

CITY OF ROCK HILL, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2004

Prepared by:

FINANCE DEPARTMENT

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Finance Director

CITY OF ROCK HILL, SOUTH CAROLINA

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December 17, 2004

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

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 Rock Hill for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Rock Hill. Consequently, management assumes full 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 Rock Hill 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 Rock Hill's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rock Hill'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 Rock Hill's financial statements have been audited by Cline, Brandt, Kochenower & Co., P.A., 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 Rock Hill for the fiscal year ended June 30, 2004, 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 Rock Hill's financial statements for the fiscal year ended June 30, 2004, 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.

The independent audit of the financial statements of the City of Rock Hill was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rock Hill's separately issued Single Audit 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 Rock Hill's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, founded in 1852 and incorporated in 1892, is located in the eastern central area of York County, South Carolina, 25 miles south of Charlotte, North Carolina, and encompasses approximately 32 square miles. The 2004 population of the City is 53,940, with a total of 88,951 people in the Greater Rock Hill Area. The government is empowered to levy a property tax on both real and personal property located within its boundaries. The government also has the power by statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

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 six other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's manager and 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 is elected at large and council members are elected by ward and serve four-year staggered terms.

The City provides a full range of services, including: police and fire protection; the construction and maintenance of streets and other infrastructure; parks and leisure/cultural activities and events; sanitation services; water and sewer services; electric services; and storm water services.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager in the spring of each year. The City Manager uses these requests 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 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 government fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented beginning on page 39 as part of the basic financial statements for the government funds. No other government funds have an annual budget adopted by City Council.

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 favorable economic environment and local indicators point to continued stability. The City is centrally located to all Eastern and Southeastern markets. It is in the center of the country's fifth largest trade area with approximately five million people in a 100-mile radius. Over half of the United States population can be reached within a day's drive or a 90 minute flight. The Charlotte/Douglas International Airport, just 30 minutes from Rock Hill, averages 500 daily non-stop flights to 146 cities in Europe, the Caribbean, and North America. The Rock Hill/York County Municipal Airport is also growing as a center for general aviation aircraft.

The City is considered to be one of the most progressive municipalities in the State of South Carolina and has become a planning prototype for the entire Charlotte Metropolitan Statistical Area. The overall economic condition of the City continues to lead both state and national indicators. The value of building permits for all construction activity for the year was \$97,877,040.

The City's continuing efforts to invest in itself have also been fruitful. Each of the City's four business parks continues to be a magnet for new jobs and diversified economic development.

Long-term financial Planning. The City began developing long-range financial plans in 1990. These plans were

developed in order to provide the City a framework in which to operate on a multi-year basis. This multi-year approach eventually led to the development of a biannual budget in 2000/2001 and the change in fiscal years from a December 31 to June 30 year end in 2000. The current long-range plans of the City are 5 years in nature – with the first two years being balanced and the remaining 3 years showing projected gaps. Under this scenario planning, the City is able to plan for projected cuts and future revenue sources that can be used to close the gaps.

Based on this multi-year approach, the City has developed several important revenue sources recently. The Hospitality Fee, a local 2% fee levied on prepared foods and beverages, has been used to develop regional parks and offset certain general fund expenditures that were exclusively used to generate tourism in the City. In addition, this long range planning helped the City see that future gaps in revenues and expenses were primarily due to improvements to water, sewer and fire services in the City. This was directly responsible for the City developing an impact fee program that was approved as part of the budget process. This impact fee will be used to offset debt used to fund expansions to the water and sewer plant and to fund the construction of new fire facilities and equipment.

The City continues to lead in the area of long range financial planning. City staff are frequently called upon to speak on long-range planning issues at state, regional, and national conferences. This area continues to evolve as the City implements new software in the coming year, which is designed to aid in the long range financial planning area.

Local Hospitality Fee. In September, 2002, the City Council adopted a two percent hospitality fee to diversify its revenue sources in an effort to improve the quality of life for Rock Hill residents and visitors. The Hospitality Fee is a two percent fee imposed by the City on the purchase of prepared or modified foods and/or beverages prepared for immediate consumption. Applicable businesses began collecting and remitting the fee effective October 1, 2002. The money generated from the hospitality fee, which generated approximately \$2.6 million in 2004, may be used for projects such as City beautification efforts, support for the arts and cultural community, downtown redevelopment, and other tourism-related projects in the city. The City's general fund currently funds tourism-related projects in addition to traditional operations. With the adoption of the two percent hospitality fee, an additional source of revenue is available for the City to fund the tourism-related projects. More general fund revenues are available to fund critical public safety and homeland security projects, as well as other general fund related projects.

Stormwater Management. A major focus in the stormwater area over the last year has been the completion of an application to the State of South Carolina that will leverage low cost loans to the City for the completion of four major stormwater projects in the City: Ebinport Road, Sumter Avenue, Little Dutchman, and Rabun Circle. These projects have been under development for several years and, when completed, will solve significant drainage issues in four areas of our community. Construction on each of these projects is expected to begin in January of 2005.

