

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, 2007. 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 fiscal year 2007 are as follows:

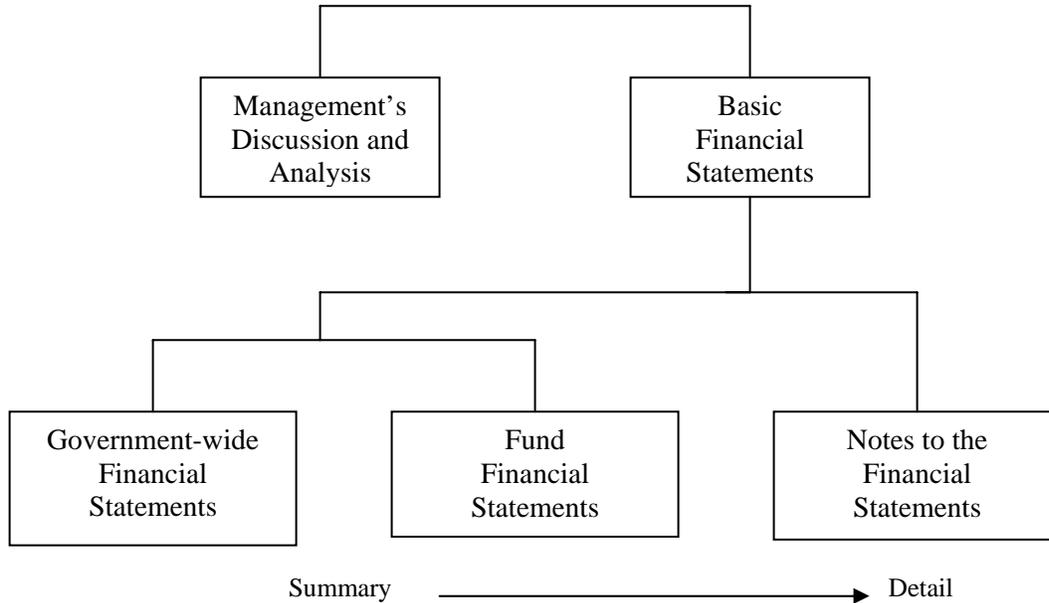
- The assets of Greenville County exceeded its liabilities at the close of the current fiscal year by \$406,830,310 compared to \$378,796,394 for fiscal year 2006. The net assets in the governmental activities increased from \$363,458,579 in 2006 to \$383,355,692 in 2007. The net assets in the business-type activities increased from \$15,337,815 in 2006 to \$23,474,618 in 2007.
- Greenville County's total net assets for the primary government increased by \$28,033,916 due to an increase of \$19,897,113 in net assets in the governmental activities and an increase of \$8,136,803 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 \$100,673,484 as compared to \$106,474,793 for fiscal year 2006 resulting in a decrease of \$5,801,309. Approximately 12 percent of the total fund balance, or \$12,257,724, is reserved for future debt service, outstanding encumbrances and prepaid items. Approximately 88 percent, or \$88,415,760 is *available for spending* at the discretion of the County (*unreserved fund balance*). However, approximately 2.5 percent, or \$2,267,074 of the *unreserved fund balance* has been *designated in compliance* with the current financial policies and 29 percent, or \$25,432,871 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 \$40,179,830 or 37% of total general fund expenditures. Only 2.5 percent of fund balance, or \$1,042,804, is *reserved* for encumbrances and prepaid items. The remaining 97.5 percent of fund balance or \$40,179,830 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 two percent of the current year general fund revenues, or \$2,267,074, has been designated as a contingency to utilize during emergency situations, economic declines and seasonal cash flow shortfalls.
- In October 2006, Greenville County issued \$10,085,000 of general obligation bonds, series 2006 to provide funding for road improvements throughout the County. In March 2007, the County issued \$7,545,000 of special source revenue refunding bonds to refund a portion of the special source revenue bonds, series 1999 and a portion of the special source revenue bonds, series 2001.
- 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 data can be found beginning on page 124 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 \$383,355,692 at June 30, 2007 and by \$363,458,579 at June 30, 2006.

