

Management's Discussion and Analysis

This discussion and analysis of Greenville County's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should also review the transmittal letter, notes to the basic financial statements, financial statements, statistical section and single audit section to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

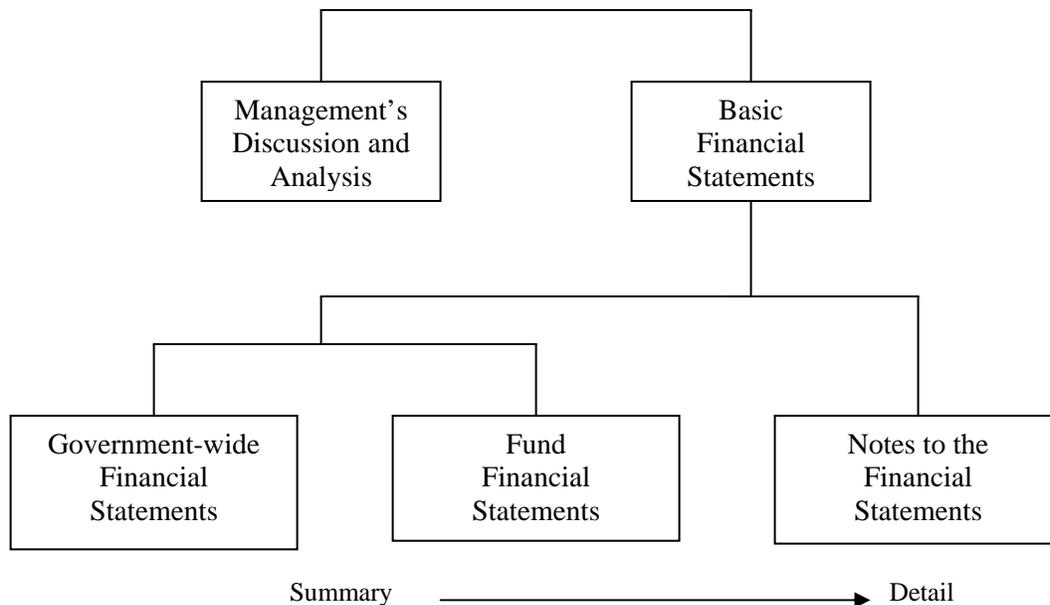
- The assets of Greenville County exceeded its liabilities at the close of the current fiscal year by \$378,796,394 compared to \$300,656,610 for fiscal year 2005. The net assets in the governmental activities increased from \$282,695,855 in 2005 to \$363,458,579 in 2006. This increase was primarily due to the recording of stormwater infrastructure assets in 2006. The net assets in the business-type activities decreased from \$17,960,755 in 2005 to \$15,337,815 in 2006.
- Greenville County's total net assets for the primary government increased by \$78,139,784 due to an increase of \$80,762,724 in net assets in the governmental activities and a decrease of \$2,622,940 in the business-type activities.
- As of the close of the current fiscal year, Greenville County's governmental funds reported combined ending fund balances of \$106,474,793 as compared to \$104,657,736 for fiscal year 2005 resulting in an increase of \$1,817,057. Approximately 12.3 percent of the total fund balance, or \$13,059,139, is reserved for future debt service, outstanding encumbrances and prepaid items. Approximately 87.7 percent, or \$93,415,654 is *available for spending* at the discretion of the County (*unreserved fund balance*). However, approximately 2.3 percent, or \$2,182,263 of the *unreserved fund balance* has been *designated in compliance* with the current financial policies and 14 percent, or \$13,284,928 is committed as special revenue and capital project funds.
- At the end of the current fiscal year, *unreserved fund balance* for Greenville County's General Fund was \$37,682,302 or 37% of total 2006 general fund expenditures for the fiscal year. Only 3 percent of fund balance, or \$1,247,805, is *reserved* for encumbrances and prepaid items. The remaining 97 percent of fund balance or \$37,682,302, is *unreserved fund balance* and available for spending at the discretion of the County. In compliance with Greenville County's financial policies, an amount equal to 2 percent of the current year general fund revenues, or \$2,182,263, has been designated as a contingency to utilize during emergency situations, economic declines and seasonal cash flow shortfalls.
- In August 2005, Greenville County issued \$7,430,000 of general obligation refunding bonds, series 2005A to refund a portion of the outstanding 1998 series general obligation bonds and a portion of the outstanding 2002 series general obligation bonds. In October 2005, the County issued \$5,065,000 of general obligation bonds, series 2005B to fund road improvement projects.
- Greenville County maintained its triple A bond rating that was assigned in 1999.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to Greenville County's basic financial statements. The County's basic financial statements consist of three components - *government-wide financial statements*, *fund financial statements*, and *notes to the financial statements* (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Greenville County.

