	35,786	1,431,712
Due in more than one year.....	24,465,722	171,971	24,637,693
Total liabilities.....	28,409,403	239,579	28,648,982
NET ASSETS			
Invested in capital assets, net of related debt.....	17,798,882	207,894	18,006,776
Restricted for:			
Perpetual care.....	16,173	-	16,173
Tourism.....	487,888	-	487,888
Law enforcement purposes.....	60,302	-	60,302
Victims rights.....	473	-	473
Unrestricted.....	11,517,247	(40,157)	11,477,090
Total net assets.....	\$ 29,880,965	\$ 167,737	\$ 30,048,702

City of Beaufort, South Carolina
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government.....	\$ 3,663,029	\$ 4,256,870	\$ 20,000	\$ 200,000
Public safety.....	7,534,013	1,613,016	553,577	-
Public service.....	3,783,759	1,263,085	741,713	-
Interest on long-term debt.....	537,830	-	-	-
Total governmental activities	<u>15,518,631</u>	<u>7,132,971</u>	<u>1,315,290</u>	<u>200,000</u>
Business-type activities:				
Solid waste activities.....	1,034,216	863,442	-	-
Total business-type activities	<u>1,034,216</u>	<u>863,442</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,552,847</u>	<u>\$ 7,996,413</u>	<u>\$ 1,315,290</u>	<u>\$ 200,000</u>

General revenues:

Taxes:

Property taxes, levied for general purposes.....

Property taxes levied for specific purposes.....

Franchise taxes.....

Other taxes.....

Unrestricted investment earnings.....

Miscellaneous.....

Transfers.....

Total general revenues and transfers.....

Change in net assets.....

Net assets - beginning.....

Net assets - ending.....

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ 813,841		\$ 813,841
(5,367,420)		(5,367,420)
(1,778,961)		(1,778,961)
(537,830)		(537,830)
<u>(6,870,370)</u>		<u>(6,870,370)</u>
-	\$ (170,774)	(170,774)
-	(170,774)	(170,774)
<u>(6,870,370)</u>	<u>(170,774)</u>	<u>(7,041,144)</u>
3,510,303	-	3,510,303
834,324	-	834,324
1,591,321	-	1,591,321
1,216,930	-	1,216,930
494,489	1,052	495,541
188,436	-	188,436
(88,748)	88,748	-
<u>7,747,055</u>	<u>89,800</u>	<u>7,836,855</u>
876,685	(80,974)	795,711
29,004,280	248,711	29,252,991
<u>\$ 29,880,965</u>	<u>\$ 167,737</u>	<u>\$ 30,048,702</u>

The notes to the basic financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

FUND FINANCIAL STATEMENTS

City of Beaufort, South Carolina
Governmental Funds
Balance Sheet
June 30, 2008

	General	Special Revenue Parks and Tourism Fund	Capital Project Funds	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments.....	\$ 8,067,708	\$ 577,203	\$ 462,254	\$ 3,671,247	\$ 12,778,412
Receivables.....	542,622	2,113	67,759	843,370	1,455,864
Due from other funds.....	289,702	-	-	-	289,702
Inventories and prepaid assets.....	136,252	-	-	-	136,252
Restricted cash and investments.....	309,281	487,887	15,013,530	60,302	15,871,000
Total assets.....	<u>\$ 9,345,565</u>	<u>\$ 1,067,203</u>	<u>\$ 15,543,543</u>	<u>\$ 4,574,919</u>	<u>\$ 30,531,230</u>
Liabilities and fund balances					
Liabilities					
Accounts payable.....	\$ 531,535	\$ 55,918	\$ 1,499,921	\$ 310,337	\$ 2,397,711
Due to other funds.....	-	-	158,024	78,493	236,517
Deferred revenue.....	51,902	3,400	-	18,540	73,842
Total liabilities.....	<u>583,437</u>	<u>59,318</u>	<u>1,657,945</u>	<u>407,370</u>	<u>2,708,070</u>
Fund balances:					
Reserved for:					
Inventory and prepaid assets.....	136,252	-	-	-	136,252
Land Acquisition.....	729,786	-	-	-	729,786
Capital projects.....	1,552,565	-	4,325,176	-	5,877,741
Other purposes.....	386,814	81,512	-	-	468,326
Debt service.....	-	-	-	3,007,012	3,007,012
Perpetual care.....	-	-	-	16,173	16,173
Unreserved, reported in:					
General fund.....	5,956,711	-	-	-	5,956,711
Special revenue funds.....	-	926,373	-	1,144,364	2,070,737
Capital projects funds.....	-	-	9,560,422	-	9,560,422
Total fund balances	<u>8,762,128</u>	<u>1,007,885</u>	<u>13,885,598</u>	<u>4,167,549</u>	<u>27,823,160</u>
Total liabilities and fund balances	<u>\$ 9,345,565</u>	<u>\$ 1,067,203</u>	<u>\$ 15,543,543</u>	<u>\$ 4,574,919</u>	<u>\$ 30,531,230</u>

City of Beaufort, South Carolina
 Reconciliation Of Total Governmental Fund Balances
 To Net Assets Of Governmental Activities
 June 30, 2008

Total Governmental Fund Balances	\$ 27,823,160
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds (net of accumulated depreciation of \$8,415,580).</p>	27,850,660
<p>Bond issuance costs are reported as expenditures in the governmental funds.</p>	144,998
<p>Revenues (deferred taxes) in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.</p>	18,537
<p>Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. See the long-term debt note.</p>	(25,861,648)
<p>Accrued interest payable on debt is not due and payable in the current period and therefore is not reported in the governmental funds balance sheet.</p>	(94,742)
Net Assets of Governmental Activities	\$ 29,880,965

City of Beaufort, South Carolina
Governmental Funds
Statement Of Revenues, Expenditures, And Changes In
Fund Balances
For the Year Ended June 30, 2008

	General	Special Revenue Parks and Tourism Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes.....	\$ 5,209,303	\$ 1,582,273	\$ -	\$ 1,143,445	\$ 7,935,021
Licenses and permits.....	4,112,027	109,561	-	-	4,221,588
Intergovernmental.....	556,620	3,501	200,000	998,354	1,758,475
Charges for services.....	1,362,025	-	-	-	1,362,025
Fines and forfeitures.....	726,180	-	-	15,287	741,467
Miscellaneous.....	247,962	29,629	170,208	131,684	579,483
Total revenues.....	12,214,117	1,724,964	370,208	2,288,770	16,598,059
Expenditures:					
Current:					
General government.....	3,270,486	223,457	4,004	63,956	3,561,903
Public safety.....	6,897,544	437,541	-	7,429	7,342,514
Public service.....	1,034,932	707,431	-	1,366,358	3,108,721
Capital Outlay.....	-	-	5,323,092	-	5,323,092
Debt Service:					
Principal.....	291,982	341,790	-	628,230	1,262,002
Interest and other charges.....	45,282	177,138	110,891	274,328	607,639
Total expenditures.....	11,540,226	1,887,357	5,437,987	2,340,301	21,205,871
Excess (deficiency) of revenues over (under) expenditures.....	673,891	(162,393)	(5,067,779)	(51,531)	(4,607,812)
Other financing sources (uses):					
Transfers in.....	32,252	80,000	-	-	112,252
Transfers out.....	(80,000)	-	-	(32,252)	(112,252)
Capital leases.....	197,087	-	-	-	197,087
Lease financing agreement.....	-	-	1,500,000	-	1,500,000
General Obligation bonds issued.....	-	-	15,000,000	-	15,000,000
Total other financing sources (uses).....	149,339	80,000	16,500,000	(32,252)	16,697,087
Net Changes in fund balances.....	823,230	(82,393)	11,432,221	(83,783)	12,089,275
Fund balances, beginning of year.....	7,938,898	1,090,278	2,453,377	4,251,332	15,733,885
Fund balances at end of year.....	\$ 8,762,128	\$ 1,007,885	\$ 13,885,598	\$ 4,167,549	\$ 27,823,160

City of Beaufort, South Carolina
 Reconciliation Of The Statement Of Revenues,
 Expenditures, And Changes In Fund Balances Of
 Governmental Funds To The Statement Of Activities
 For The Year Ended June 30, 2008

Net change in Fund Balances - Total Governmental Funds		\$ 12,089,275
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>		
Capital outlays	\$ 5,639,514	
Depreciation expense	<u>(1,290,394)</u>	4,349,120
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales trade-ins, and donations) is to decrease net assets</p>		
		(82,670)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which debt payments (\$1,262,002) exceeded proceeds (\$16,697,087).</p>		
		(15,435,085)
<p>Governmental funds report the effect of bond issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:</p>		
Amortization of bond issuance costs		102,272
<p>Revenues (deferred taxes) in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds.</p>		
		(104,279)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Increase in accrued interest payable	(31,750)	
Increase in long-term portion of accrued vacation pay	<u>(10,198)</u>	(41,948)
Change in Net Assets of Governmental Activities		<u>\$ 876,685</u>

City of Beaufort, South Carolina
Solid Waste Enterprise Fund
Statement Of Net Assets
June 30, 2008

	Solid Waste Fund
ASSETS	
Current assets:	
Cash and investments.....	\$ 131
Accounts receivable - net.....	44,719
Total current assets.....	44,850
Capital assets:	
Other capital assets, net of depreciation.....	415,651
Total capital assets.....	415,651
Total assets.....	460,501
LIABILITIES	
Current liabilities:	
Accounts payable.....	20,597
Accrued payroll liabilities.....	11,225
Due to other funds.....	53,185
Capital leases payable - current.....	35,786
Total current liabilities.....	120,793
Noncurrent liabilities:	
Capital lease payable.....	171,971
Total noncurrent liabilities.....	171,971
Total liabilities.....	292,764
NET ASSETS	
Invested in capital assets, net of related debt.....	207,894
Unrestricted.....	(40,157)
Total net assets.....	\$ 167,737

City of Beaufort, South Carolina
Solid Waste Enterprise Fund
Statement Of Revenues, Expenses, And Changes
In Fund Net Assets
For The Year Ended June 30, 2008

	Solid Waste Fund
Operating revenues	
Recycling fees - City of Beaufort.....	\$ 175,608
Recycling fees - Town of Port Royal.....	7,005
Other - recycling.....	34,183
Garbage fees.....	646,646
Total operating revenues.....	863,442
Operating expenses	
Personnel services and employee benefits.....	573,094
Purchased and contracted services.....	98,017
Repairs and maintenance.....	105,779
Supplies.....	63,903
Depreciation.....	193,423
Total operating expenses.....	1,034,216
Operating income (loss).....	(170,774)
Nonoperating revenues (expenses)	
Interest income.....	1,052
Total nonoperating revenues (expenses).....	1,052
Income before capital contributions.....	(169,722)
Capital Contribution.....	88,748
Change in net assets.....	(80,974)
Net assets, beginning of year.....	248,711
Net assets, end of year.....	\$ 167,737

City of Beaufort, South Carolina
Solid Waste Enterprise Fund
Statement Of Cash Flows
For The Year Ended June 30, 2008

