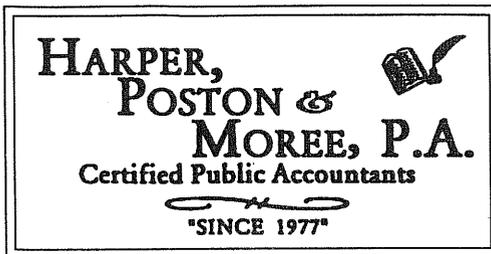

FINANCIAL SECTION



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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and
Members of City Council
City of Georgetown, South Carolina

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 the City of Georgetown, South Carolina, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Georgetown, South Carolina, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2005, on our consideration of the City'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 is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3-12 and 52-56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.

Harper, Poston & Moree, P.A.

Harper, Poston & Moree, P.A.
Certified Public Accountants

Pawleys Island, South Carolina
November 29, 2005

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

Management of the City of Georgetown, South Carolina, offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's **total net assets** increased this year by approximately \$63,000, or less than 1%. This minimal increase was almost entirely attributable to our business-type operations.
- **Unrestricted net assets** totaled approximately \$16.8 million at year-end. This is the excess of the City's assets over its liabilities and may be used to meet ongoing obligations to citizens and creditors.
- **Revenues** of the City totaled approximately \$24.2 million and **expenses** amounted to approximately \$24.1 million.
- The City decreased its **net investment in capital assets** by roughly \$1.8 million during the current year bringing the total book value of capital assets at year-end to approximately \$47.0 million.
- **Long-term debt** did not increase for the current year. Debt service payments on existing debt totaled about \$1.2 million for the year, resulting in a reduction of about \$878,421 to our outstanding principal balance at year-end.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of approximately \$2.8 million, about \$250,000 less than the prior year. **The unreserved, undesignated fund balance of the General Fund increased to \$678,574 at year-end.**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

- **Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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 vacation leave).

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Both of the government-wide financial statements 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*). The governmental activities of the City include general government, public safety, public works, and community development. The business-type activities of the City include electric, water, wastewater, and stormwater utilities in addition to a waste management operation and an historic house museum.

The government-wide financial statements include only the operations of the City itself. There are no legally separate entities for which the City is financially accountable.

The government-wide financial statements can be found on pages 14 and 15 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. A city, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The general fund is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric utility, the water and wastewater utility, and the stormwater drainage utility, each of which is considered to be a major enterprise fund of the City. The City maintains two additional nonmajor enterprise funds. Individual fund data for each of these nonmajor enterprise funds is provided in the form of *combining statements* elsewhere in this report.

The City uses internal service funds to account for fleet services and engineering services. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within *business-type activities* in the government-wide financial statements. The City also uses an internal service fund to account for information technology services that predominantly benefits governmental functions and it has been included within *governmental activities* in the government-wide financial statements.

The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 20-26 of this report.

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

The basic fiduciary fund financial statements can be found on pages 27 and 28 of this report.

- **Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 29-50 of this report.

Other information. In addition to the basic financial statements and accompanying notes, a budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget. This schedule is presented as ***required supplementary information***. Required supplementary information can be found on pages 52-56 of this report.

Other supplementary information is presented immediately following the required supplementary information. This information, which can be found on pages 60-91, includes the combining statements referred to earlier, as well as various individual fund statements and schedules.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Our analysis of government-wide financial information focuses on the net assets (see Table 1) and changes in net assets (see Table 2) of the City's governmental and business-type activities.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's total assets exceeded liabilities by \$54,513,433 at the close of the most recent fiscal year.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table 1