By far the largest portion, \$322,076,939 or (84 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, 2007 (Recapped)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 143,764,625	\$ 151,777,258	\$ 21,910,525	\$ 23,029,524	\$ 165,675,150	\$ 174,806,782
Capital assets	406,008,636	381,812,422	19,419,058	11,583,306	425,427,694	393,395,728
Total assets	<u>549,773,261</u>	<u>533,589,680</u>	<u>41,329,583</u>	<u>34,612,830</u>	<u>591,102,844</u>	<u>568,202,510</u>
Long-term liabilities outstanding	149,429,497	146,014,973	16,052,645	18,794,316	165,482,142	164,809,289
Other liabilities	16,988,072	24,116,128	1,802,320	480,699	18,790,392	24,596,827
Total liabilities	<u>166,417,569</u>	<u>170,131,101</u>	<u>17,854,965</u>	<u>19,275,015</u>	<u>184,272,534</u>	<u>189,406,116</u>
Net assets						
Invested in capital assets, net of related debt	322,076,939	313,450,654	19,419,058	11,583,305	341,495,997	325,033,959
Restricted	1,400,252	2,815,298	-	-	1,400,252	2,815,298
Unrestricted	59,878,501	47,192,627	4,055,560	3,754,510	63,934,061	50,947,137
Total net assets	<u>\$ 383,355,692</u>	<u>\$ 363,458,579</u>	<u>\$ 23,474,618</u>	<u>\$ 15,337,815</u>	<u>\$ 406,830,310</u>	<u>\$ 378,796,394</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.

Greenville County – Changes in Net Assets – June 30, 2007
(Recapped)

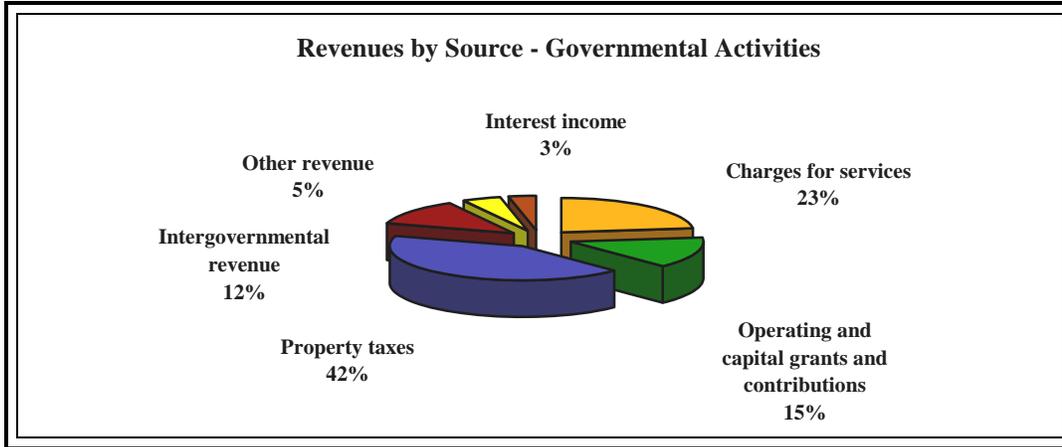
	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 41,640,221	\$ 41,263,071	\$ 10,003,523	\$ 9,993,348	\$ 51,643,744	\$ 51,256,419
Operating grants and contributions	11,775,131	10,570,767	-	-	11,775,131	10,570,767
Capital grants and contributions	15,003,342	9,985,863	-	-	15,003,342	9,985,863
General Revenues:						
Property taxes	76,052,119	72,978,259	4,305,696	4,080,455	80,357,815	77,058,714
Intergovernmental revenues	22,597,417	20,983,794	-	-	22,597,417	20,983,794
Other revenue	8,200,043	7,769,462	312,500	7,300	8,512,543	7,776,762
Interest income	6,250,175	4,944,552	915,931	820,699	7,166,106	5,765,251
Total revenues	<u>181,518,448</u>	<u>168,495,768</u>	<u>15,537,650</u>	<u>14,901,802</u>	<u>197,056,098</u>	<u>183,397,570</u>
Expenses:						
Administrative services	1,937,285	2,408,056	-	-	1,937,285	2,408,056
General services	16,568,043	16,041,059	-	-	16,568,043	16,041,059
Human resources	1,931,379	1,651,729	-	-	1,931,379	1,651,729
Public safety	39,532,335	35,892,250	-	-	39,532,335	35,892,250
Judicial services	17,014,739	16,330,554	-	-	17,014,739	16,330,554
Public works	33,685,542	29,326,897	-	-	33,685,542	29,326,897
Fiscal services	2,144,119	2,074,871	-	-	2,144,119	2,074,871
Law enforcement	34,240,536	31,983,596	-	-	34,240,536	31,983,596
Boards & commissions	8,116,797	5,933,367	-	-	8,116,797	5,933,367
Interest & fiscal charges	6,435,560	5,945,721	-	-	6,435,560	5,945,721
Solid waste	-	-	5,120,800	14,446,106	5,120,800	14,446,106
Storm water	-	-	4,496,618	3,368,765	4,496,618	3,368,765
Parking fund	-	-	188,219	86,871	188,219	86,871
Total expenses	<u>161,606,335</u>	<u>147,588,100</u>	<u>9,805,637</u>	<u>17,901,742</u>	<u>171,411,972</u>	<u>165,489,842</u>
Increase (decrease) in net assets before transfers	19,912,113	20,907,668	5,732,013	(2,999,940)	25,644,126	17,907,728
Transfers	(15,000)	(377,000)	15,000	377,000	-	-
Increase (decrease) in net assets	19,897,113	20,530,668	5,747,013	(2,622,940)	25,644,126	17,907,728
Net assets – Beginning	363,458,579	282,695,855	15,337,815	17,960,755	378,796,394	300,656,610
Change in Accounting Principle	-	60,232,056	-	-	-	60,232,056
Prior Period Adjustment	-	-	2,389,790	-	2,389,790	-
Net assets – Ending	<u>\$ 383,355,692</u>	<u>\$ 363,458,579</u>	<u>\$ 23,474,618</u>	<u>\$ 15,337,815</u>	<u>\$406,830,310</u>	<u>\$378,796,394</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.