Required Components of Annual Financial Report

Figure 1



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

The focus of the *government-wide financial statements* is on the Primary Government and includes governmental and business-type activities. Financial information for two component units is presented in separate columns in the statement of net assets and the statement of activities. These component units are legally separate organizations for which the County may exercise control and/or may be obligated to provide financial subsidy.

The *statement of net assets* presents information on all of Greenville County'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 County is improving or deteriorating.

The *statement of activities* presents information showing how the County'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, accounts payable and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Greenville County 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 Greenville County include general government, public safety, highways and streets, economic development, judicial services, health and welfare, and culture and recreation. The business type activities include solid waste disposal, storm water quality control and a parking garage.

The government-wide financial statements begin on page 21 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. Greenville County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Greenville County 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 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 Greenville County'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 Greenville County'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 the comparison between *governmental funds* and *governmental activities*.

Greenville County maintains seven governmental funds. Three of the seven funds are classified as major governmental funds, the General Fund, Federal and State Grants Fund, and the Road Maintenance Program Fund. Information for these funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance. Information for the other four governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of *combining statements* elsewhere in this report.

As required, Greenville County adopts an annual budget for its General Fund. The budget is a legally adopted document of County services and financing. The budget incorporates input from the citizens of the County, the management of the County, and County Council. It authorizes the County to obtain funds from identified sources to finance current period activities. The budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget ordinance.

The basic governmental fund financial statements begin on page 23 of this report.

Proprietary Funds. Greenville County 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. Greenville County uses enterprise funds to account for solid waste, storm water operations and the parking garage. *Internal service funds* are an accounting mechanism used to accumulate and allocate costs internally among the County's various functions. Greenville County uses internal service funds to account for its fleet maintenance, workers' compensation and employee health insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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 Solid Waste, Storm Water and Parking Garage Funds. Conversely, the three 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.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources are not available to support the County's operations. Greenville County has one fiduciary fund, an Agency Fund, used to account for tax revenues.

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 beginning on page 36 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning Greenville County's general obligation and overlapping debt. Supplementary information can be found beginning on page 123 of this report. Additional trend information about Greenville County can be found in the Statistical Section of the report and information about federal grants can be found in the Single Audit Section.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial position. The assets of Greenville County exceeded liabilities for the governmental activities by \$363,458,579 at June 30, 2006 and by \$282,695,855 at June 30, 2005.

By far the largest portion, \$313,450,654 or (86 percent) of net assets reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Greenville County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Greenville County Net Assets June 30, 2006 (Recapped)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 151,777,258	\$ 147,206,991	\$ 23,029,524	\$ 26,266,741	\$ 174,806,782	\$ 173,473,732
Capital assets	381,812,422	310,076,980	11,583,306	11,580,478	393,395,728	321,657,458
Total assets	<u>533,589,680</u>	<u>457,283,971</u>	<u>34,612,830</u>	<u>37,847,219</u>	<u>568,202,510</u>	<u>495,131,190</u>
Long-term liabilities outstanding	146,014,973	149,566,472	18,794,316	18,327,607	164,809,289	167,894,079
Other liabilities	24,116,128	25,021,644	480,699	1,558,857	24,596,827	26,580,501
Total liabilities	<u>170,131,101</u>	<u>174,588,116</u>	<u>19,275,015</u>	<u>19,886,464</u>	<u>189,406,116</u>	<u>194,474,580</u>
Net assets						
Invested in capital, net of related debt	313,450,654	231,118,416	11,583,305	11,580,478	325,033,959	242,698,894
Restricted	2,815,298	2,452,941	-	-	2,815,298	2,452,941
Unrestricted	47,192,627	49,124,498	3,754,510	6,380,277	50,947,137	55,504,775
Total net assets	<u>\$ 363,458,579</u>	<u>\$ 282,695,855</u>	<u>\$ 15,337,815</u>	<u>\$ 17,960,755</u>	<u>\$ 378,796,394</u>	<u>\$ 300,656,610</u>