Stormwater projects in our area are prioritized on the basis of the following four criteria. The first category is considered the most critical and the fourth category is considered the least critical:

1. There is some major structural damage to a dwelling and/or a public facility or there is a sinkhole in the roadway or there is some level of roadway and dwelling flooding.
2. A sinkhole exists on private property or there is major channel erosion/scour and minor flooding and major pipe blockage.
3. Significant channel erosion/scour, major ditch blockage, or minor pipe blockage.
4. Minor channel erosion, ditch maintenance is required, or debris removal is needed.

The City's stormwater crew is responsible for the elimination of major stormwater problems in the City and operates under the direction of the City's Utilities Director.

Downtown Revitalization. The Downtown Master Plan, funded by the City, began in February 2001. The plan received input from hundreds of citizens – including a community input survey. The focus of the plan was the development of an analysis of historic resources, an evaluation of parking and traffic issues in the Downtown area, and a list of Downtown uses.

The focus of this plan is the development of a Downtown area with a unique blend of residential, retail, restaurants, and office space. The Downtown area is quickly developing into an area that embodies the refocused concepts of smart-

growth, neotraditional design, and new urbanism. This compact, efficient, and pedestrian friendly development pattern of the Downtown area positions this urban place at the forefront of leading-edge advances in technology, business and education.

Cash management policies and practices. Cash available for investing during the year was invested in repurchase agreements, certificates of deposit, obligations of the U.S. government and its agencies, and the State of South Carolina Local Government Investment Pool. The South Carolina Local Government Investment Pool is a pool of funds belonging to participating local governments which is managed by the State Treasurer in obligations of the United States and its agencies and repurchase agreements collateralized by securities of the U.S. Government or its agencies.

The investment goal of the City is to maintain adequate cash to meet current obligations and to invest in those legal securities that maximize earnings and protect principal. Monies that are not required on a short-term basis are invested in compliance with the guidelines of the South Carolina Code of Laws 6-5-10. The City earned interest revenue of \$938,966 on all investments for the year ended June 30, 2004.

Risk Management. Risk management activities are coordinated and managed by the City's Human Resources and Risk Management Department. Risk management efforts of the department are designed to minimize the loss of the City's human, physical, and financial resources through appropriate planning, training, case management, and the provision of adequate insurance coverage.

The City maintains its insurance for tort liability, property, automobile, fleet, boiler and machinery and crime with the South Carolina Municipal Insurance and Risk Financing Fund (SCMIRF). Workers' compensation coverage is maintained through the South Carolina Municipal Insurance Trust (SCMIT) fund. Both the SCMIRF and SCMIT funds are self-insured pool with other municipalities of South Carolina. These programs are sponsored by and coordinated through the Municipal Association of South Carolina. The City carries a \$100,000 deductible under the SCMIRF plan and a \$100,000 deductible under the SCMIT plan. Claims below these thresholds are managed by the City.

To protect employees against the escalating cost of medical care and to promote healthy and sustaining lifestyles, all full-time regular employees receive group health, dental, basic long-term disability and life insurance. The City has contracted with the State of South Carolina, who contracts with Blue Cross Blue Shield of South Carolina for group coverage under the State Health Plan. In an effort to control costs, Blue Cross has negotiated reduced rates with physicians, hospitals, as well as other health care facilities through its preferred Personal Care Providers program. Additionally, this insurance plan has incorporated case management; prep-admission review; emergency admission review; continued stay review; and procedural pre-authorization review as a means of monitoring claims activity.

Pension and other post employment benefits. All employees of the City participate in one of two defined benefit pension plans, administered by the State of South Carolina. The South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS), both of which are cost sharing multiple-employer public employee retirement plans. The SCRS and PORS 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 SC Code of Laws. Both employees and the City are required to contribute to the SCRS and PORS at rates established under the authority of Title 9 of the Code of Laws. The City's contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employee's annual earnings.

The City also provides postretirement health and dental care benefits for retirees and their dependents that meet certain service requirements. As of the end of the current fiscal year, there were 149 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principles do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's pension arrangements and post employment benefits can be found in the Note V.

C. in the financial statements.

Awards and Acknowledgements

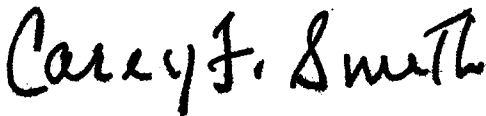
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rock Hill for its comprehensive annual financial report (CAFR) for the year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the thirteenth consecutive year that the City has 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 it to GFOA to determine its eligibility for another certificate.

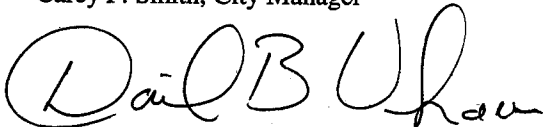
In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2003. This was the twelfth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. The City has also been awarded the Certification of Excellence Award from the Municipal Treasurers Association for its investment policy.