	Solid Waste Fund
Cash flows from operating activities:	
Cash received from customers.....	\$ 856,523
Cash payments to suppliers for goods and services.....	(249,265)
Cash payments to employees for services.....	(570,183)
	37,075
Cash flows from noncapital financing activities:	
Payment on advance from other funds.....	(45,974)
	(45,974)
Cash flows from capital and related financing activities:	
Principal payment on debt.....	(88,701)
Acquisitions and construction of capital assets.....	(14,168)
	(102,869)
Cash flows from investing activities:	
Interest earned on cash and investments.....	1,052
	1,052
Net increase (decrease) in cash and cash equivalents.....	(110,716)
Cash and cash equivalents, beginning of year.....	110,847
Cash and cash equivalents, end of year.....	\$ 131
Operating income (loss).....	\$ (170,774)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation.....	193,423
Change in assets and liabilities:	
Decrease (increase) in accounts receivables.....	(6,919)
(Decrease) Increase in accounts payable.....	18,434
(Decrease) Increase in accrued liabilities.....	2,911
	207,849
Total adjustments.....	207,849
Net cash provided (used) by operating activities.....	\$ 37,075

Note: Noncash Investing, Capital and Financing Activities
Governmental funds transferred net capital assets totaling \$363,007 and capital lease obligation totaling \$274,259, for a net noncash transfer of \$88,748

City of Beaufort, South Carolina
Statement Of Fiduciary Net Assets
June 30, 2008

	<u>Fire Fund</u>
Assets	
Cash and investments.....	\$ 40,282
Total assets.....	<u>\$ 40,282</u>
Liabilities	
Due to others.....	\$ 40,282
Total liabilities.....	<u>\$ 40,282</u>

The notes to the basic financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Note 1 Summary of Significant Accounting Policies

- A. Financial Reporting Entity
- B. Government-wide and Fund Financial Statements
- C. Measurement Focus, Basis of Accounting and Basis of Presentation
- D. Assets, Liabilities, and Net Assets or Equity

Note 2 Stewardship, Compliance, and Accountability

- A. Budgetary information

Note 3 Detail Notes of Funds and Activities

- A. Deposits and Investments
- B. Accounts Receivable
- C. Capital Assets
- D. Interfund Transactions and Balances
- E. Accounts Payable
- F. Long-term Debt
- G. Restricted Assets

Note 4 Other Information

- A. Employee Pension and Other Benefit Plans
- B. Risk Management
- C. Commitments and Contingencies

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Note 1 – Summary of Significant Accounting Policies

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

The City is a political subdivision of the State of South Carolina and operates under a Council-Manager form of government. The Council is composed of five members, including the Mayor, who are elected at-large to four-year staggered terms.

The financial reporting entity consists of (a) primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government; however, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

The City's financial reporting entity comprises the following:

Primary Government: City of Beaufort

The City has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. All funds, organizations, institutions, agencies, departments, and officers that are not legally separate of the primary government, for financial reporting purposes, are part of the primary government and are included in the financial statements of the City.

1. Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. The Redevelopment Commission is a blended component unit of the City. During fiscal year 2008, the Commission had no financial activity.

2. Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

B. Government-wide and Fund Financial Statements

Financial information of the City is presented as follows:

- *Management's discussion and analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements:* Government-wide financial statements consist of a statement of net assets and a statement of activities.

These statements report all of the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining. The fiduciary fund of the primary government is not included in the government-wide financial statements; however separate financial statements are presented.

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

- *Fund financial statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate financial statements are presented for the governmental, proprietary and fiduciary funds.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements and fiduciary fund financial statements, except Agency funds that have no measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days after year-end. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as, expenditures related to compensated absences and claims and judgments, are reported

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Property taxes, sales tax, grants from other governments, and interest on investments are susceptible to accrual. Revenues from fines, forfeits and penalties, and franchise fees become measurable and available when cash is received by the City and are recognized as revenue at that time.

The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.
- The *Parks and Tourism Fund*, a special revenue fund, is used to account for proceeds from the local accommodations, hospitality and property transfer fees, which are restricted for expenses incurred by the City of Beaufort in serving tourists and non-residents.
- The *Capital Projects Fund*, accounts for two major projects; the Municipal Complex where the proceeds of the General Obligation Bond and the Tax Increment Financing Bond for TIF district II are being expended on land acquisition and the construction of a new police station, municipal court, and other infrastructure improvements.

The City reports the following major enterprise fund:

- The *Solid Waste Fund* accounts for recyclable materials collection operations and garbage collection operations which are provided to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service.

Additionally, the City reports the following fund types:

Governmental Funds:

- The *Special Revenue Funds*, fund type to account for revenue sources that are legally restricted to expenditures for specific purposes. Such funds are established when required by statute, charter provision, local ordinance, or executive decision to finance particular functions or activities.
- The *Debt Service Funds* account for the accumulation of funds for the periodic payment of principal and interest on governmental contractual obligations.
- The *Permanent Fund* is used to account for the perpetual care endowment of the municipal cemetery, for which only the interest earnings may be used to defray maintenance expenses.

Fiduciary Fund:

- *Fiduciary Funds (Agency)* are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. Therefore, fiduciary the financial statements are excluded from the government-wide financial statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

results of operations. The City has one agency fund that accounts for the receipt of a 1% charge on fire insurance companies writing policies within the City limits for the recreational activities of firefighters.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are charges for sales and purchases of goods and services between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expense generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste Fund are charges to customers for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City has defined cash and cash equivalents to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City's cash and investment objectives are preservation of capital, liquidity and yield. To assist in achieving these objectives, the City maintains a cash and investment pool that is available for use by the other funds. Investment earnings are allocated to each fund based on their average cash balances.

State statutes authorize the City to invest in obligations of or obligations guaranteed by the U.S. Government and agencies or corporations of the U.S. Government; obligations of any state; obligations of any political subdivision of any state; certificates of deposit or time deposits of any national state bank or savings and loan which have deposits insured by the FDIC or FSLIC; prime bankers acceptances; repurchase agreements; and the Local Government Investment Pool ("Pool") of the State of South Carolina. The City during the year invested funds in the Pool. The Pool is managed by the South Carolina State Treasurer's Office under South Carolina Code, Section 6-6-10. The pool operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The fair value of the City's position in the pool is the same as the value of pool shares (\$1 per share value).

The City has no custodial credit risk policy that would require additional collateral requirements.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

2. Receivables and Payables

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes, grants and other similar intergovernmental revenues, business licenses, and local hospitality taxes since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual. Accounts receivable comprise the majority of proprietary fund receivables. Trade receivables are shown net of an allowance for uncollectible.

Property taxes are levied each fall on the assessed valuation of property located in the City as of the preceding January 1. The books are open to collection on September 1. The first penalty, calculated at 15 percent, is applicable to payments made after the original January 15th property tax due date. Property taxes attach as an enforceable lien on January 1st and are considered delinquent if not paid by March 15th.

The City's operating tax rate is currently 52.8 mills. The County of Beaufort bills and collects the City's property taxes.

3. Inventories and Prepaid Assets

Inventories, which consist of fuel for vehicles and equipment, are valued using a weighted average method. Inventories of the governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Certain General fund monies are classified as restricted assets on the balance sheet because their use is limited by state law for the victim assistance program, an intergovernmental agreement under a service agreement with the South Carolina Electric and Gas Company, and public donations for the refurbishment of a historic fire engine. The Parks and Tourism fund monies are classified as restricted assets on the balance sheet because proceeds of the hospitality tax must be kept in a separate fund and must be used exclusively for tourism related purposes. Other special revenue fund monies are restricted under federal and state drug forfeiture laws that restrict their use to law enforcement purposes. The Capital Project fund and the Debt Service funds monies are classified as restricted assets because the proceeds of the tax increment financing bonds and general obligation bonds are restricted for the construction of the municipal center, as well as principal, and interest payments to service the debt. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

5. Capital Assets

Capital assets are assets, which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund financial statements.

All capital assets are valued at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are valued at their fair market value as of the date donated. Public domain ("infrastructure) capital assets acquired prior to July 1, 2002, consisting of roads, bridges, curbs, gutters, streets, and sidewalks, drainage systems, and lighting systems that were acquired or that received substantial improvements subsequent to July 1, 1980, are reported at estimated historical cost using deflated replacement cost. The City maintains a capitalization threshold of five thousand dollars (\$5,000). Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure.....	15 - 40 years
Building and improvements.....	20 - 40 years
Machinery and equipment.....	3 - 10 years
Vehicles.....	5 years

6. Compensated Absences

The City accrues accumulated vacation and sick leave and associated employee-related costs for employees by a prescribed formula based on length of service. Vacation pay, which may be accumulated up to 360 hours, is payable upon separation of employment based on their hourly rate of pay earned at the time of termination or retirement.

Sick leave accrues at a rate of 96 hours annually with no limit on the maximum number of hours accumulated. Accumulated sick leave in excess of 800 hours is paid to employee annually at December 31st of each year at a rate of twenty percent (20%) of the cash value of the excess. In addition, upon death or retirement due to disability, age or service, one-fifth of the unused accumulated sick leave balance will be paid to the employee or their estate, up to an amount equal to the regular salary for two (2) calendar months. No payment will be made for accumulated sick leave for voluntary or involuntary separation other than retirement or death.

The entire compensated absences liability and expense is reported on the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

7. Long-term Obligations

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or business-type activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Equity Classifications

Equity is classified as net assets and displayed in three components in the government-wide financial statements.

- *Invested in capital assets, net of related debt* consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- *Restricted net assets* consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from these estimates.

Note 2 – Stewardship, Compliance, and Accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the following funds that do not have legally adopted budgets:

Special Revenue Funds - Police Lab and Equipment Fund and Drug Seizure Fund

Capital Projects Fund - Project-length budgets are adopted for all capital projects.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Permanent Fund – Evergreen Cemetery Fund.

All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e. the level at which expenditures may not exceed appropriations) is the fund level.

B. Fund Balance Deficit

At June 30, 2008, the City had a deficit fund balance of \$7,717 in the Accommodation Tax Fund. The deficit results from the reconciliation of the 60-day revenues that created a year-end accrual to the Beaufort Regional Chamber of Commerce. The deficit will be funded by subsequent period tax revenues.

Note 3 – Detailed Notes on Funds and Activities

A. Deposits and investments

As of June 30, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
South Carolina Government Investment Pool	\$ 1,333,796	less than 60 days
Total fair value	<u>\$ 1,333,796</u>	

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City has no investment policy that would further limit its investment choices from those authorized and listed in Note 1.D.1. The City's investment in the State's Local Investment Pool is not rated.