At the end of the current fiscal year, Greenville County reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the County's net assets by \$80,762,724 for the fiscal year ending June 30, 2006. Key elements of this increase are as follows:

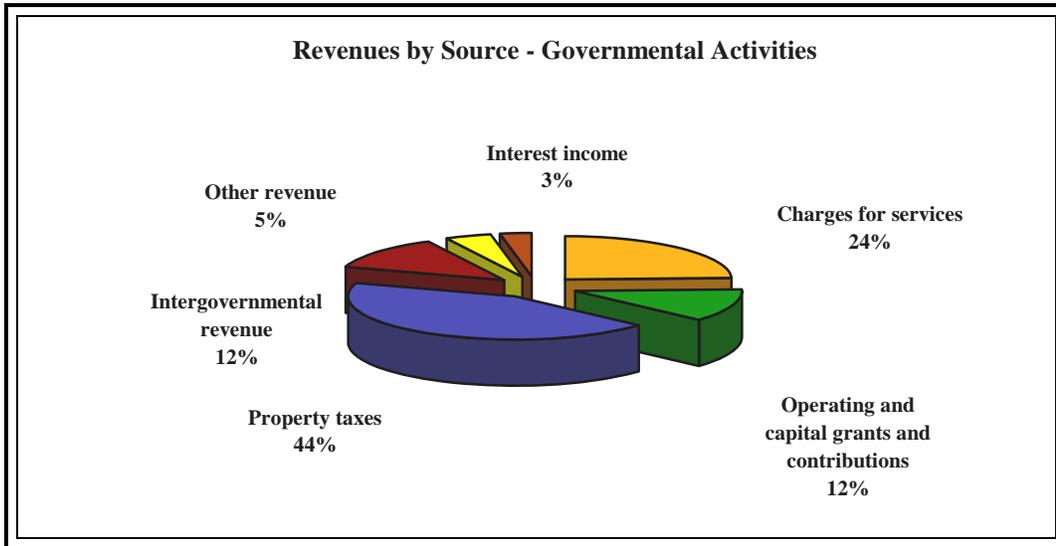
- The County elected to defer the reporting of the Stormwater network infrastructure until the current year as permitted by GASB 34. As a result of this change in accounting principle, total stormwater infrastructure assets of approximately \$79 million and accumulated depreciation of \$20 million were recorded for the year ending June 30, 2006. Also contributing to the increase in infrastructure assets were donated roads of approximately \$10 million.

Business-type activities: Business-type activities decreased Greenville County's net assets by \$2,622,940 for the fiscal year ending June 30, 2006. The decrease in the net assets of the business-type activities is mainly due to a decrease of approximately \$6 million in net assets for the solid waste fund. This decrease was partially offset by a \$3 million increase in the net assets of the Stormwater fund.