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 Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Rock Hill.

Respectfully submitted,

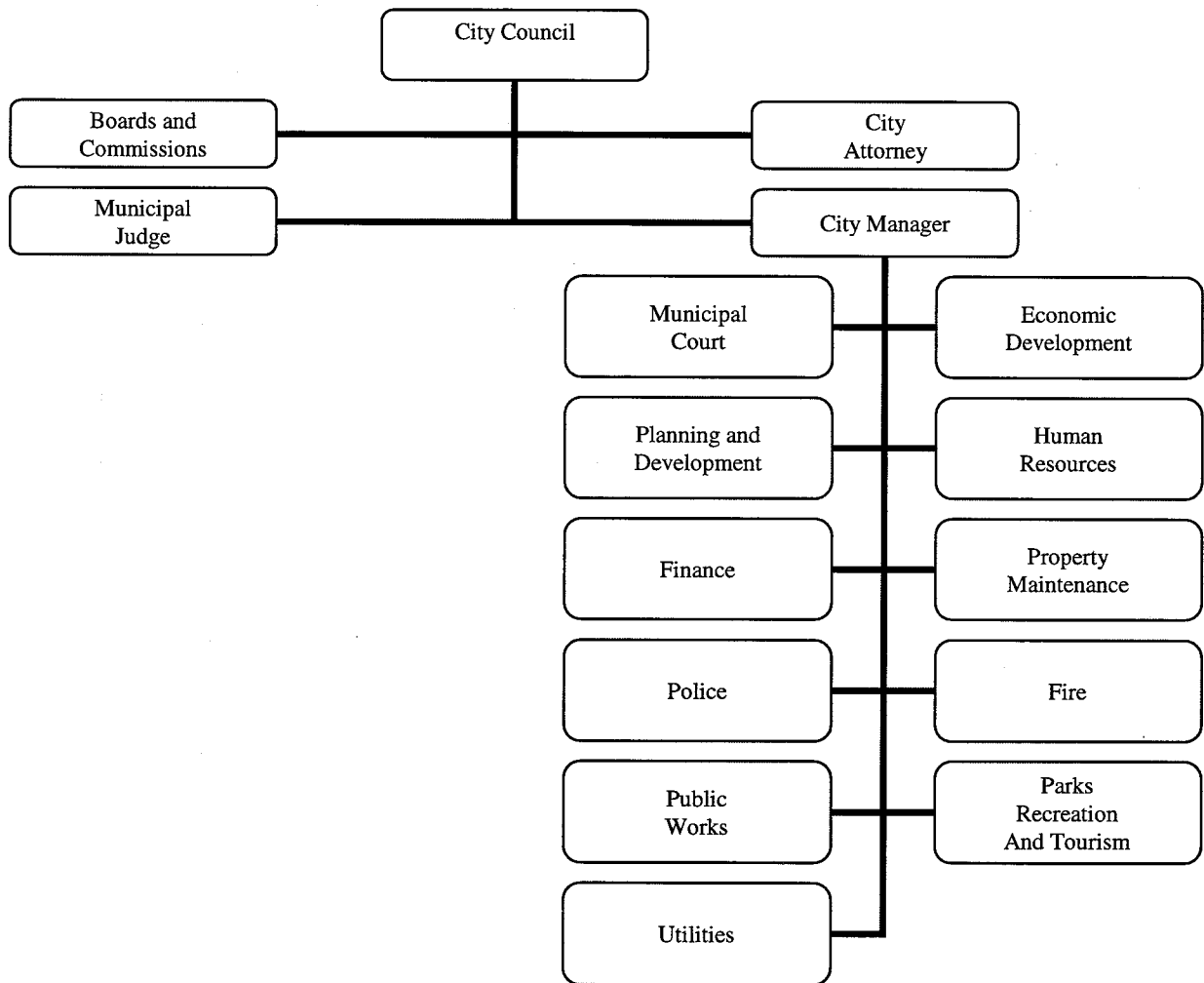


Carey F. Smith, City Manager



David B. Vehaun, Finance Director

City of Rock Hill, South Carolina Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rock Hill,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



President

Executive Director

**City of Rock Hill
List of Elected and Appointed Officials
June 30, 2004**

Elected Officials

A. Douglas Echols, Jr., Mayor
John P. Gettys, Jr., Mayor Pro Tempore
James C. Reno
Kathy S. Pender
Osbey Roddey
Winston Searles
Kevin H. Sutton

Appointed Officials

Carey F. Smith, City Manager
Gerald E. Schapiro, Assistant City Manager
Steven Turner, Economic Development Director
David B. Vahaun, Finance Director
Mike Blackmon, Fire Chief
Phyllis R. Fauntleroy, Human Resources Director
Edward A. Thompson, Parks, Recreation and Tourism Director
Frances M. Thomas, Planning Director
John H. Gregory III, Police Chief
James P. Villano, Public Works Director
Nick W. Stegall, Utilities Director