Concentration of credit risk is the risk of loss attributable to the magnitude of the City's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The State Local Investment Pool investments are excluded from concentration of credit risk.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

B. Accounts Receivable

Receivables as of year-end for the government's individual major funds and non-major funds in the aggregate including the applicable allowance for uncollectible accounts are as follows:

Receivable	General	Parks and Tourism Fund	Capital Project Funds	Nonmajor Governmental	Solid Waste Fund	Total
Taxes.....	\$ 33,950	\$ -	\$ -	\$ -	\$ -	\$ 33,950
Accounts.....	508,672	2,113	67,759	6,180	44,719	629,443
Intergovernmental.....	-	-	-	837,190	-	837,190
Gross receivables	<u>542,622</u>	<u>2,113</u>	<u>67,759</u>	<u>843,370</u>	<u>44,719</u>	<u>1,500,583</u>
Less:						
Allowance for uncollectibles.....	-	-	-	-	-	-
Net receivables.....	<u>\$ 542,622</u>	<u>\$ 2,113</u>	<u>\$ 67,759</u>	<u>\$ 843,370</u>	<u>\$ 44,719</u>	<u>\$ 1,500,583</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

C. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<i>Non-Depreciable Assets:</i>				
Land.....	\$ 3,291,540	\$ 426,612	\$ 332	\$ 3,717,820
Construction in progress.....	943,643	5,323,092	655,490	5,611,245
<i>Depreciable Assets:</i>				
Buildings and improvements.....	3,546,001	-	-	3,546,001
Machinery, equipment and vehicles.....	7,158,269	316,422	1,155,895	6,318,796
Infrastructure.....	16,843,167	229,211	-	17,072,378
Sub-total assets.....	<u>31,782,620</u>	<u>6,295,337</u>	<u>1,811,717</u>	<u>36,266,240</u>
<i>Accumulated Depreciation</i>				
Buildings and improvements.....	(1,191,532)	(383,948)	-	(1,575,480)
Machinery, equipment and vehicles.....	(4,526,537)	(592,743)	(773,800)	(4,345,480)
Infrastructure.....	(2,180,917)	(313,703)	-	(2,494,620)
Sub-total accumulated depreciation.....	<u>(7,898,986)</u>	<u>(1,290,394)</u>	<u>(773,800)</u>	<u>(8,415,580)</u>
Total Governmental Activities.....	<u>23,883,634</u>	<u>5,004,943</u>	<u>1,037,917</u>	<u>27,850,660</u>
Business-Type Activities:				
<i>Non-Depreciable Assets:</i>				
Construction in progress.....	32,763	14,168	46,931	-
<i>Depreciable Assets:</i>				
Machinery, equipment and vehicles.....	282,093	409,938	-	692,031
Sub-total assets.....	<u>314,856</u>	<u>424,106</u>	<u>46,931</u>	<u>692,031</u>
<i>Accumulated Depreciation</i>				
Machinery, equipment and vehicles.....	(82,957)	(193,423)	-	(276,380)
Sub-total accumulated depreciation.....	<u>(82,957)</u>	<u>(193,423)</u>	<u>-</u>	<u>(276,380)</u>
Total Business-Type Activities.....	<u>231,899</u>	<u>230,683</u>	<u>46,931</u>	<u>415,651</u>
Total Capital Assets.....	<u>\$ 24,115,533</u>	<u>\$ 5,235,626</u>	<u>\$ 1,084,848</u>	<u>\$ 28,266,311</u>

Depreciation expense was charged to governmental activities as follows:

General government.....	\$ 122,981
Public safety.....	368,185
Public works.....	799,228
Total depreciation expense.....	<u>\$ 1,290,394</u>

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

D. Interfund transactions and balances

Interfund receivable and payable balances at June 30, 2008 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital project funds	\$ 158,024
General	Nonmajor governmental funds	78,493
General	Solid waste fund	<u>53,185</u>
	Total	<u><u>\$ 289,702</u></u>

These balances represent loans between the borrower fund and the lender fund. These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Interfund receivables and payables are reported in the fund financial statements; however, they are eliminated in the government-wide financial statements if the interfund loan is between governmental funds.

A summary of interfund transfers by fund type is as follows:

	<u>Transfer In:</u>		<u>Total</u>
	<u>General fund</u>	<u>Parks & Tourism fund</u>	
Transfer out:			
General fund	\$ -	\$ 80,000	\$ 80,000
Nonmajor governmental funds	<u>32,252</u>	<u>-</u>	<u>32,252</u>
Total	<u><u>\$ 32,252</u></u>	<u><u>\$ 80,000</u></u>	<u><u>\$ 112,252</u></u>

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

E. Accounts Payable

Payables as of year-end for the government's individual major funds and non-major funds in the aggregate are as follows:

Payables	General	Parks and Tourism Fund	Capital Project Funds	Nonmajor Governmental	Solid Waste Fund	Total
Accounts payable.....	\$ 266,659	\$ 39,646	\$ 60,654	\$ 310,244	\$ 20,597	\$ 697,800
Accrued liabilities.....	264,876	16,272	-	93	11,225	292,466
Contracts payable.....	-	-	1,059,059	-	-	1,059,059
Retainage payable.....	-	-	380,208	-	-	380,208
Total Accounts Payables	\$ 531,535	\$ 55,918	\$ 1,499,921	\$ 310,337	\$ 31,822	\$ 2,429,533

F. Long -term debt

Tax Increment Bonds

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. Tax Increment Bonds ("TIF") are considered a special obligation of the City payable solely from ad valorem taxes generated by improvements to real property within the redevelopment project area. The full faith, credit, and taxing powers of the City are not pledged for the payment of the TIF Bonds nor the interest thereon.

Annual debt service requirements to maturity for Tax Increment Bonds are as follows:

<u>Year Ending June 30,</u>	<u>Prinicipal</u>	<u>Interest</u>
2009	\$ 596,144	\$ 233,068
2010	622,690	204,364
2011	650,475	174,364
2012	679,558	143,007
2013	281,354	74,784
2014 - 2017	2,209,473	265,547
	\$ 5,039,694	\$ 1,095,134

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Details for each debt issue and outstanding as of June 30, 2008 are as follows:

Principal Outstanding at Year-End	
\$ 336,955	Series 1997 - Bonds issued January 29, 1997, in an original amount of \$1,100,000 at a rate of interest of 5.33%. The bond matures January 29, 2012. Interest payments are due July 29th and January 29th of each calendar year. Annual principal payments of \$60,610 began January 29, 1998, and increase in amounts annually until the annual payment reaches \$87,591 in year 2012. The proceeds of these bonds were primarily used to finance the cost of construction of the streetscape improvements within the Downtown Redevelopment Project Area.
572,713	Series 2000 - Bonds issued February 14, 2000, in an original amount of \$1,400,000 at a rate of interest of 5.68%. The bond matures February 14, 2012. Interest payments are due February 14th of each calendar year. Annual principal payments of \$84,551 began February 14, 2001, and increase in amounts annually until the annual payment reaches \$155,252 in year 2012. The proceeds of these bonds were primarily used to finance the cost of construction of the streetscape improvements within the Downtown Redevelopment Project Area.
2,550,280	Series 2002 - Bonds issued June 25, 2002, in an original amount of \$4,000,000 at a rate of interest of 4.83%. The bond matures June 1, 2017. Interest payments are due June 1st of each calendar year. Annual principal payments of \$189,236 began June 1, 2003, and increase in amounts annually until the annual payment reaches \$339,681 in year 2017. The proceeds of these bonds were primarily used to finance the cost of construction of the Municipal Complex.
1,579,746	Series 2004 - Bonds issued December 22, 2004, in an original amount of \$2,000,000 at a rate of interest of 3.76%. The bond matures June 1, 2017. Interest payments are due June 1st of each calendar year. Annual principal payments of \$134,947 began June 1, 2006, and increase in amounts annually until the annual payment reaches \$202,532 in year 2017. The proceeds of these bonds were primarily used to finance the cost of construction of the Municipal Complex.
\$ 5,039,694	Total Tax Increment Bonds

General Obligation Bonds

On October 23, 2007, a Bond referendum was approved to issue \$15 million in General Obligation Bonds. On June 11, 2008, the City issued \$15 million of general obligation bonds at interest rates ranging from 3.5% to 5.0%. The bonds mature on February 1, 2028. Interest payments are due on February 1 and August 1 of each calendar year. The proceeds of these bonds are restricted for the construction of the Municipal Complex, which includes a Police and Court Building as well as a new City Hall and addition to the Central Fire Station.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

An annual debt service requirement to maturity for the general obligation bond is as follows:

<u>Year Ending June 30,</u>	<u>Prinicipal</u>	<u>Interest</u>
2009	\$ -	\$ 388,630
2010	550,000	608,290
2011	575,000	589,040
2012	595,000	568,915
2013	615,000	548,090
2014 - 2018	3,415,000	2,384,975
2019 - 2023	4,140,000	1,592,000
2024 - 2028	5,110,000	675,198
	<u>\$ 15,000,000</u>	<u>\$ 7,355,138</u>

Lease Finance Agreement

On May 20, 2005, the City entered into a lease leaseback agreement with a regional bank to finance a portion of the cost of improvements to the City's Waterfront Park (the "property"), consisting of the design, construction and furnishing of equipment and other improvements to the park. Under the agreement, the City leased the property to the bank which deposited \$3,500,000, at an interest rate of 3.83%, as base lease rent into a construction account created under the project lease, which amounts were applied towards payment of the cost of the project. Simultaneously with the delivery of the base lease, the bank leased the property back to the City. In July 2007, the City negotiated a second lease back agreement in the amount of \$1.5 million, at an interest rate of 4.3%, to cover the additional costs related to the construction. The combined annual payments (principal and interest) of \$463,002 are due May 18th through May 18, 2022.

An annual debt service requirement to maturity for the Lease Finance Agreement is as follows:

<u>Year Ending June 30,</u>	<u>Prinicipal</u>	<u>Interest</u>
2009	\$ 289,817	\$ 173,185
2010	301,348	161,653
2011	313,339	149,663
2012	325,809	137,193
2013	338,776	124,226
2014 - 2018	1,907,254	407,698
2019 - 2022	873,472	52,533
	<u>\$ 4,349,815</u>	<u>\$ 1,206,151</u>

Vehicle Note

On December 15, 2007, the City executed a note in the amount of \$197,057 to finance the cost of vehicles for the Police and Planning departments within the General fund a rate of interest of 3.64%. The Annual installments of \$69,489 (principal and interest) are due June 30th through June 30th, 2010.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

An annual debt service requirement to maturity for the Note is as follows:

Year Ending June 30,	Principal	Interest
2009	\$ 64,694	\$ 4,795
2010	67,048	2,442
	\$ 131,742	\$ 7,237

Capital Lease

The City has entered into five capital lease agreements originally totaling \$1,612,021. The proceeds were used to purchase vehicles, heavy equipment, and a fire truck. The interest rates on these five leases range from 2.985% to 3.94%. The leases expire in 2009, 2010, 2011 and 2017.

The assets acquired through capital lease are as follows:

	Governmental Activities	Business-Type Activities
Machinery and Equipment.....	\$ 1,337,895	\$ 426,990
Less: Accumulated depreciation....	(364,364)	(245,152)
Total.....	\$ 973,531	\$ 181,838

The following is a schedule of the future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at June 30, 2008:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2009	\$ 208,293	\$ 46,078
2010	103,470	44,789
2011	105,999	44,120
2012	64,520	33,258
2013	64,594	33,353
2014 - 2017	246,337	50,139
Total minimum lease payments.....	793,213	251,737
Less: amount representing interest.....	(104,158)	(43,980)
Present value of minimum lease payments..	\$ 689,055	\$ 207,757

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Tax Increment Bonds.....	\$ 5,610,473	\$ -	\$ 570,779	\$ 5,039,694	\$ 596,144
General Obligation Bonds.....	-	15,000,000	-	15,000,000	-
Lease Finance Agreement.....	3,139,194	1,500,000	289,379	4,349,815	289,817
Vehicle Note.....	62,168	197,087	127,513	131,742	63,800
Capital lease obligations.....	963,386	-	274,331	689,055	184,141
Claims & Judgments.....	106,606	-	38,549	68,057	39,000
Compensated absences.....	573,088	356,738	346,541	583,285	223,024
Total Governmental Activities.....	<u>\$ 10,454,915</u>	<u>\$ 17,053,825</u>	<u>\$ 1,647,092</u>	<u>\$ 25,861,648</u>	<u>\$ 1,395,926</u>
Business-Type Activities:					
Capital lease obligations.....	\$ 22,199	\$ 274,259	\$ 88,701	\$ 207,757	\$ 35,786
Total Business-Type Activities.....	<u>\$ 22,199</u>	<u>\$ 274,259</u>	<u>\$ 88,701</u>	<u>\$ 207,757</u>	<u>\$ 35,786</u>

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

G. Restricted Assets

The balances of restricted asset accounts in the governmental funds are as follows:

General obligation bond, construction	\$ 15,013,530
Victim Assistance program	473
Intergovernmental service agreement	286,853
Hospitality tax for tourism related purposes	487,888
Law enforcement purposes	60,302
Deposits held in escrow	21,954
	<u>\$ 15,871,000</u>

Note 4 – Other Information

A. Employee Pension and other Benefit Plans

City employees, except fire and police department employees, participate in the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan. The City’s police and fire personnel participate in the South Carolina Police Officers’ Retirement Systems (“SCPORS”), a cost-sharing multiple employer defined benefit pension plan. Total employee salaries for the City for the year ended June 30, 2008 was \$6,772,810 of which \$2,739,214 and \$3,969,324 were for employees covered by the SCRS and the SCPORS, respectively.