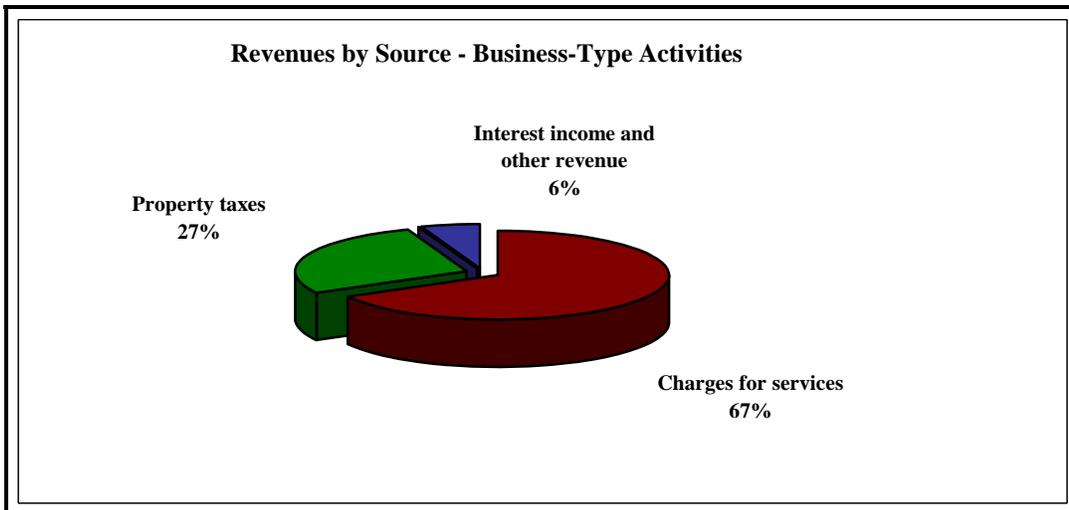
Greenville County – Changes in Net Assets – June 30, 2006
(Recapped)

	Governmental Activities		Business-type Activities			Totals
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 41,263,071	\$ 25,892,119	\$ 9,993,348	\$ 9,282,145	\$ 51,256,419	\$ 35,174,264
Operating grants and contributions	10,570,767	10,203,125	-	-	10,570,767	10,203,125
Capital grants and contributions	9,985,863	8,096,497	-	-	9,985,863	8,096,497
General Revenues:						
Property taxes	72,978,259	71,890,083	4,080,455	3,301,459	77,058,714	75,191,542
Intergovernmental revenues	20,983,794	21,597,914	-	-	20,983,794	21,597,914
Other revenue	7,769,462	4,168,163	7,300	23,443	7,776,762	4,191,606
Interest income	4,944,552	3,335,330	820,699	600,097	5,765,251	3,935,427
Total revenues	<u>168,495,768</u>	<u>145,183,231</u>	<u>14,901,802</u>	<u>13,207,144</u>	<u>183,397,570</u>	<u>158,390,375</u>
Expenses:						
Administrative services	2,408,056	2,574,571	-	-	2,408,056	2,574,571
General services	16,041,059	14,621,037	-	-	16,041,059	14,621,037
Human resources	1,651,729	1,572,998	-	-	1,651,729	1,572,998
Public safety	35,892,250	39,342,397	-	-	35,892,250	39,342,397
Judicial services	16,330,554	15,846,724	-	-	16,330,554	15,846,724
Public works	29,326,897	20,108,397	-	-	29,326,897	20,108,397
Fiscal services	2,074,871	2,030,500	-	-	2,074,871	2,030,500
Law enforcement	31,983,596	28,845,646	-	-	31,983,596	28,845,646
Boards & commissions	5,933,367	5,948,724	-	-	5,933,367	5,948,724
Interest & fiscal charges	5,945,721	6,096,824	-	-	5,945,721	6,096,824
Solid waste	-	-	14,446,106	9,877,195	14,446,106	9,877,195
Storm water	-	-	3,368,765	4,252,681	3,368,765	4,252,681
Parking fund	-	-	86,871	76,505	86,871	76,505
Total expenses	<u>147,588,100</u>	<u>136,987,818</u>	<u>17,901,742</u>	<u>14,206,381</u>	<u>165,489,842</u>	<u>151,194,199</u>
Increase (decrease) in net assets before transfers	20,907,668	8,195,413	(2,999,940)	(999,237)	17,907,728	7,196,176
Transfers	(377,000)	-	377,000	-	-	-
Transfers to others	-	(11,565,000)	-	-	-	(11,565,000)
Increase (decrease) in net assets	20,530,668	(3,369,587)	(2,622,940)	(999,237)	17,907,728	(4,368,824)
Net assets – Beginning	282,695,855	286,065,442	17,960,755	18,959,992	300,656,610	305,025,434
Change in Accounting Principle	60,232,056	-	-	-	60,232,056	-
Net assets – Ending	<u>\$ 363,458,579</u>	<u>\$ 282,695,855</u>	<u>\$ 15,337,815</u>	<u>\$ 17,960,755</u>	<u>\$378,796,394</u>	<u>\$300,656,610</u>

The operations of administrative services and judicial services are the only functions of the governmental activities supported by program revenues. General revenues support all other functions of the governmental activities.