Net Assets

June 30, 2004 and 2005

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 4,891,458	\$ 5,064,735	\$19,236,654	\$19,370,537	\$24,128,112	\$24,435,272
Capital assets	<u>13,318,479</u>	<u>12,313,240</u>	<u>35,562,079</u>	<u>34,698,599</u>	<u>48,880,558</u>	<u>47,011,839</u>
Total assets	<u>\$18,209,937</u>	<u>\$17,377,975</u>	<u>\$54,798,733</u>	<u>\$54,069,136</u>	<u>\$73,008,670</u>	<u>\$71,447,111</u>
Long-term liabilities	\$ 1,685,057	\$ 1,180,139	\$ 9,708,448	\$ 9,361,110	\$11,393,505	\$10,541,249
Other liabilities	<u>1,370,394</u>	<u>1,793,830</u>	<u>5,500,770</u>	<u>4,598,599</u>	<u>6,871,164</u>	<u>6,392,429</u>
Total liabilities	<u>\$ 3,055,451</u>	<u>\$ 2,973,969</u>	<u>\$15,209,218</u>	<u>\$13,959,709</u>	<u>\$18,264,669</u>	<u>\$16,933,678</u>
Net assets						
Invested in capital assets,						
Net of debt	\$11,770,023	\$11,273,063	\$25,937,957	\$25,444,619	\$37,707,980	\$36,717,682
Restricted	663,815	943,759	--	--	663,815	943,759
Unrestricted	<u>2,720,648</u>	<u>2,187,184</u>	<u>13,651,558</u>	<u>14,664,808</u>	<u>16,372,206</u>	<u>16,851,992</u>
Total net assets	<u>\$15,154,486</u>	<u>\$14,404,006</u>	<u>\$39,589,515</u>	<u>\$40,109,427</u>	<u>\$54,744,001</u>	<u>\$54,513,433</u>

The largest portion of total net assets, 67.4%, reflects the City's investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Approximately 2% of net assets represent resources that are subject to external restrictions on how they may be used. *Unrestricted* net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$16,851,992 or 30.9% of total net assets. Unrestricted net assets include amounts that the City has "earmarked" for projects or other uses.

Unrestricted net assets of governmental activities account for 12.9% of total unrestricted net assets and unrestricted net assets of business-type activities account for the remaining 87.1% of total unrestricted net assets.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table 2

Changes in Net Assets

Years Ended June 30, 2004 and 2005

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenues						
Program Revenues						
Charges for services	\$ 2,242,590	\$ 2,457,530	\$ 16,531,057	\$ 17,265,423	\$ 18,773,647	\$ 19,722,953
Operating grants	293,563	239,523	9,859	195,980	303,422	435,503
Capital grants	57,505	2,639	1,996,308	--	2,053,813	2,639
General Revenues						
Property taxes	2,389,205	2,463,781	--	--	2,389,205	2,463,781
Local accommodations						
And hospitality taxes	677,696	676,138	--	--	677,696	676,138
Fees in lieu of taxes	24,203	30,814	--	--	24,203	30,814
Shared revenues	499,105	513,602	--	--	499,105	513,602
Investment earnings	34,465	43,755	155,426	226,634	189,891	270,389
Miscellaneous	<u>21,259</u>	<u>49,102</u>	<u>43,299</u>	<u>13,351</u>	<u>64,558</u>	<u>62,453</u>
Total Revenues	<u>\$ 6,239,591</u>	<u>\$ 6,476,884</u>	<u>\$ 18,735,949</u>	<u>\$ 17,701,388</u>	<u>\$ 24,975,540</u>	<u>\$ 24,178,272</u>
Expenses						
General government	\$ 1,498,845	\$ 2,209,732	\$ --	\$ --	\$ 1,498,845	\$ 2,209,732
Public safety	4,877,911	4,809,497	--	--	4,877,911	4,809,497
Public works	814,141	920,279	--	--	814,141	920,279
Community development	127,422	126,897	--	--	127,422	126,897
Interest on debt	76,930	49,572	--	--	76,930	49,572
Electric utility	--	--	8,658,928	9,349,691	8,658,928	9,349,691
Water utility	--	--	1,739,552	1,741,854	1,739,552	1,741,854
Wastewater utility	--	--	2,466,641	2,707,361	2,466,641	2,707,361
Stormwater utility	--	--	444,378	494,384	444,378	494,384
Waste management	--	--	1,416,304	1,411,961	1,416,304	1,411,961
Kaminski House Museum	--	--	<u>279,542</u>	<u>293,625</u>	<u>279,542</u>	<u>293,625</u>
Total Expenses	<u>\$ 7,395,249</u>	<u>\$ 8,115,977</u>	<u>\$ 15,005,345</u>	<u>\$ 15,998,876</u>	<u>\$ 22,400,594</u>	<u>\$ 24,114,853</u>
Increase (Decrease) in Net Assets before Transfers	\$ (1,155,658)	\$ (1,639,093)	\$ 3,730,604	\$ 1,702,512	\$ 2,574,946	\$ 63,419
Transfers (net)	<u>877,321</u>	<u>1,182,600</u>	<u>(877,321)</u>	<u>(1,182,600)</u>	<u>--</u>	<u>--</u>
Net Increase (Decrease)	\$ (278,337)	\$ (456,493)	\$ 2,853,283	\$ 519,912	\$ 2,574,946	\$ 63,419
Net Assets – July 1	15,432,823	15,154,486	36,736,232	39,589,515	52,169,055	54,744,001
Adjustment to Net Assets	<u>--</u>	<u>(293,987)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(293,987)</u>
Net Assets – June 30	<u>\$ 15,154,486</u>	<u>\$ 14,404,006</u>	<u>\$ 39,589,515</u>	<u>\$ 40,109,427</u>	<u>\$ 54,744,001</u>	<u>\$ 54,513,433</u>