Governmental activities

Governmental activities increased the County's net assets by \$19,897,113 for the fiscal year ending June 30, 2007. Key elements of this increase are as follows:

- During fiscal year 2007, the County added \$11 million to construction in progress for the detention center expansion.
- The County added \$15 million of donated roads to the County's infrastructure during the current year.

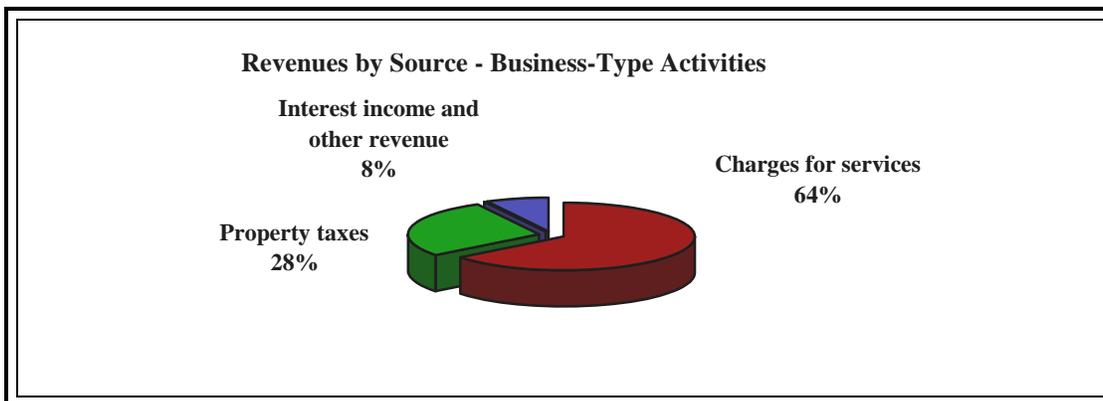


The revenues by source chart depicts that 42 percent of revenues of the governmental activities come from property taxes, 23 percent from charges for services, 12 percent from intergovernmental revenues and 23 percent from grants and other miscellaneous revenues.

Business-type activities

Business-type activities increased Greenville County's net assets by \$8,136,803 for the fiscal year ending June 30, 2007. The increase in the net assets of the business-type activities is mainly due to:

- During the current year, the County completed construction of the new Twin Chimney's landfill. The County capitalized approximately \$6 million in buildings and improvements in fiscal year 2007.
- The County added around \$3 million of machinery and equipment during the year for the solid waste division.



The revenues by source chart depicts that charges for services contribute 64 percent of revenues and property taxes contribute 28 percent of revenues. Interest income and other revenues contribute 8 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 \$100,673,484, a decrease of 5.5 percent in comparison with the prior year. During fiscal year 2007, the County recorded approximately \$3.3 million in transfers out of the general fund. Of this amount, \$1.8 million was transferred to the capital projects fund and around \$1.4 million was transferred for capital leases.

Approximately 88 percent, or \$88,415,760 of the ending fund balance is *unreserved* and available for future spending. Approximately 12 percent, or \$12,257,724 is reserved for future debt service, outstanding encumbrances and prepaid items. Of the unreserved balance, \$25,432,871 is committed for future capital projects and special revenue expenses. Two percent of general fund current revenues, or \$2,267,074, 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 \$40,179,830 out of total fund balance of \$41,222,634. 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 \$109 million in 2006 to approximately \$113 million in 2007. The general fund reported an increase of approximately \$2.4 million in property tax revenues, an increase of approximately \$1.5 million in intergovernmental revenues and an increase of approximately \$.5 million in other revenues. General fund expenditures increased from \$102 million in 2006 to \$109 million in 2007.

The Federal and State Grant Fund has an ending fund balance of \$4,220,105 for 2007 compared to \$3,430,154 for 2006. The Road Maintenance Program ending fund balance was \$18,582,954 in 2007 compared to \$18,229,112 in 2006.

