

The School District of Greenville County

Greenville, South Carolina



Where enlightening strikes

Comprehensive Annual Financial Report

For the Year Ended June 30, 2006

Prepared By:

The Office of the Executive Director of Finance

**THE SCHOOL DISTRICT OF GREENVILLE COUNTY
GREENVILLE, SOUTH CAROLINA**

**THE SCHOOL DISTRICT OF GREENVILLE COUNTY
GREENVILLE, SOUTH CAROLINA**

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**THE SCHOOL DISTRICT OF GREENVILLE COUNTY
GREENVILLE, SOUTH CAROLINA**



BOARD OF TRUSTEES

JUNE 30, 2006



Front row, from left to right: Danna Edwards, Leola Robinson, Tommie Reece, Ann Sutherlin, Debi Bush.

Back row, from left to right: Chuck Saylors, Pat Sudduth, Roger Meek, Dr. Crystal O'Connor, Dr. Grady Butler, Keith Ray II, D. Min., William Herlong.



THE SCHOOL DISTRICT OF GREENVILLE COUNTY

ADMINISTRATIVE STAFF

SuperintendentDr. Phinnize J. Fisher

Deputy Superintendent of SchoolsDr. Lonnie Luce

Deputy Superintendent for OperationsMr. Burke Royster

Associate Superintendent for Student PerformanceDr. Kathy Howard

Assistant Superintendent of Special EducationMrs. Mary Smith

Executive Director of:

ConstructionMr. Bryan Morris

Education TechnologyMr. Jim Finger

FinanceMr. Jeff Knotts

Human ResourcesMr. Pat Mitchell

Planning, Demographics & TransportationMrs. Betty Farley

Student Personnel ServicesVacant

Legal CounselMr. Wade Cleveland

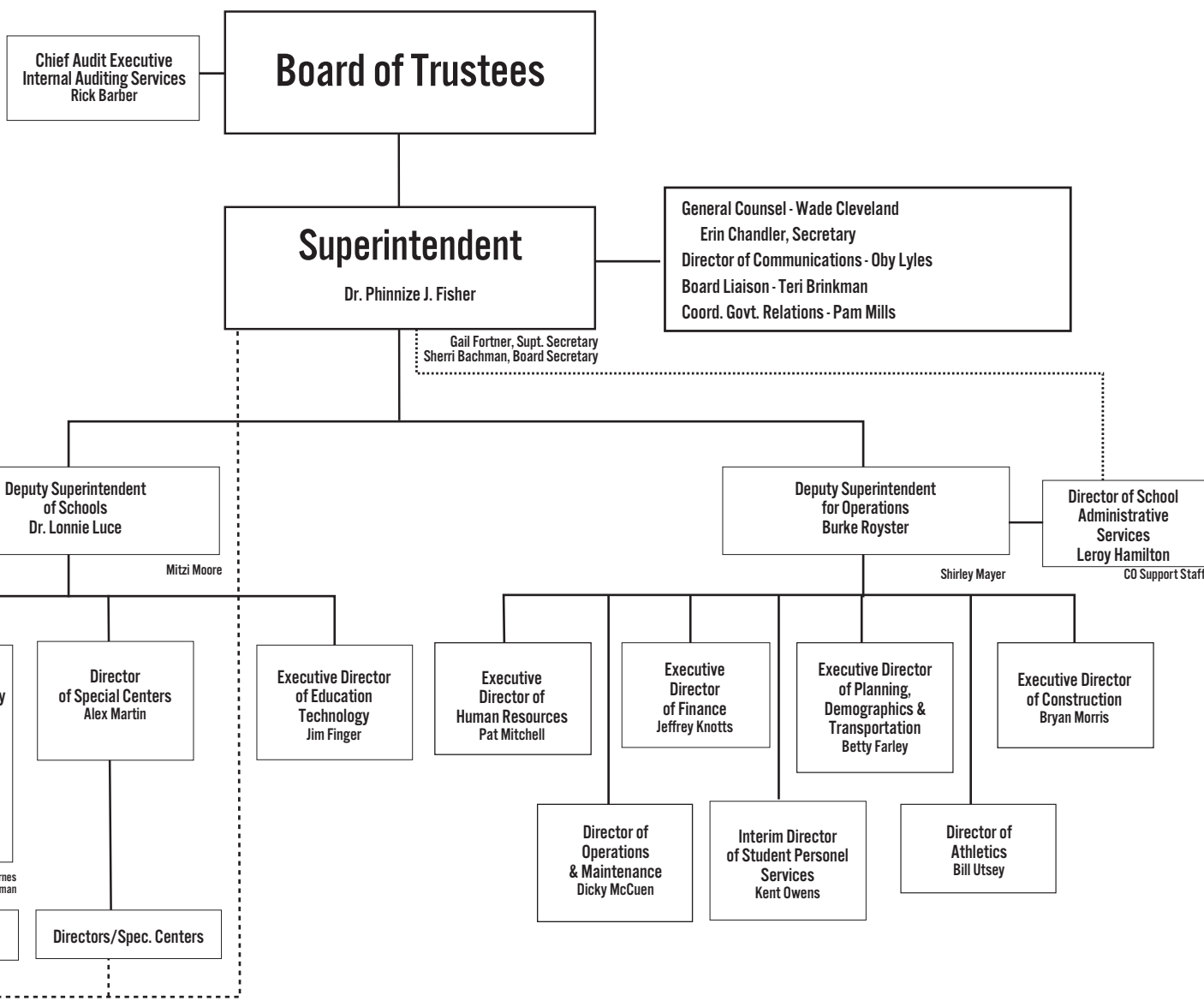
Board LiaisonMrs. Terri Brinkman



GREENVILLE COUNTY SCHOOLS

Where enlightening strikes

August 8, 2006



**THE SCHOOL DISTRICT OF GREENVILLE COUNTY
GREENVILLE, SOUTH CAROLINA**



October 20, 2006

To the Citizens of The School District of Greenville County

We are pleased to submit to you the comprehensive annual financial report (“CAFR”) of The School District of Greenville County (“School District”) for the fiscal year ended June 30, 2006. State law requires that all school districts publish within five months of the close of each fiscal year a complete set of basic financial statements presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management’s representations concerning the finances of the School District. 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 School District of Greenville County has established a comprehensive internal control framework that is designed both to protect the School District’s assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of The School District of Greenville County’s basic financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the School District’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the basic 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 respects.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and compliance.

- The introductory section includes this transmittal letter, a list of members of the Board of Trustees, an organization chart, and two certificates of excellence in financial reporting.
- The financial section includes the independent auditors’ report, the management’s discussion and analysis (which is a narrative overview and analysis of the basic financial statements), the basic financial statements (which contains the government wide, governmental fund, proprietary fund and fiduciary fund basic financial statements), the notes to the basic financial statements, and other supplementary information section, which includes combining and individual fund presentations that provide additional detail information for the governmental funds, the enterprise fund, the fiduciary fund, and the discretely presented component units.
- The statistical section provides tables that give the user a historical perspective that will enhance the analysis of the School District’s financial condition.
- The compliance section contains the independent auditors’ report on compliance and internal control over financial reporting as well as the schedule of expenditures of federal awards.

The School District of Greenville County's basic financial statements have been audited by Greene, Finney & Horton, LLP. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of The School District of Greenville County for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall basic financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that The School District of Greenville County's basic financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the basic financial statements of The School District of Greenville County 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 basic 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 compliance section of this comprehensive annual financial report.

The accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The School District of Greenville County's MD&A can be found immediately following the report of the independent auditors.

Profile of The School District of Greenville County

Long recognized as a leader in public education, The School District of Greenville County is the largest school district in South Carolina and the 61st largest district in the nation, with approximately 65,000 students. It is a consolidated, unified system formed in 1951 when 82 local school districts merged. Comprised of virtually all of Greenville County and a small portion of Laurens and Spartanburg counties, the School District of Greenville County spans 789 square miles and consists of more than 100 schools and facilities. We offer a large variety of excellent educational programs. All 79 of our K-12 schools and four career centers are accredited by the South Carolina Department of Education and the Southern Association of Colleges and Schools.