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

The City's total revenues exceeded expenses for the year by \$63,419. This addition to net assets is generated entirely by the business-type activities, which produced increases to net assets of \$1,702,512. Governmental activities had a negative impact, decreasing net assets by \$1,639,093.

Governmental Activities

The cost of all *governmental* activities this year was \$8,115,977. However, as shown in the Statement of Activities on page 15 of this report, the amount that our taxpayers ultimately financed through City taxes was only \$3,139,919 because some of the costs were paid for by those who directly benefited from the programs (\$2,457,530) or by other governments and organizations that subsidized certain programs with grants and contributions (\$242,162). In addition, the City's business-type activities provide funding for programs by making cash transfers to the governmental activities each year. After deducting *outgoing* transfers to certain business-type activities, the net "subsidy" for the current year totaled \$1,182,600.

The City paid for the remaining costs of governmental activities with other general revenues, such as shared revenues from state government, investment earnings, and other miscellaneous sources.

Revenues of governmental activities remained relatively constant with the prior fiscal year with an increase of approximately \$238,000 or 3.8% from 2004. This increase is primarily the result of additional revenues generated through service charges that support the City's general government and public safety functions.

Expenses increased approximately \$720,728. Most of this increase can be attributed to increased operating and maintenance costs as a result of the frontage road project.

Business-Type Activities

Revenues generated through service charges of the City's business-type activities increased by approximately \$734,000, or about 4.4% compared to the prior year, and expenses increased by approximately \$993,531, about 6.6%. The minimal increase in revenues is attributable to very low growth in the customer base.

The moderate increase in expenses of the business-type activities results in part from increased operating and maintenance costs in the water utility and the wastewater utility.

Revenues generated through service charges by the City's electric utility represent approximately 67.0% of *total* revenue recognized from service charges of all business-type activities of the City. Electric utility expenses account for about 59.0% of *total* expenses of all business-type activities. In addition, the electric utility transferred \$1,564,500 to the general fund to help fund governmental activities of the City.

CAPITAL ASSETS

At the end of fiscal year 2005, the City had almost \$47 million (net of accumulated depreciation) invested in a broad range of capital assets. (see Table 3 below). This amount represents a net decrease (including additions and deductions) of about \$1.8 million, or 4%, over last year.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS For the Year Ended June 30, 2005

CAPITAL ASSETS (CONTINUED)