Proprietary Funds

Greenville County's proprietary fund statements provide the same type of information found in the government-wide statements but in more detail.

Enterprise Funds - Total net assets of the Solid Waste Fund were \$8,264,162 compared to \$3,385,576 for fiscal year 2006. *Unrestricted* net assets of the Solid Waste Fund at the end of the fiscal year amounted to (\$8,094,645), and \$16,358,807 of the total net assets were invested in capital assets (net of related debt). Total net assets of the Storm Water Fund were \$12,299,054 for the current year compared to \$9,002,708 for fiscal year 2006. The Parking Enterprise Fund reported net assets of \$2,700,623 compared to \$2,786,395 for 2006.

Internal Service Funds - 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 total net assets of \$14,500,833 for the current year compared to \$10,275,431 for fiscal year 2006. The Workers' Compensation Fund reports negative net assets of (\$764,668) while the Health and Dental Fund reports positive net assets of \$14,636,219. The County's biennium budget for fiscal years 2008 and 2009 includes additional funding to allow the County to properly account for workers' compensation costs by department. The Workers' Compensation Fund is projected to become solvent by fiscal year 2010. Total net assets of the Vehicle Service Center were \$629,282 for 2007 compared to \$569,561 for 2006. The Vehicle Service Center Fund reports investment in capital assets of \$317,750 and *unrestricted net assets* of \$311,532.

General Fund Budgetary Highlights

During the current fiscal year, revenues exceeded the budget estimate by \$6,160,665 as a result of increased property tax collections (\$1,870,242), County office revenue (\$402,493), state allocations (\$2,168,286) and other revenues (\$1,719,650). Expenditures were under budget by \$2,570,011. The County entered the fiscal year 2006 – 2007 facing escalating utility costs, rising fuel costs 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, 2007, totals \$425,427,694 (net of accumulated depreciation). The investment in capital assets for its governmental and business-type activities as of June 30, 2006 was \$393,395,728 (net of accumulated depreciation). The County’s assets include buildings, improvements, equipment, construction in progress and infrastructure. 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.

The capital assets of the business-type activities increased by approximately \$8 million. During the current fiscal year, the County completed construction of the new Twin Chimney’s landfill. Approximately \$6 million in buildings and improvements were capitalized for the new landfill. Also, the County added around \$3 million of machinery and equipment during the year for the solid waste division.

Greenville County’s Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 9,638,240	\$ 9,575,362	\$ 7,050,563	\$ 6,940,113	\$ 16,688,803	\$ 16,515,475
Construction in progress	14,010,939	3,600,094	-	-	14,010,939	3,600,094
Buildings	41,589,715	42,814,368	6,029,772	2,221,149	47,619,487	45,035,517
Improvements	9,677,735	10,073,057	2,111,698	289,984	11,789,433	10,363,041
Equipment	13,214,278	11,683,396	4,227,025	2,132,060	17,441,303	13,815,456
Infrastructure	317,877,729	304,066,145	-	-	317,877,729	304,066,145
Total	<u>\$ 406,008,636</u>	<u>\$ 381,812,422</u>	<u>\$ 19,419,058</u>	<u>\$ 11,583,306</u>	<u>\$ 425,427,694</u>	<u>\$ 393,395,728</u>

Please refer to pages 53-55 of the notes to the financial statements (Note II. A.5.) for additional information on the County’s capital assets.

Long-term Debt

As of June 30, 2007, Greenville County had total bonded debt outstanding of \$138,760,000. Of this amount, \$65,435,000 are general obligation bonds, which are backed by the full faith and credit of the County. Certificates of participation total \$44,760,000 and special source revenue bonds total \$28,565,000. 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	
	2007	2006
General obligation bonds	\$ 65,435,000	\$ 58,385,000
Certificates of participation	44,760,000	48,735,000
Special source revenue bonds	28,565,000	29,625,000
Total	\$ 138,760,000	\$ 136,745,000

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 \$119,845,000 and \$46,909,000, respectively, for the fiscal year ending June 30, 2007. Please refer to pages 63-70 of the notes to the financial statements (Note II.B.7.) for additional information on the County's long-term debt.

Economic Factors

The unemployment rate for Greenville County at 4.8 percent continues to lag behind the state level of 5.5 percent. The County continues to have daily inquiries for information about Greenville County from various developers of commercial and residential properties.

Fiscal Year 2008 Budget

The 2008 fiscal year budget for Greenville County was prepared as part of the biennium budget process during fiscal year 2007. The budgeted revenues are projected to increase by approximately 4.08 percent and expenditures are projected to increase by 7.22 percent from fiscal year 2007. The budget anticipates use of \$1,113,080 of *unreserved* fund balance. The fiscal year 2008 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>.