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

Both the SCRS and the SCPORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plans' provisions are established under Title 9 of the South Carolina Code of Laws, and therefore, only the State of South Carolina has the authority to establish and amend benefits and funding policy. A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and the SCPORS is issued and publicly available by writing to the South Carolina Retirement System, P.O. Box 11960, Columbia, S.C. 29211-1960.

Both employees and the City are required to contribute to the Plans at rates established under authority of Title 9 of the South Carolina Code of Laws. The City's contributions are actuarially determined, and are communicated to and paid by the City as a percentage of the employees' annual earnings. The City's contributions to the SCRS for employer and employee portions expressed as a dollar amount and as a percentage of covered payroll for the year ended June 30, 2008, were \$252,282 and 9%; and \$176,325 and 6%, respectively, and the contributions to the SCPORS for the employer and employee portions were \$424,718 and 11%; and \$258,006 and 6%, respectively.

The required employee and employer contributions and percentage of amounts contributed for the current year and each of the two preceding years are as follows:

Year Ended June 30,	SCRS		SCPORS	
	Required	% Contributed	Required	% Contributed
2008	\$ 252,282	100%	\$ 424,718	100%
2007	219,679	100%	413,930	100%
2006	195,818	100%	374,149	100%

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers compensation for which the City carries the following insurance coverage's. There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded coverage in any of the past three fiscal years.

SC Insurance Reserve Fund

The City of Beaufort purchases all liability coverage other than employee bonds from the Insurance Reserve Fund of the State of South Carolina. The City is required to pay all premiums, applicable deductibles and assessments billed by SCIRF, as well as following loss reduction and prevention procedures and recommendations established by SCIRF. The Insurance Reserve Fund functions as a governmental insurance operation with a mission to provide insurance designed to meet the needs of governmental entities. It is regulated by State statutes. SCIRF uses consulting actuaries in determining rates and adequacy of loss reserves. Premiums collected by SCIRF are held on deposit with the Office of the State Treasurer where the funds are maintained as the Insurance Reserve Fund Trust Account. By statutory requirement, these funds are used to pay claims and operating expenses of the SCIRF.

Workers' Compensation

Workers' Compensation coverage is maintained through the South Carolina Municipal Insurance Trust (SCMIT) fund, a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The Municipal Association of

City of Beaufort, South Carolina
Notes to the Basic Financial Statements
June 30, 2008

South Carolina administers the program in conformance with standard industry practices. The program is regulated by the SC Worker's Compensation Commission. The City pays an annual premium to SCMIT. The City carries a \$15,000 deductible under the plan. Claims below the deductible are managed by the City. If the City's losses exceed the annual premium, it is assessed an additional amount to fully reimburse the insurer for the losses. If the premium exceeds the losses, the City receives a refund.

Self Insurance

The City pays unemployment claims to the state department of labor on a reimbursement basis. Liabilities for such claims are immaterial and are not accrued.

C. Commitments and Contingencies

The City receives a number of grants that are subject to program compliance audits by the grantors. Noncompliance with the terms and provisions of these grant agreements could result in contingent liabilities to the grantor agencies.

The City is obligated under a consent order of settlement dated September 7, 1999 with the Burton Fire District. The City is required to pay the Fire District \$15,000 annually, plus a provision for future annexations equal to 1.25 times the portion of the property tax revenue collected by the City that the previous years' annual budget of the City fire department bears to the previous years' general fund revenue of the City. The payments which are adjusted annually by the consumer price index are due each July 16th through July 16, 2010. The City paid \$38,539 to the fire district during the fiscal year.

The City is under agreement to provide operational funds to the Historic Beaufort Foundation through fiscal year 2009. The amounts due under this agreement total \$9,735; \$9,375 due in fiscal year 2009. In addition, the City has pledged to provide \$170,000 to the Historic Beaufort Foundation, for the exterior restoration of the Beaufort Arsenal. As of June 30, 2008, the City has provided \$41,000.

The City is under agreement with the Lady's Island/St. Helena Fire District to provide fire protection to certain areas annexed into the City. During FY 2008, the City completed a reconciliation of areas annexed into the City under this agreement and determined that an additional amount was due to the Fire District. For the year ended June 30, 2008, the City incurred expenditures totaling \$111,381 related to this agreement, of which \$71,000 relates to the results of the reconciliation.

Various other claims are pending against the City. The City attorney estimates the potential effects of these claims net of insurance coverage would not be material to in relation to the overall financial statements.

The City has entered into construction contracts on the City's municipal complex and the Bladen Street Streetscape projects. Outstanding construction commitments at June 30, 2008 are as follows:

<u>Capital Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Municipal Complex	\$ 4,011,700	\$ 10,316,001
Bladen Street Streetscape	636,528	230,524

THIS PAGE INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION & ANALYSIS

THIS PAGE INTENTIONALLY LEFT BLANK

**REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MD&A**

Description

Required supplementary information other than MD&A is presented in accordance with GASB Statement No. 34. It contains budget and actual comparison schedules for the City's General fund and major special revenue fund with annual budgets. The notes to the required supplementary information disclose relevant budgetary information.

City of Beaufort, South Carolina
 General Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Final Budget- Positive (Negative)
Revenues:				
Taxes:				
Property taxes.....	\$ 3,310,283	\$ 3,310,283	\$ 3,617,982	\$ 307,699
Franchise fees.....	1,563,116	1,563,116	1,591,321	28,205
Licenses and permits.....	3,794,000	3,794,000	4,112,027	318,027
Intergovernmental.....	524,349	524,349	556,620	32,271
Charges for services.....	1,334,640	1,335,890	1,362,025	26,135
Fines and forfeitures.....	855,100	855,100	726,180	(128,920)
Miscellaneous.....	217,300	217,300	247,962	30,662
Total revenues.....	11,598,788	11,600,038	12,214,117	614,079
Expenditures:				
Current:				
General government:				
City council.....	114,269	114,269	193,660	(79,391)
City manager.....	668,242	645,772	588,530	57,242
Finance department.....	492,134	587,003	577,820	9,183
Court and legal.....	457,208	457,208	444,410	12,798
Planning.....	972,589	932,669	873,338	59,331
Information technology.....	246,979	342,579	322,910	19,669
Non-departmental.....	352,737	253,700	269,818	(16,118)
Public safety:				
Police department.....	3,683,383	3,689,298	3,886,711	(197,413)
School crossing guards.....	46,860	46,860	36,532	10,328
State criminal court.....	350,000	350,000	368,936	(18,936)
Victims' rights.....	54,608	54,608	57,886	(3,278)
School resource officer.....	204,459	204,459	177,550	26,909
Fire department.....	2,007,772	2,009,022	1,866,692	142,330
Port Royal fire department.....	534,663	534,663	503,237	31,426
Public service:				
Public works.....	217,401	257,401	240,080	17,321
Street/Parks.....	401,375	401,375	393,171	8,204
Traffic control and building maintenance...	179,911	179,911	153,340	26,571
Maintenance facility.....	63,351	63,351	64,701	(1,350)
Street lighting.....	228,920	168,920	183,640	(14,720)
Debt Service:				
Principal.....	276,427	276,427	291,982	(15,555)
Interest and other charges.....	-	-	45,282	(45,282)
Total expenditures.....	11,553,288	11,569,495	11,540,226	29,269

City of Beaufort, South Carolina
 General Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Final Budget- Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures.....	45,500	30,543	673,891	643,348
Other financing sources (uses):				
Transfers in.....	34,500	34,500	32,252	(2,248)
Transfers out.....	(80,000)	(182,580)	(80,000)	102,580
Capital leases.....	-	-	197,087	197,087
Total other financing sources (uses).....	(45,500)	(148,080)	149,339	297,419
Net Changes in fund balances.....	-	(117,537)	823,230	940,767
Fund balances at beginning of year.....	7,938,898	7,938,898	7,938,898	-
Fund balances at end of year.....	<u>\$ 7,938,898</u>	<u>\$ 7,821,361</u>	<u>\$ 8,762,128</u>	<u>\$ 940,767</u>

City of Beaufort, South Carolina
Parks and Tourism Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Sales and other taxes.....	\$ 1,650,000	\$ 1,650,000	\$ 1,582,273	\$ (67,727)
Licenses and permits.....	113,719	113,719	109,561	(4,158)
Intergovernmental.....	1,000	16,922	3,501	(13,421)
Miscellaneous.....	10,000	10,000	29,629	19,629
Total revenues.....	1,774,719	1,790,641	1,724,964	(65,677)
Expenditures:				
Current:				
General government.....	251,870	256,470	223,457	33,013
Public safety:				
Police department.....	322,637	322,637	276,676	45,961
Fire department.....	180,027	180,027	160,865	19,162
Public service:				
Street department.....	121,600	121,600	96,097	25,503
Marina.....	17,500	17,500	23,279	(5,779)
Parks and trees.....	509,343	591,865	588,055	3,810
Debt Service:				
Principal.....	250,701	250,701	341,790	(91,089)
Interest and other charges.....	121,041	121,041	177,138	(56,097)
Total expenditures.....	1,774,719	1,861,841	1,887,357	(25,516)
Excess (deficiency) of revenues over (under) expenditures.....	-	(71,200)	(162,393)	(91,193)
Other financing sources (uses):				
Transfers in.....	-	-	80,000	80,000
Total other financing sources (uses).....	-	-	80,000	80,000
Net Changes in fund balances.....	-	(71,200)	(82,393)	(11,193)
Fund balances at beginning of year.....	1,090,278	1,090,278	1,090,278	-
Fund balances at end of year.....	\$ 1,090,278	\$ 1,019,078	\$ 1,007,885	\$ (11,193)

BUDGETARY INFORMATION

I. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The level of legal budgetary control (the level at which expenditures may not exceed appropriations) is at the fund level.

Supplemental appropriations and decreases in budget appropriations were properly approved by the City Council. For the year ended June 30, 2008, the following supplemental appropriation was approved:

<u>Fund Type</u>	<u>Original Appropriation</u>	<u>Supplemental Appropriation</u>	<u>Supplemental Decreases</u>	<u>Final Appropriation</u>
General Fund	\$ 11,633,288	\$ 396,566	\$ 277,779	\$ 11,752,075
Parks and Tourism Fund	1,774,719	87,122	-	1,861,841

II. Excess of expenditures over appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations in the Parks and Tourism fund by \$11,193. These over expenditures were funded by available fund balance.