**Table 3
Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 2,395,736	\$ 2,362,635	\$ --	\$ 212,075	\$ 2,395,736	\$ 2,574,710
Land improvements	--	--	161,283	203,978	161,283	203,978
Infrastructure	2,528,192	2,528,192	--	--	2,528,192	2,528,192
Buildings and Improvements	6,989,433	6,994,545	1,135,538	1,150,525	8,124,971	8,145,070
Vehicles, equipment & furnishings	4,802,045	4,747,682	3,786,790	3,921,465	8,588,835	8,669,147
Electric system	--	--	5,439,079	5,838,541	5,439,079	5,838,541
Fiber optics system	--	--	899,454	899,454	899,454	899,454
Water system	--	--	13,653,922	13,772,287	13,653,922	13,772,287
Wastewater system	--	--	22,473,681	22,566,926	22,473,681	22,566,926
Stormwater drainage System	--	--	4,027,939	4,037,723	4,027,939	4,037,723
Other improvements	1,326,010	1,407,570	--	--	1,326,010	1,407,570
Sludge disposal rights	--	--	472,047	472,047	472,047	472,047
Construction in progress	<u>275,579</u>	<u>20,642</u>	<u>1,619,302</u>	<u>1,662,469</u>	<u>1,894,881</u>	<u>1,683,111</u>
	\$18,316,995	\$18,061,266	\$53,669,035	\$54,737,490	\$71,986,030	\$72,798,756
Total accumulated depreciation	<u>(4,998,516)</u>	<u>(5,748,026)</u>	<u>(18,106,956)</u>	<u>(20,038,891)</u>	<u>(23,105,472)</u>	<u>(25,786,917)</u>
Net Capital Assets	<u>\$13,318,479</u>	<u>\$12,313,240</u>	<u>\$35,562,079</u>	<u>\$34,698,599</u>	<u>\$48,880,558</u>	<u>\$47,011,839</u>

This year's major capital expenditures included:

- Relocation of utilities associated with the frontage road project (\$368,973).
- Purchase of mast arms for traffic lights for the frontage road project (\$77,000).
- Construction of a new water line for S. Bay Street (\$11,504).
- Construction of new water and wastewater lines providing service to Magnolia Commons (\$16,674).
- Upgrade to a wastewater pump station (\$18,244).
- Purchase of a mowing tractor for stormwater maintenance projects (\$73,256).
- Purchase of a commercial side-loading sanitation truck (\$118,000).
- Installation of sprinkler system in Winyah Auditorium (\$16,000).
- Completion of the driveway project for the Kaminski House Museum (\$32,340).
- Purchase of HVAC system for the fleet services center (\$14,987).

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

DEBT ADMINISTRATION

As shown in Table 4 below, the City had \$10,294,157 in bonds, notes and lease obligations outstanding at year-end versus \$11,172,578 last year, a decrease of 7.0%. More detailed information about the City's debt obligations and future debt service requirements can be found in Note 6 to the financial statements.

Table 4
Outstanding Debt at Year-End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General obligation bonds	\$ 280,000	\$ 145,000	\$ --	\$ --	\$ 280,000	\$ 145,000
Capital lease obligations	1,268,456	895,177	--	--	1,268,456	895,177
Revenue note	--	--	9,624,122	9,253,980	9,624,122	9,253,980
Totals	<u>\$ 1,548,456</u>	<u>\$ 1,040,177</u>	<u>\$ 9,624,122</u>	<u>\$ 9,253,980</u>	<u>\$11,172,578</u>	<u>\$10,294,157</u>

Under current state statutes, the City can issue general obligation debt without referendum whenever the new debt and outstanding balances of existing debt in total do not exceed 8% of taxable assessed values on property located within the city limits. As of June 30, 2005, the amount of new general obligation debt that could be issued without referendum was \$2,163,177. General obligation debt issued pursuant to referendum is not subject to the statute limitation.

The City has finalized plans for a major drainage project for which construction is scheduled to begin in the upcoming fiscal year. Funding for the project will come from a variety of sources, including issuance of debt in an amount estimated to be approximately \$3 million. It is not yet known whether the debt will be general obligation debt or revenue debt.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the completion of the City's fiscal year, its governmental funds (as presented in the balance sheet on page 16 of this report) reported a *combined* fund balance of \$2,807,547, a reduction of \$248,915 from the prior year. This reduction was expected and budgeted for during the current year and is mostly attributed to a decrease in property tax revenues as a result of pending tax assessment appeals by Georgetown Steel.