The revenues by source chart depicts that 44 percent of revenues of the governmental activities come from property taxes, 24 percent from charges for services, 12 percent from intergovernmental revenues and 20 percent from grants and other miscellaneous revenues.



The revenues by source chart depicts that charges for services contribute 67 percent of revenues and property taxes contribute 27 percent of revenues. Interest income and other revenues contribute 6 percent of revenues.

Financial Analysis of Greenville County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Greenville County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Greenville County'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.

As of the end of the current fiscal year, Greenville County's governmental funds reported combined ending fund balances of \$106,474,793, an increase of 1.7 percent in comparison with the prior year. During fiscal year 2006, the County recorded approximately \$4.8 million in transfers out of the general fund. Of this amount, \$2.4 million was transferred to the capital projects fund and around \$2 million was transferred for capital leases.

Approximately 87.7 percent, or \$93,415,654 of the ending fund balance is *unreserved* and available for future spending. Approximately 12.3 percent, or \$13,059,139 is reserved for future debt service, outstanding encumbrances and prepaid items. Of the unreserved balance, \$13,284,928 is committed for future capital projects and special revenue expenses. Two percent of general fund current revenues, or \$2,182,263, is designated for potential uses as defined in the financial policies of the County.

The general fund is the chief operating fund of Greenville County. At the end of the current fiscal year, *unreserved fund balance* of the general fund was \$37,682,302 out of total fund balance of \$38,930,107. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 37 percent of total general fund expenditures, while total fund balance represents approximately 38 percent of total general fund expenditures.

Total general fund revenues increased from approximately \$104 million in 2005 to approximately \$109 million in 2006. The general fund reported an increase of approximately \$840,000 in property tax revenues, an increase of approximately \$2.5 million in County office revenues, an increase of approximately \$1 million in intergovernmental revenues and an increase of approximately \$1 million in other revenues. General fund expenditures increased from \$98 million in 2005 to \$102 million in 2006.

The Federal and State Grant Fund has an ending fund balance of \$3,430,154 for 2006 compared to \$3,039,562 for 2005. Construction Management reported an ending fund balance of \$21,130,163 for 2006 compared to \$24,102,047 for 2005. Capital outlay expenses of \$3.5 million for the detention center addition contributed to the net decrease in fund balance in Construction Management. Agencies reported a slight decrease in fund balance from \$338,740 in 2005 to \$341,005 in 2006. The Road Maintenance Program ending fund balance was \$18,229,112 in 2006 compared to \$17,694,625 in 2005.

Proprietary Funds. Greenville County's proprietary fund statements provide the same type of information found in the government-wide statements but in more detail. Total net assets of the Solid Waste Fund were \$3,385,576 compared to \$9,195,325 for fiscal year 2005. *Unrestricted* net assets of the Solid Waste Fund at the end of the fiscal year amounted to (\$5,224,328), and \$8,609,904 of the total net assets were invested in capital assets (net of related debt). Total net assets of the Storm Water Fund were \$9,002,708 for the current year compared to \$5,787,777 for fiscal year 2005. The Parking Enterprise Fund reported net assets of \$2,786,395 compared to \$2,871,835 for 2005.

The Internal Service Fund is presented in a separate column in the *statement of net assets* of the Proprietary Funds. The Internal Service Fund reflects unrestricted net assets of \$10,275,431 for the current year compared to \$7,193,131 for fiscal year 2005. The Workers' Compensation Fund reports negative net assets of (\$668,514) while the Health and Dental Fund reports positive net assets of \$10,374,384. The deficit in the Workers' Compensation Fund will be eliminated by increases in future premiums revenues to the fund. Total net assets of the Vehicle Service Center were \$569,561 for 2006 compared to \$513,310 for 2005. The Vehicle Service Center Fund reports investment in capital assets, net of related debt of \$349,964 and *unrestricted net assets* of \$219,597.