THIS PAGE INTENTIONALLY LEFT BLANK

**SUPPLEMENTARY DATA – FUND SCHEDULES AND
STATE MANDATED SCHEDULES**

THIS PAGE INTENTIONALLY LEFT BLANK

NONMAJOR FUNDS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditures for specified purposes.

The Accommodations Tax Fund - This fund was established to account for the 2% sales tax from transient room rentals. The expenditures of these funds are restricted to tourist related activities.

The Urban Development Action Grant Fund – To account for funds received from Alcoa, South Carolina, Inc. relating to an Urban Development Action Grant project completed in 1985.

The Police Lab and Equipment Fund – To account for funds contributed by citizens and businesses used primarily to support the Police Movie Club and other activities sponsored by the Police Department.

The Drug Seizure Fund - To account for monies seized during drug related arrests and provided by the Federal and State Courts. These funds are to be used for drug prevention and education.

Stormwater Utility Fund - To account for proceeds received under a special property tax assessment, restricted for making storm water drainage improvements.

DEBT SERVICE FUND:

The Tax Increment Financing Bond I Fund - To account for unspent proceeds of the Tax Increment Financing Bond I debt issue and receipt of property tax proceeds generated in the TIF 1 district. These funds are restricted for principal and interest payments on the TIF 1 bond issue and capital improvement projects in the TIF district.

The Tax Increment Financing Bond II Fund – To account for unspent proceeds of the Tax Increment Financing Bond II debt issue and receipt of property tax proceeds generated in the TIF II district. These funds are restricted for principal and interest payments on the TIF II bond issue and capital improvement projects in the TIF district.

PERMANENT FUND:

The Evergreen Cemetery Fund – To account for the interest earned on contributions from individuals used to help defray the cost of maintenance at the Evergreen Cemetery .

City of Beaufort, South Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Funds				
	Accommodations Tax Fund	Urban Development Action Grant Fund	Police Lab and Equipment Fund	Drug Seizure Fund	Storm Water Utility Fund
Assets					
Cash and investments.....	\$ 11,196	\$ 373,681	\$ 6,792	\$ 13,430	\$ 170,444
Receivables.....	95,477	741,713	-	-	6,180
Restricted cash and investments....	-	-	-	60,302	-
Total assets.....	\$ 106,673	\$ 1,115,394	\$ 6,792	\$ 73,732	\$ 176,624
Liabilities and fund balances					
Liabilities					
Accounts payable.....	\$ 109,616	\$ 142,490	\$ -	\$ -	\$ 4,252
Due to other funds.....	4,774	-	-	-	73,719
Deferred revenue.....	-	-	-	-	-
Total liabilities.....	114,390	142,490	-	-	77,971
Fund balances:					
Reserved for:					
Debt service.....	-	-	-	-	-
Perpetual care.....	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds.....	(7,717)	972,904	6,792	73,732	98,653
Total fund balances	(7,717)	972,904	6,792	73,732	98,653
Total liabilities and fund balances	\$ 106,673	\$ 1,115,394	\$ 6,792	\$ 73,732	\$ 176,624

Debt Service Funds		Permanent Fund	
Tax Increment Financing Bond I Debt Service Fund	Tax Increment Financing Bond II Debt Service Fund	Evergreen Cemetery Fund	Total Governmental Funds
\$ 1,286,641	\$ 1,792,890	\$ 16,173	\$ 3,671,247
-	-	-	843,370
		-	60,302
<u>\$ 1,286,641</u>	<u>\$ 1,792,890</u>	<u>\$ 16,173</u>	<u>\$ 4,574,919</u>
\$ 8,979	\$ 45,000	\$ -	\$ 310,337
-	-	-	78,493
5,562	12,978	-	18,540
<u>14,541</u>	<u>57,978</u>	<u>-</u>	<u>407,370</u>
1,272,100	1,734,912	-	3,007,012
-	-	16,173	16,173
-	-	-	1,144,364
-	-	-	
<u>1,272,100</u>	<u>1,734,912</u>	<u>16,173</u>	<u>4,167,549</u>
<u>\$ 1,286,641</u>	<u>\$ 1,792,890</u>	<u>\$ 16,173</u>	<u>\$ 4,574,919</u>

City of Beaufort, South Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds				
	Accommodations Tax Fund	Urban Development Action Grant Fund	Police Lab and Equipment Fund	Drug Seizure Fund	Storm Water Utility Fund
Revenues:					
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 309,121
Intergovernmental.....	256,641	741,713	-	-	-
Fines and forfeitures.....	-	-	-	15,287	-
Miscellaneous.....	2,924	52,143	10,740	1,670	1,613
Total revenues.....	259,565	793,856	10,740	16,957	310,734
Expenditures:					
Current:					
General government.....	-	-	-	-	-
Public safety.....	-	-	7,429	-	-
Public service.....	299,463	876,026	-	1,413	184,815
Debt Service:					
Principal.....	-	-	-	-	57,451
Interest and other charges.....	-	-	-	-	4,764
Total expenditures.....	299,463	876,026	7,429	1,413	247,030
Excess (deficiency) of revenues over (under) expenditures.....	(39,898)	(82,170)	3,311	15,544	63,704
Other financing sources (uses):					
Transfers out.....	(32,252)	-	-	-	-
Total other financing sources (uses).....	(32,252)	-	-	-	-
Net Changes in fund balances.....	(72,150)	(82,170)	3,311	15,544	63,704
Fund balances at beginning of year.....	64,433	1,055,074	3,481	58,188	34,949
Fund balances at end of year.....	\$ (7,717)	\$ 972,904	\$ 6,792	\$ 73,732	\$ 98,653

Debt Service Fund		Permanent Fund	
Tax Increment Financing Bond I Debt Service Fund	Tax Increment Financing Bond II Debt Service Fund	Evergreen Cemetery Fund	Total Governmental Funds
\$ 239,233	\$ 595,091	\$ -	\$ 1,143,445
-	-	-	998,354
-	-	-	15,287
38,393	23,601	600	131,684
<u>277,626</u>	<u>618,692</u>	<u>600</u>	<u>2,288,770</u>
-	63,956	-	63,956
-	-	-	7,429
4,641	-	-	1,366,358
203,315	367,464	-	628,230
70,742	198,822	-	274,328
<u>278,698</u>	<u>630,242</u>	<u>-</u>	<u>2,340,301</u>
<u>(1,072)</u>	<u>(11,550)</u>	<u>600</u>	<u>(51,531)</u>
-	-	-	(32,252)
-	-	-	(32,252)
(1,072)	(11,550)	600	(83,783)
1,273,172	1,746,462	15,573	4,251,332
<u>\$ 1,272,100</u>	<u>\$ 1,734,912</u>	<u>\$ 16,173</u>	<u>\$ 4,167,549</u>

City of Beaufort, South Carolina
Accommodations Tax Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual
For the year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental.....	\$ 215,000	\$ 215,000	\$ 256,641	\$ 41,641
Miscellaneous.....	3,000	3,000	2,924	(76)
Total revenues.....	<u>218,000</u>	<u>218,000</u>	<u>259,565</u>	<u>41,565</u>
Expenditures:				
Current:				
Public service:				
Tourism Development Advisory				
Committee.....	126,500	126,500	207,604	(81,104)
Beaufort Chamber of Commerce.....	57,000	57,000	91,859	(34,859)
Total expenditures.....	<u>183,500</u>	<u>183,500</u>	<u>299,463</u>	<u>(115,963)</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>34,500</u>	<u>34,500</u>	<u>(39,898)</u>	<u>(74,398)</u>
Other financing sources (uses):				
Transfers out.....	(34,500)	(34,500)	(32,252)	2,248
Total other financing sources (uses).....	<u>(34,500)</u>	<u>(34,500)</u>	<u>(32,252)</u>	<u>2,248</u>
Net Changes in fund balances.....	-	-	(72,150)	(72,150)
Fund balances at beginning of year.....	64,433	64,433	64,433	-
Fund balances at end of year.....	<u>\$ 64,433</u>	<u>\$ 64,433</u>	<u>\$ (7,717)</u>	<u>\$ (72,150)</u>

City of Beaufort, South Carolina
Urban Development Action Grant Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Final Budget- Positive (Negative)
Revenues:				
Intergovernmental.....	\$ 1,000,000	\$ 1,000,000	\$ 741,713	\$ (258,287)
Miscellaneous.....	24,400	24,400	52,143	27,743
Total revenues.....	<u>1,024,400</u>	<u>1,024,400</u>	<u>793,856</u>	<u>(230,544)</u>
Expenditures:				
Current:				
Public service:				
Project repair.....	1,090,000	1,090,000	866,026	223,974
World changers project.....	-	-	10,000	(10,000)
Demolition.....	2,000	2,000	-	2,000
Contingency.....	22,400	22,400	-	22,400
Total expenditures.....	<u>1,114,400</u>	<u>1,114,400</u>	<u>876,026</u>	<u>238,374</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(90,000)</u>	<u>(90,000)</u>	<u>(82,170)</u>	<u>7,830</u>
Net Changes in fund balances.....	(90,000)	(90,000)	(82,170)	7,830
Fund balances at beginning of year.....	1,055,074	1,055,074	1,055,074	-
Fund balances at end of year.....	<u>\$ 965,074</u>	<u>\$ 965,074</u>	<u>\$ 972,904</u>	<u>\$ 7,830</u>

City of Beaufort, South Carolina
Stormwater Utility Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Stormwater utility fees.....	\$ 290,000	\$ 290,000	\$ 309,121	\$ 19,121
Miscellaneous.....	-	-	1,613	1,613
Total revenues.....	<u>290,000</u>	<u>290,000</u>	<u>310,734</u>	<u>20,734</u>
Expenditures:				
Current:				
Public service:				
Storm Water Utility.....	251,488	251,488	184,815	66,673
Debt Service:				
Principal.....	37,300	37,300	57,451	(20,151)
Interest and other charges.....	1,212	1,212	4,764	(3,552)
Total expenditures.....	<u>290,000</u>	<u>290,000</u>	<u>247,030</u>	<u>42,970</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>-</u>	<u>-</u>	<u>63,704</u>	<u>63,704</u>
Net Changes in fund balances.....	-	-	63,704	63,704
Fund balances at beginning of year.....	<u>34,949</u>	<u>34,949</u>	<u>34,949</u>	<u>-</u>
Fund balances at end of year.....	<u>\$ 34,949</u>	<u>\$ 34,949</u>	<u>\$ 98,653</u>	<u>\$ 63,704</u>

City of Beaufort, South Carolina
Tax Increment Financing Bond I Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes.....	\$ 610,000	\$ 610,000	\$ 239,233	\$ (370,767)
Investment income.....	25,000	25,000	38,393	13,393
Total revenues.....	635,000	635,000	277,626	(357,374)
Expenditures:				
Current:				
Public service.....	369,923	369,923	4,641	365,282
Debt Service:				
Principal.....	203,315	203,315	203,315	-
Interest and other charges.....	61,762	61,762	70,742	(8,980)
Total expenditures.....	635,000	635,000	278,698	356,302
Excess (deficiency) of revenues over (under) expenditures.....	-	-	(1,072)	(1,072)
Net Changes in fund balances.....	-	-	(1,072)	(1,072)
Fund balances at beginning of year.....	1,273,172	1,273,172	1,273,172	-
Fund balances at end of year.....	\$ 1,273,172	\$ 1,273,172	\$ 1,272,100	\$ (1,072)

City of Beaufort, South Carolina
Tax Increment Financing Bond II Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes.....	\$ 1,002,000	\$ 1,002,000	\$ 595,091	\$ (406,909)
Investment income.....	-	-	23,601	23,601
Total revenues.....	1,002,000	1,002,000	618,692	(383,308)
Expenditures:				
Current:				
General government.....	100,000	100,000	63,956	36,044
Debt Service:				
Principal.....	367,529	367,529	367,464	65
Interest and other charges.....	198,758	198,758	198,822	(64)
Total expenditures.....	666,287	666,287	630,242	36,045
Excess (deficiency) of revenues over (under) expenditures.....	335,713	335,713	(11,550)	(347,263)
Net Changes in fund balances.....	335,713	335,713	(11,550)	(347,263)
Fund balances at beginning of year.....	1,746,462	1,746,462	1,746,462	-
Fund balances at end of year.....	\$ 2,082,175	\$ 2,082,175	\$ 1,734,912	\$ (347,263)

FIDUCIARY FUNDS

AGENCY FUND:

The Trustee Fire Fund - To account for receipts received from the State administration plan to provide recreational activities for firefighters. Monies are generated by a 1% charge against fire insurance companies writing policies within the City limits.