The fund balances of other governmental funds, none of which are reported as major funds, increased in total by \$33,547 or about 6%, from the prior year. This increase is due primarily to delays in starting or completing certain capital projects in the Local Accommodations & Hospitality Tax Fund. These or other expenditures will need to be budgeted from fund balance in future years rather than current revenues.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Proprietary Funds

The City's *proprietary funds* generally provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At year-end, net assets of the Electric Utility Fund, the Water and Wastewater Utility Fund, and the Stormwater Drainage Utility Fund (the City's *major* enterprise funds) account for over 97% of net assets of all of the City's proprietary enterprise funds combined. Significant changes in net assets for each of these funds during the year ended June 30, 2005, were as follows:

- The Electric Utility Fund recognized an increase in net assets of \$2,433,129 before deducting transfers of \$2,164,500. Total net assets at the end of the year were \$11,122,714 of which approximately \$3,362,560 (30%) was invested in capital assets.
- The Water and Wastewater Utility Fund had a decrease in net assets of \$172,383 before deducting net transfers made to other funds. Total net assets at the end of the year were \$21,361,430 of which approximately \$16,453,647 (77%) was invested in capital assets, net of related debt.
- The Stormwater Drainage Utility Fund had a decrease in net assets of \$93,827 before adding transfers in from other funds of \$762,000. Total net assets at the end of the year were \$6,499,882 of which approximately \$5,014,994 (77%) was invested in capital assets.

BUDGET HIGHLIGHTS OF THE GENERAL FUND

The *original* general fund budget, as presented in this report, includes the original appropriations authorized by City Council just prior to the start of the fiscal year as well as budget appropriations that remained encumbered at the end of the prior fiscal year. During the current year, there was a \$13,140 increase in appropriations between the original and final amended budget for the purchase of software for the finance department.

Total general fund revenues fell short of the budgetary estimates for the year by \$13,579. Following are some of the more noteworthy variances from revenue estimates:

- Property taxes were under budget by \$8,136, due in part to pending assessment appeals by the City's largest taxpayer (Georgetown Steel).

Actual expenditures incurred were \$655,161 less than appropriated. The more significant variances from budget are noted below:

- Administration expenditures were \$81,152 less than budgeted due to positions that were budgeted but not filled.
- Fire department expenditures were \$293,319 less than budgeted due mostly to capital outlay that was appropriated and not spent.
- Nondepartmental expenditures were \$80,305 less than budgeted due mostly to capital outlay that was appropriated and not spent.

Budgetary comparisons for all general fund revenue sources and functional expenditures can be found on pages 52-56 of this report.

CITY OF GEORGETOWN, SOUTH CAROLINA

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for business-type activities. Some of the factors considered were the national and local economy, tourism trends, population growth rates both in the City and in the County, and trend data regarding growth in property tax base and permits and licenses issued. Analysis of these factors resulted in projections for the new year that reflect only minor revenue growth.

At year-end, amounts available in the General Fund for future appropriation are \$1,778,574; however, of this amount the City maintains, by policy, a cushion of \$1,100,000 for emergencies and contingencies. This leaves only \$678,574 in undesignated, unreserved fund balance at year-end. Because of the relatively small fund balance and with limited potential for revenue growth in the near-term, a budget for fiscal year 2006 was prepared cautiously and with the recognition that realization of revenue estimates and containment of expenditures will be particularly important. Some of the measures taken to balance the general fund budget for the new year include:

- All merit and cost of living adjustments to employee compensation were suspended and replaced with a \$1,000 one time entity wide increase.
- Funding for acquisition of capital assets was held to a minimum.
- Budget requests for operations and maintenance needs were thoroughly reviewed to find areas where savings could be realized.
- Authorized spending a portion of the available fund balance, rather than increase tax rates or license fees.

As for the City's business-type activities, the only rate increase for fiscal year 2006 will be a \$2.50 increase in sanitation fees. This increase is necessary in part to fund ongoing operational needs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department at: City Hall, 120 North Fraser Street, Georgetown, South Carolina 29442.