General Fund Budgetary Highlights

During the current fiscal year, revenues exceeded the budget estimate by approximately \$3.42 million as a result of increased property tax collections (\$370,000), County office revenue (\$1.1 million), state allocations (\$886,000) and other revenues (\$1 million). Expenditures were under budget by approximately \$921,000. The County entered the fiscal year 2005 – 2006 budget year facing rising fuel costs, escalating costs for goods and materials, and growing demands for services. Due to these external conditions, the County implemented efficiencies for the purpose of reducing costs resulting in lower than projected departmental operating expenses.

Capital Asset and Debt Administration

Capital assets. Greenville County's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$393,395,728 (net of accumulated depreciation). The investment in capital assets for its governmental and business-type activities as of June 30, 2005 was \$321,657,458 (net of accumulated depreciation). The County's assets include buildings, improvements, equipment, construction in progress and infrastructure. During fiscal year 2006, the County recorded the stormwater infrastructure network. Other additions in the capital assets of the governmental activities were for road construction, equipment replacements and construction in progress related to the detention center expansion. There was no material change in capital assets of the business-type activities. Please refer to the notes to the financial statements for additional information on the County's capital assets.

Greenville County's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 9,575,362	\$ 9,575,362	\$ 6,940,113	\$ 6,940,113	\$ 16,515,475	\$ 16,515,475
Construction in progress	3,600,094	367,917	-	-	3,600,094	367,917
Buildings	42,814,368	52,770,468	2,221,149	2,291,183	45,035,517	55,061,651
Improvements	10,073,057	462,871	289,984	325,706	10,363,041	788,577
Equipment	11,683,396	8,244,302	2,132,060	2,023,476	13,815,456	10,267,778
Infrastructure	304,066,145	238,656,060	-	-	304,066,145	238,656,060
Total	\$ 381,812,422	\$ 310,076,980	\$ 11,583,306	\$ 11,580,478	\$ 393,395,728	\$ 321,657,458

Long-term Debt. As of June 30, 2006, Greenville County had total bonded debt outstanding of \$136,745,000. Of this amount, \$58,385,000 are general obligation bonds, which are backed by the full faith and credit of the County. Certificates of participation total \$48,735,000 and special source revenue bonds total \$29,625,000. Revenues from various fee-in-lieu-of-tax agreements secure the special source revenue bonds.

Greenville County's Outstanding Debt General Obligation, Certificates of Participation and Special Source Revenue Bonds

	Governmental Activities	
	2006	2005
General obligation bonds	\$ 58,385,000	\$ 55,855,000
Certificates of participation	48,735,000	52,415,000
Special source revenue bonds	29,625,000	31,215,000
Total	\$ 136,745,000	\$ 139,485,000

As mentioned in the financial highlights section of this document, Greenville County maintained its Aaa bond rating from Moody's Investor Service, AAA rating from Standard and Poor's Corporation and AAA rating from Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of Greenville County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

South Carolina statutes limit the amount of general obligation debt that a unit of government may issue (without referendum) to 8 percent of the total assessed value of taxable property located within that government's boundaries. The County's debt limit and debt margin were \$116,124,000 and \$49,434,000, respectively, for the fiscal year ending June 30, 2006. Please refer to the notes to the financial statements for additional information on the County's long-term debt.

Economic Factors

The unemployment rate for Greenville County at 5.6 percent continues to lag behind the state level of 6.7 percent. The County continues to have daily inquiries for information about Greenville County from various developers of commercial and residential properties.

Fiscal Year 2007 Budget

The 2007 fiscal year budget for Greenville County was prepared as part of the biennium budget process during fiscal year 2005. The budgeted revenues are projected to increase by approximately 1.4 percent and expenditures are projected to decrease by .96 percent from fiscal year 2006. The budget anticipates use of \$1,229,301 of *unreserved* fund balance. The fiscal year 2007 budget requires no additional tax millage.

Contact Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Information on the County's two component units, the Greenville County Redevelopment Authority and the Greenville County Library, may be obtained at the Greenville County Administrative Office. Questions concerning any of the information found in this report or requests for additional information should be directed to the Financial Operations Division, County of Greenville, 301 University Ridge, Suite 200, Greenville, South Carolina 29601. In addition, this Comprehensive Annual Financial Report may be found on the County's website at <http://www.greenvillecounty.org>.