City of Beaufort, South Carolina
Statement of Changes in Assets and Liabilities – Agency Fund
For the Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Assets				
Cash and investments.....	\$ 286,342	\$ 67,572	\$ 313,632	\$ 40,282
Total assets.....	\$ 286,342	\$ 67,572	\$ 313,632	\$ 40,282
Liabilities				
Due to others.....	\$ 286,342	\$ 67,572	\$ 313,632	\$ 40,282
Total liabilities.....	\$ 286,342	\$ 67,572	\$ 313,632	\$ 40,282

STATE MANDATED SCHEDULE

City of Beaufort, South Carolina
 Schedule of Municipal Fines, Assessments and Surcharges
 For the Year Ended June 30, 2008

Court fines	
Court fines collected	\$ 283,210
Court fines retained	<u>(283,210)</u>
Court fines remitted to State Treasurer	<u><u>\$ -</u></u>
Court assessments	
Court assessments collected	\$ 401,808
Court assessments retained by City	<u>(32,871)</u>
Court assessments remitted to State Treasurer	<u><u>\$ 368,937</u></u>
Court surcharges	
Court surcharges collected	\$ 12,519
Court surcharges retained	<u>(12,519)</u>
Court surcharges remitted to State Treasurer	<u><u>\$ -</u></u>
Funds restricted for victims services	
Funds restricted for victims services, beginning of year	\$ 12,969
Court assessments allocated to victims services	32,871
Court surcharges allocated to victims services	12,519
Victim services expenditures	<u>(57,886)</u>
Funds restricted to victims services, end of year	<u><u>\$ 473</u></u>

STATISTICAL SECTION

This part of the City of Beaufort's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	G-2
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	G-8
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	G-13
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	G-17
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	G-19
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

City of Beaufort, South Carolina
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 10,919,840	\$ 11,270,519	\$ 13,980,588	\$ 16,184,497	\$ 17,833,449	\$ 17,798,882
Restricted	863,009	1,059,558	1,622,228	2,137,979	3,083,990	564,836
Unrestricted	8,927,631	9,755,757	8,874,585	8,074,358	8,086,841	11,517,247
Total governmental activities net assets	<u>\$ 20,710,480</u>	<u>\$ 22,085,834</u>	<u>\$ 24,477,401</u>	<u>\$ 26,396,834</u>	<u>\$ 29,004,280</u>	<u>\$ 29,880,965</u>
Business-type activities ³						
Invested in capital assets, net of related debt	\$ -	\$ -	\$ 197,827	\$ 55,369	\$ 99,977	\$ 207,894
Unrestricted	-	-	(52,450)	133,585	148,734	(40,157)
Total business-type activities net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,377</u>	<u>\$ 188,954</u>	<u>\$ 248,711</u>	<u>\$ 167,737</u>
Primary Government						
Invested in capital assets, net of related debt	\$ 10,919,840	\$ 11,270,519	\$ 14,178,415	\$ 16,239,866	\$ 17,933,426	\$ 18,006,776
Restricted	863,009	1,059,558	1,622,228	2,137,979	3,083,990	564,836
Unrestricted	8,927,631	9,755,757	8,822,135	8,207,943	8,235,575	11,477,090
Total primary government net assets	<u>\$ 20,710,480</u>	<u>\$ 22,085,834</u>	<u>\$ 24,622,778</u>	<u>\$ 26,585,788</u>	<u>\$ 29,252,991</u>	<u>\$ 30,048,702</u>

Notes: ¹ The City of Beaufort implemented GASB 34 for the fiscal year ended June 30, 2003.

² Information prior to the implementation of GASB 34 is not available.

³ The City did not have any business type activities prior to fiscal year June 30, 2005.

City of Beaufort, South Carolina
Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	\$ 2,681,118	\$ 2,726,000	\$ 2,421,356	\$ 2,614,245	\$ 3,168,904	\$ 3,663,029
Public safety	6,259,869	6,228,307	6,558,737	7,122,843	7,268,743	7,534,013
Public works	2,455,678	2,860,334	3,392,079	3,132,219	3,138,718	3,783,759
Interest on long-term debt	358,269	325,051	346,181	421,287	445,493	537,830
Total governmental activities expenses	<u>11,754,934</u>	<u>12,139,692</u>	<u>12,718,353</u>	<u>13,290,594</u>	<u>14,021,858</u>	<u>15,518,631</u>
Business-type activities:						
Recycling	-	-	97,708	182,311	182,500	1,034,216
Total business-type activities expense	<u>-</u>	<u>-</u>	<u>97,708</u>	<u>182,311</u>	<u>182,500</u>	<u>1,034,216</u>
Total primary government expenses	<u>\$ 11,754,934</u>	<u>\$ 12,139,692</u>	<u>\$ 12,816,061</u>	<u>\$ 13,472,905</u>	<u>\$ 14,204,358</u>	<u>\$ 16,552,847</u>
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 194,725	\$ 205,103	\$ 308,722	\$ 350,639	\$ 3,900,123	\$ 4,256,870
Public safety	710,564	816,610	884,564	815,131	1,574,618	1,613,016
Public works	1,745,669	1,769,333	1,743,540	1,819,948	1,882,335	1,263,085
Operating grants and contributions	171,674	186,686	163,225	219,756	484,642	1,315,290
Capital grants and contributions	1,512,816	43,890	-	1,113,692	376,928	200,000
Total governmental activities program revenues	<u>4,335,448</u>	<u>3,021,622</u>	<u>3,100,051</u>	<u>4,319,166</u>	<u>8,218,646</u>	<u>8,648,261</u>
Business-type activities - recycling:						
Charges for services	-	-	169,846	218,228	242,258	863,424
Capital grants and contributions	-	-	73,239	7,660	-	-
Total business type activities program revenues	<u>-</u>	<u>-</u>	<u>243,085</u>	<u>225,888</u>	<u>242,258</u>	<u>863,424</u>
Total primary government program revenues	<u>\$ 4,335,448</u>	<u>\$ 3,021,622</u>	<u>\$ 3,343,136</u>	<u>\$ 4,545,054</u>	<u>\$ 8,460,904</u>	<u>\$ 9,511,685</u>
Net (Expense)/Revenue						
Governmental activities	\$ (7,419,486)	\$ (9,118,070)	\$ (9,618,302)	\$ (8,971,428)	\$ (5,803,212)	\$ (6,870,370)
Business-type activities	-	-	145,377	43,577	59,758	(170,792)
Total primary government net expense	<u>\$ (7,419,486)</u>	<u>\$ (9,118,070)</u>	<u>\$ (9,472,925)</u>	<u>\$ (8,927,851)</u>	<u>\$ (5,743,454)</u>	<u>\$ (7,041,162)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes	\$ 7,991,671	\$ 8,625,818	\$ 9,869,486	\$ 10,231,550	\$ 6,156,980	\$ 5,561,557
Grants and contributions not restricted to specific programs	333,775	336,681	350,664	354,945	-	-
Franchise Fees	1,488,525	1,584,643	1,581,750	1,560,729	1,567,576	1,591,321
Gain/(loss) on sale of capital asset	-	(164,337)	10,108	(1,886,214)	-	-
Investment Income	162,549	110,619	197,861	629,851	640,115	494,489
Miscellaneous	33,080	-	-	-	73,025	188,436
Transfers	-	-	-	-	-	(88,748)
Total governmental activities	<u>10,009,600</u>	<u>10,493,424</u>	<u>12,009,869</u>	<u>10,890,861</u>	<u>8,437,696</u>	<u>7,747,055</u>
Business-type activities - recycling:						
Miscellaneous income	-	-	-	-	-	-
Transfers	-	-	-	-	-	88,748
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,748</u>
Total primary government	<u>\$ 10,009,600</u>	<u>\$ 10,493,424</u>	<u>\$ 12,009,869</u>	<u>\$ 10,890,861</u>	<u>\$ 8,437,696</u>	<u>\$ 7,835,803</u>
Change in Net Assets						
Governmental activities	\$ 2,590,114	\$ 1,375,354	\$ 2,391,567	\$ 1,919,433	\$ 2,634,484	\$ 876,685
Business-type activities	-	-	145,377	43,577	59,758	(80,974)
Total primary government	<u>\$ 2,590,114</u>	<u>\$ 1,375,354</u>	<u>\$ 2,536,944</u>	<u>\$ 1,963,010</u>	<u>\$ 2,694,242</u>	<u>\$ 795,711</u>

Notes: ¹ The City of Beaufort implemented GASB 34 for the fiscal year ended June 30, 2003.

² Information prior to the implementation of GASB 34 is not available.

City of Beaufort, South Carolina
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ending June 30,				
	1999	2000	2001	2002	2003
General Fund					
Reserved	\$ 801,390	\$ 2,801,956	\$ 2,839,716	\$ 1,931,997	\$ 461,874
Unreserved	1,169,438	2,162,231	2,630,205	2,666,804	3,446,796
Total general fund	<u>\$ 1,970,828</u>	<u>\$ 4,964,187</u>	<u>\$ 5,469,921</u>	<u>\$ 4,598,801</u>	<u>\$ 3,908,670</u>
All Other Governmental Funds					
Reserved	\$ 120,859	\$ 223,579	\$ 1,075,396	\$ 1,136,922	\$ 1,618,553
Unreserved, reported in:					
Special revenue funds	1,203,034	1,432,412	1,025,263	1,312,832	2,563,640
Capital projects fund	52,616	10,096	-	4,001,507	3,001,481
Total all other governmental funds	<u>\$ 1,376,509</u>	<u>\$ 1,666,087</u>	<u>\$ 2,100,659</u>	<u>\$ 6,451,261</u>	<u>\$ 7,183,674</u>

	Fiscal Year Ending June 30,				
	2004	2005	2006	2007	2008
General Fund					
Reserved	\$ 698,004	\$ 1,491,634	\$ 1,831,318	\$ 1,752,335	\$ 2,805,417
Unreserved	4,327,111	4,785,171	4,939,215	6,186,563	5,956,711
Total general fund	<u>\$ 5,025,115</u>	<u>\$ 6,276,805</u>	<u>\$ 6,770,533</u>	<u>\$ 7,938,898</u>	<u>\$ 8,762,128</u>
All Other Governmental Funds					
Reserved	\$ 1,292,601	\$ 2,193,870	\$ 3,160,252	\$ 7,470,422	\$ 7,427,873
Unreserved, reported in:					
Special revenue funds	2,985,898	3,083,441	1,653,815	2,196,364	2,070,737
Capital projects fund	2,647,507	7,680,376	4,325,176	(1,871,799)	9,560,422
Total all other governmental funds	<u>\$ 6,926,006</u>	<u>\$ 12,957,687</u>	<u>\$ 9,139,243</u>	<u>\$ 7,794,987</u>	<u>\$ 19,059,032</u>

Notes: ¹The debt services fund and the permanent fund are considered 100% reserved.

THIS PAGE INTENTIONALLY LEFT BLANK

City of Beaufort, South Carolina
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenues				
Taxes (See page G - 7)	\$ 3,926,550	\$ 5,181,998	\$ 5,531,010	\$ 6,358,572
Licenses and permits	2,013,227	2,284,174	2,787,791	2,821,883
Revenue from other governmental units	657,381	1,663,866	1,116,430	870,026
Charges for services	1,063,683	1,379,143	1,534,432	1,638,836
Fines and fees	444,623	544,864	544,215	656,509
Miscellaneous	117,767	552,610	587,927	139,160
Total revenue	<u>8,223,231</u>	<u>11,606,655</u>	<u>12,101,805</u>	<u>12,484,986</u>
Expenditures				
Current:				
General government	1,195,128	1,334,954	1,593,127	1,956,728
Public safety	4,002,883	4,847,439	5,125,218	5,650,708
Public works	1,833,139	1,962,226	1,992,831	2,329,738
Non-departmental				
Housing and development	-	500,000	-	-
Capital outlay	1,522,001	1,672,679	1,756,217	2,232,086
Debt service:				
Principal	615,330	688,323	596,262	826,575
Interest and other charges	132,631	147,004	208,706	188,470
Total expenditures	<u>9,301,112</u>	<u>11,152,625</u>	<u>11,272,361</u>	<u>13,184,305</u>
Excess (Deficiency) of revenues over (under) expenditures	(1,077,881)	454,030	829,444	(699,319)
Other Financing sources (uses)				
Debt issuance	902,687	1,764,448	115,398	4,172,951
Transfers in	242,776	1,544,737	301,068	208,912
Transfers out	(170,276)	(430,670)	(301,068)	(208,912)
Total other financing sources (uses)	<u>975,187</u>	<u>2,878,515</u>	<u>115,398</u>	<u>4,172,951</u>
Net change in fund balances	<u>\$ (102,694)</u>	<u>\$ 3,332,545</u>	<u>\$ 944,842</u>	<u>\$ 3,473,632</u>
Debt service as a percentage of noncapital expenditures	10.95%	7.77%	8.46%	9.27%

Source: City records

Ending June 30,						
2003	2004	2005	2006	2007	2008	
\$ 6,597,762	\$ 7,054,920	\$ 8,231,121	\$ 8,179,692	\$ 8,355,064	\$ 7,935,021	
2,890,576	3,159,593	3,318,078	3,781,587	3,856,942	4,221,588	
2,205,036	741,215	712,170	1,887,305	1,071,677	1,758,475	
1,732,871	1,759,902	2,104,661	1,827,788	1,861,446	1,362,025	
733,435	825,094	933,004	845,215	732,582	741,467	
185,368	146,659	213,681	657,926	706,412	579,483	
<u>14,345,048</u>	<u>13,687,383</u>	<u>15,512,715</u>	<u>17,179,513</u>	<u>16,584,123</u>	<u>16,598,059</u>	
2,402,988	2,613,573	2,856,979	2,811,478	3,066,948	3,497,947	
5,851,889	5,784,350	6,115,582	6,477,706	7,590,695	7,342,514	
1,835,443	2,146,896	2,161,910	2,591,819	2,946,203	3,108,721	
					63,956	
-	-	-	-	-	-	
3,808,878	1,380,947	1,671,076	7,149,238	3,021,391	5,323,092	
450,097	931,199	810,348	1,295,662	1,044,779	1,262,002	
171,817	492,052	89,322	485,754	437,603	607,639	
<u>14,521,112</u>	<u>13,349,017</u>	<u>13,705,217</u>	<u>20,811,657</u>	<u>18,107,619</u>	<u>21,205,871</u>	
(176,064)	338,366	1,807,498	(3,632,144)	(1,523,496)	(4,607,812)	
146,638	520,410	5,781,873	307,428	1,173,277	16,697,087	
1,517,159	82,332	37,464	1,633,242	616,644	112,252	
(1,517,159)	(82,332)	(37,464)	(1,633,242)	(616,644)	(112,252)	
<u>146,638</u>	<u>520,410</u>	<u>5,781,873</u>	<u>307,428</u>	<u>1,173,277</u>	<u>16,697,087</u>	
<u>\$ (29,426)</u>	<u>\$ 858,776</u>	<u>\$ 7,589,371</u>	<u>\$ (3,324,716)</u>	<u>\$ (350,219)</u>	<u>\$ 12,089,275</u>	
5.81%	11.89%	7.48%	13.04%	10.83%	12.01%	

City of Beaufort, South Carolina
Schedule of Tax Revenues and Franchise Fees
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year Ending June 30,	Property Tax	Utility Tax ²	Hospitality and Accommodations Taxes	Franchise Fees	Annual Totals
1999	\$ 2,540,824	\$ -	\$ 629,383	\$ 756,343	\$ 3,926,550
2000	2,981,182	-	1,129,945	1,070,871	5,181,998
2001	3,124,075	-	1,200,351	1,206,584	5,531,010
2002	3,433,315	222,634	1,306,073	1,396,550	6,358,572
2003	3,606,387	238,116	1,348,794	1,404,465	6,597,762
2004	3,795,547	226,785	1,529,375	1,503,213	7,054,920
2005	4,660,769	315,886	1,762,416	1,492,050	8,231,121
2006	4,564,478	269,745	1,868,649	1,476,820	8,179,692
2007	4,745,640	337,525	1,704,323	1,567,576	8,355,064
2008	4,452,306	309,121	1,582,273	1,591,321	7,935,021

Notes:

¹ Table includes governmental funds

² Utility Tax was not collected prior to fiscal year 2002.

Source:

City records

THIS PAGE INTENTIONALLY LEFT BLANK

City of Beaufort, South Carolina
Assessed Value and Actual Value of Taxable Property
Last Ten Calendar Years

Calendar Year	Real Property		Personal Property		Motor Vehicles	
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value
1999	\$26,251,344	\$ 497,184,545	\$ 5,174,217	\$ 97,996,534	\$ - ¹	\$ - ¹
2000	27,431,218	505,178,969	5,118,276	94,259,227	- ¹	- ¹
2001	27,032,522	458,178,339	6,515,837	110,437,915	- ¹	- ¹
2002	27,701,910	492,916,548	6,493,076	115,535,160	5,679,097	- ¹
2003	28,316,410	537,313,283	6,146,565	116,633,112	6,104,543	- ¹
2004	43,452,696	824,529,336	6,396,868	121,382,694	6,077,100	- ¹
2005	43,473,227	- ¹	6,117,614	- ¹	5,222,938	- ¹
2006	45,164,506	- ¹	6,976,863	- ¹	5,316,129	- ¹
2007	54,774,704	- ¹	6,412,826	- ¹	5,085,093	- ¹
2008	- ¹	- ¹	- ¹	- ¹	- ¹	- ¹

Source: Beaufort County Tax Assessor

Note:

¹ Information is not available

Total			
<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Ratio of Total Assessed To Total Estimated Value</u>	<u>Total Direct Tax Rate</u>
\$ 31,425,561	\$ 595,181,080	5.28%	68.900
32,549,494	599,438,195	5.43%	68.400
33,548,359	568,616,254	5.90%	68.400
39,874,083	608,451,708	6.55%	73.400
40,567,518	653,946,395	6.20%	73.400
55,926,664	945,912,030	5.91%	55.800
54,813,779	- 1	0% 1	55.800
57,457,498	- 1	0% 1	52.800
66,272,623	- 1	0% 1	52.800
- 1	- 1	0% 1	52.800

City of Beaufort, South Carolina
Direct and Overlapping Property Tax Rates
Last Ten Calendar Years
(rate per \$100 of assessed value)

Tax Year	Direct	Overlapping Rates		Total
	City	School District	County	
1999	68.900	108.400	58.300	235.600
2000	68.400	119.800	58.100	246.300
2001	68.400	119.800	56.600	244.800
2002	73.400	129.200	60.000	262.600
2003	73.400	130.400	64.000	267.800
2004	55.800	94.200	48.600	198.600
2005	55.800	96.500	49.600	201.900
2006	52.800	108.700	49.100	210.600
2007	52.800	-	-	52.800
2008	52.800	-	-	52.800

Source: City staff

Note:

¹ Information is not available.

**City of Beaufort, South Carolina
Principal Property Taxpayers
Current Year and Nine years Ago**

Principal Property Taxpayer	2008				1999			
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value		Taxable Assessed Value	Rank	% of Total District Net Assessed Value	
		1	0.00%	1				
		2	0.00%	1				
		3	0.00%	1				
		4	0.00%	1				
		5	0.00%	1				
		6	0.00%	1				
		7	0.00%	1				
		8	0.00%	1				
		9	0.00%	1				
		10	0.00%	1				
					\$ -	1	0.00%	1
					-	2	0.00%	1
					-	3	0.00%	1
					-	4	0.00%	1
					-	5	0.00%	1
					-	6	0.00%	1
					-	7	0.00%	1
					-	8	0.00%	1
					-	9	0.00%	1
					-	10	0.00%	1
Total	\$ -		0.00%		\$ -		0.00%	

Note: 1 - Information is not available.

**City of Beaufort, South Carolina
Property Tax Levies and Collections
Last Ten Calendar Years**

Calendar Year ¹	Total Tax Levy ²	Collected within the Calendar Year of the Levy			Total Collections to Date		
		Amount	Percentage of Levy	Collections for subsequent years	Amount	Percentage of Levy	
1999	\$ 2,196,108	\$ 1,782,115	81.15%	\$ 50,394	\$ 1,832,509	83.44%	
2000	2,392,085	2,089,710	87.36%	146,396	2,236,106	93.48%	
2001	2,338,882	2,015,293	86.16%	118,575	2,133,868	91.23%	
2002	2,585,879	2,090,800	80.85%	233,714	2,324,514	89.89%	
2003	2,764,914	2,345,670	84.84%	135,143	2,480,813	89.72%	
2004	3,653,424	2,399,569	65.68%	118,038	2,517,607	68.91%	
2005	3,614,571	2,622,310	72.55%	147,211	2,769,521	76.62%	
2006	3,908,087	2,642,905	67.63%	50,794	2,693,699	68.93%	
2007	- ³	- ³	- ³	- ³	- ³	- ³	
2008	- ³	- ³	- ³	- ³	- ³	- ³	

Source:

- 1 Taxes are assessed for the calendar year beginning January 1.
- 2 The total tax levy includes real property, commercial, personal property and public utilities. The total tax levy is the original county levy after adjustments for cancelations, releases, errors and additions.
- 3 Information is not available

City of Beaufort, South Carolina
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income ^a	Per Capita ^b
	Capital Leases	General Obligation Bonds	Tax Increment Bonds	Notes Payable, Leases, Bonds and Other	Capital Leases			
1999	\$ 875,995	\$ 621,068	\$ 977,165	\$ 9,437,568	\$ -	\$ 11,911,796	0.00% ³	- ³
2000	866,981	449,921	2,313,281	-	-	3,630,183	0.86%	280
2001	689,085	360,000	2,163,144	-	-	3,212,229	0.75%	256
2002	624,111	295,000	5,759,104	-	-	6,678,215	1.64%	555
2003	557,650	230,000	5,595,547	-	-	6,383,197	1.45%	505
2004	772,034	160,000	5,051,573	-	-	5,983,607	1.31%	493
2005	4,292,821	85,000	6,680,390	-	-	11,058,211	2.33%	917
2006	3,912,964	-	6,157,013	-	-	10,069,977	0.00% ³	828
2007	4,429,024	-	5,610,473	-	22,199	10,061,696	0.00% ³	836
2008	5,170,612	15,000,000	5,039,694	-	207,757	25,418,063	0.00% ³	2,101

Sources: ^a Percentage of Personal Income is calculated by dividing Total Primary Government by the Personal Income found on the Demographic and Economic Statistics (G-15).

^b Per Capita is calculated by dividing Total Primary Government by the Population in thousands found on the Demographic and Economic Statistics (G-15).

Note: ¹ Details regarding the city's outstanding debt can be found in the notes to the financial statements.

² The City sold the water-sewer system to Beaufort Jasper Water & Sewer Authority in FY2000.

³ Subsequent information needed to calculate is not available.

City of Beaufort, South Carolina
Direct and Overlapping Governmental Activities Debt
As of June 30, 2008

	Debt Outstanding	Estimated Percentage Applicable ^a	Estimated Share of Overlapping Debt
Overlapping debt repaid with property taxes:			
Beaufort County, South Carolina:			
General Obligation Bonded Debt	\$ 160,235,000	8.47%	\$ 13,569,410
Capital leases	240,588	8.47%	20,374
Beaufort County School District:			
General Obligation Bonded Debt	292,825,000	19.75%	57,821,859
Overlapping other debt:			
Beaufort County, South Carolina:			
Revenue Bond Debt	62,760,000	8.47%	5,314,795
Subtotal, overlapping debt			76,726,438
City of Beaufort direct debt			25,210,306
Total direct and overlapping debt			\$ 101,936,744

Sources:

Beaufort County Finance Department
Beaufort County School District

Note:

a - Percentage for overlapping debt of the County was estimated by comparing the City's population to the total County estimated population from the U.S. Census Bureau. The percentage for overlapping debt of the School District was estimated by comparing the student population of schools residing within the City limits to the total school population for the 2006-2007 academic year.

City of Beaufort, South Carolina
Ratio of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
As of June 30, 2008

General Bonded Debt Outstanding

Fiscal Year	General Obligation Bonds	Less: Amount Available in Debt Service Fund	Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property ^a	Per Capita ^b
1999	\$ 621,068	\$ -	\$ 621,068	1.91%	\$ - ²
2000	449,921	-	449,921	1.34%	36
2001	360,000	-	360,000	0.90%	30
2002	295,000	-	295,000	0.73%	23
2003	230,000	-	230,000	0.41%	19
2004	160,000	-	160,000	0.29%	13
2005	85,000	-	85,000	0.15%	7
2006	-	-	-	0.00%	-
2007	-	-	-	0.00%	-
2008	15,000,000	-	15,000,000	0.00%	1,240

Sources: ^a Percentage of Actual Taxable Value of Property is calculated by dividing Net General Bonded Debt Outstanding by the Total Taxable Assessed Value found on the Assessed and Estimated Actual Value of Taxable Property (G-8).

^b Per Capita is calculated by dividing Net General Bonded Debt Outstanding by the Population in thousands found on the Demographic and Economic Statistics (G-17).

Note: ¹ Details regarding the city's outstanding debt can be found in the notes to the financial statements.

² Subsequent information needed to calculate is not available.

City of Beaufort, South Carolina
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year				
	1999	2000	2001	2002	2003
Total assessed value of taxable property	\$ 26,251,344	\$ 27,431,218	\$ 27,032,522	\$ 27,701,910	\$ 28,316,410
Less exemptions for bond purposes	-	-	-	-	-
Net assessed value for bond purposes	<u>\$ 26,251,344</u>	<u>\$ 27,431,218</u>	<u>\$ 27,032,522</u>	<u>\$ 27,701,910</u>	<u>\$ 28,316,410</u>
Debt limit percentage	8%	8%	8%	8%	8%
Debt limit	\$ 2,100,108	\$ 2,194,497	\$ 2,162,602	\$ 2,216,153	\$ 2,265,313
Total net debt applicable to limit: General obligation bonds (net of set aside)	<u>856,760</u>	<u>621,068</u>	<u>449,921</u>	<u>360,000</u>	<u>295,000</u>
Legal debt margin	<u>\$ 1,243,348</u>	<u>\$ 1,573,429</u>	<u>\$ 1,712,681</u>	<u>\$ 1,856,153</u>	<u>\$ 1,970,313</u>
Total net debt applicable to the limit as a percentage of debt limit	40.80%	28.30%	20.80%	16.24%	13.02%

	Fiscal Year				
	2004	2005	2006	2007	2008
Total assessed value of taxable property	\$ 43,452,696	\$ 43,473,227	\$ 45,164,506	\$ 54,774,704	\$ - ¹
Less exemptions for bond purposes	-	-	-	-	-
Net assessed value for bond purposes	<u>\$ 43,452,696</u>	<u>\$ 43,473,227</u>	<u>\$ 45,164,506</u>	<u>\$ 54,774,704</u>	<u>\$ -</u>
Debt limit percentage	8%	8%	8%	8%	8%
Debt limit	\$ 3,476,216	\$ 3,477,858	\$ 3,613,160	\$ 4,381,976	\$ -
Total net debt applicable to limit: General obligation bonds (net of set aside)	<u>230,000</u>	<u>160,000</u>	<u>85,000</u>	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 3,246,216</u>	<u>\$ 3,317,858</u>	<u>\$ 3,528,160</u>	<u>\$ 4,381,976</u>	<u>\$ -</u>
Total net debt applicable to the limit as a percentage of debt limit	0.53%	0.37%	0.19%	0.00%	0.00%

Sources: Beaufort County Tax Assessor

Note: ¹ Information is not available

**City of Beaufort, South Carolina
Demographic and Economic Statistics
Last Ten Fiscal Years**

Year	Population in thousands ^a	Personal Income ^b \$	Per Capita Personal Income ^c \$	Unemployment Rate ^d
1999	-	-	31,450	2.1%
2000	12,950	420,253,400	32,452	3.1%
2001	12,564	430,882,380	34,295	3.9%
2002	12,027	408,388,812	33,956	4.2%
2003	12,637	440,171,984	34,832	4.7%
2004	12,136	455,330,584	37,519	4.9%
2005	12,054	473,818,632	39,308	4.8%
2006	12,156	507,196,944	41,724	4.7%
2007	12,029	565,844,160	47,040	4.4%
2008	12,098	-	-	5.1%

Source:

- ^a Obtained from South Carolina Community Profiles
- ^b Personal Income is calculated by multiplying population by per capita personal income
- ^c Bureau of Economic Analysis U.S. Department of Commerce and the Office of Research & Statistics for South Carolina
- ^d Obtained from Real E-State Center

Notes:

- ¹ Not available
- ² Unable to calculate because some information is not available

**City of Beaufort, South Carolina
Principal Employers**

2004			
Employer	Employees	Rank	Percentage of Total County Employment
Beaufort County School District	3,400	1	20.31%
Beaufort Memorial Hospital	1,750	2	10.45%
Beaufort County	1,164	3	6.95%
Marine Corp Recruit Depot (Civilian Personnel)	882	4	5.27%
Marine Corp Air Station (Civilian Personnel)	700	5	4.18%
Hilton Head Medical Center	600	6	3.58%
Wal-Mart Stores	520	7	3.11%
Hilton Head Marriott Golf and Beach Resort	520	8	3.11%
The Westin Resort	450	9	2.69%
Crowne Plaza Resort	430	10	2.57%
	10,416		62.21%

Source: Greater Beaufort-Hilton Head Economic Partnership, Inc Report provided by the Beaufort Regional Chamber of Commerce.

Note: Only the 2004 information was available and it includes employers within the County.

City of Beaufort, South Carolina
Full-time Equivalent City Employees by Function/Program
Last Ten Fiscal Years

Full-time and Part-time City Employees as of June 30,					
<u>Function/Program</u>	1999	2000	2001	2002	2003
General government	33	28	25	21	22
Public safety	82	88	93	97	98
Public works	76	76	31	31	31
Total	191	192	149	149	151

Full-time and Part-time City Employees as of June 30,					
<u>Function/Program</u>	2004	2005	2006	2007	2008
General government	29	33	32	30	37
Public safety	90	90	91	92	99
Public works	32	33	32	38	29
Total	151	156	154	160	165

Source: City Personnel Records

**City of Beaufort, South Carolina
Operating Indicators by Function
Last Ten Fiscal Years**

	Fiscal Year				
	1999	2000	2001	2002	2003
Police:					
Arrests	1,301	1,772	1,634	1,472	1,288
Fire:					
Number of emergency calls	1,360	1,370	1,450	1,437	1,456
Inspections	445	343	357	360	309
Public works:					
Garbage removed (tons)	5,602	6,060	6,358	5,865	5,836
Recycling removed (tons)	357	387	385	320	329
Parks:					
Number of parks	23	23	23	23	23

	Fiscal Year				
	2004	2005	2006	2007	2008
Police:					
Arrests	1,284	1,711	1,488	1,500	1,291
Fire:					
Number of emergency calls	1,494	1,733	1,721	1,712	1,747
Inspections	300	802	536	739	426
Public works:					
Garbage removed (tons)	7,092	5,697	5,735	3,063	5,431
Recycling removed (tons)	318	375	382	240	526
Parks					
Number of parks	26	27	28	28	28

Sources: City records

**City of Beaufort, South Carolina
Capital Asset Statistics by Function
Last Ten Fiscal Years**

	Fiscal Year				
	1999	2000	2001	2002	2003
Police:					
Stations	1	1	1	1	1
Fire:					
Fire stations	2	2	2	2	2
Parks and recreation:					
Parks	23	23	23	23	23

	Fiscal Year				
	2004	2005	2006	2007	2008
Police:					
Stations	1	1	1	1	1
Fire:					
Fire stations	2	2	2	2	2
Parks and recreation:					
Parks	26	27	28	28	28

Sources: City records

THIS PAGE INTENTIONALLY LEFT BLANK

COMPLIANCE

THIS PAGE INTENTIONALLY LEFT BLANK

To the Honorable Mayor and City Council of
City of Beaufort, South Carolina

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Beaufort, South Carolina, as of and for the year ended June 30, 2008, which collectively comprise the City of Beaufort, South Carolina's basic financial statements and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Beaufort, South Carolina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Beaufort, South Carolina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Beaufort, South Carolina's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Beaufort, South Carolina's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Beaufort, South Carolina's financial statements that is more than inconsequential will not be prevented or detected by the City of Beaufort, South Carolina's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Beaufort, South Carolina's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

H-1

To the Honorable Mayor and City Council of
City of Beaufort, South Carolina
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Beaufort, South Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "McAbee Talbert Halliday & Co.".

Spartanburg, South Carolina
September 30, 2008