A 12-member Board of Trustees governs the School District of Greenville County. Programs and policies are established by this publicly elected Board that serves 4-year terms and meets the fourth Tuesday of each month except July. The day-to-day administration of the School District is the responsibility of the Superintendent, who is appointed by the School Board.

Each day, the School District challenges and inspires approximately 65,000 young people in grades K-12 to meet the demands of the future. In addition to the 79 elementary, middle, and high schools, the School District has several special centers. These include four career centers, a fine arts center, an international studies center at twelve schools (elementary, middle and high), Child Development Centers, Roper Mountain Science Center, and Washington Center for the Handicapped.

In addition, Charles Aiken Academy, Greenville Technical Charter High School, Langston Middle Charter School, Meyer Center for Special Children, and Wohali Academy are charter schools under legislation enacted on June 18, 1996. A charter school is considered a public school and these schools are a part of The School District of Greenville County for purposes of state law and state constitution. Because the charter schools are fiscally dependent on the School District, their exclusion would cause the School District's basic financial statements to be incomplete. Therefore, the financial statements of the charter schools are included in those of the School District as discretely presented component units. In addition, Building Equity Sooner for Tomorrow, Inc. ("BEST"), a not-for-profit 501 (c)(3) corporation, is also a component unit of the District; this entity is treated as a "blended component unit" for financial statement purposes. Detailed information about BEST is described in the School District's MD&A.

Budgetary Control

The School District's budget process is developed using, as a foundation, the School District's Mission Statement and The Education Plan as developed by the citizens and personnel of The School District of Greenville County.

School District Mission Statement

We provide educational experiences, in cooperation with the home and community that prepare students for lifelong learning and for ethical, productive participation in a democratic society and the global community.

Education Plan *Priorities for Performance*

- ✓ Goal One: Raise the Academic Challenge and Performance of Each Student
 - ✓ Goal Two: Ensure Quality Personnel in All Positions
 - ✓ Goal Three: Provide a School Environment Supportive of Learning
 - ✓ Goal Four: Effectively Manage and Further Develop Necessary Financial Resources
 - ✓ Goal Five: Improve Public Understanding and Support of Public Schools
-

The School District of Greenville County maintains budgetary control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Trustees. Activities of the general fund, capital projects funds, and debt service fund are included in the annual appropriated budget. The legal level of control is at the fund level. To ensure compliance, budgetary controls are established by function and activity within each individual fund. Budgeted dollars cannot be transferred between funds without Board approval. The budgets of the School District may be amended during the year by preparing an update and submitting to the Board of Trustees for approval. The School District also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end.

Factors Affecting Financial Condition

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

Local Economy

Greenville County has developed into one of the Southeast region's premiere cities for business. It serves as the service, retail, and manufacturing center for northwest South Carolina. Over the last quarter century, Greenville County has experienced a healthy industrial growth rate in terms of both new industry location and expansion of existing facilities. It has long been recognized as a prime location for international investment. As a result of a strong business climate and a high quality of life, 28 international companies have located or expanded existing business facilities in the county since 1999 which represents investments of approximately \$486 million and more than 800 new jobs. Greenville County is the location of many major companies, foreign and domestic. Some of the major companies located in Greenville County include Cryovac Corporation, Kemet Electronics Corporation, Michelin North America, GE Gas Turbine LLC, Hitachi Electronic Products, Mitsubishi Polyester Film and Lockheed Martin Corporation.

During the past 15 years, strong county economic planning efforts have enabled the manufacturing sector to diversify away from historically concentrated textile employment toward high technology. During the same period, the service and trade sectors have continued to expand. For the 2005 year, Greenville County led the upstate region in the number of announced jobs created with 922 new jobs. Even with a sluggish economy, the unemployment rate in the county for June 2006 was 5.6% which is well below the statewide rate of 6.7%.

Over the past decade, capital investment in the Upstate exceeded \$6.5 billion. Recently, announced capital investment in Greenville County included the International Center for Automotive Research ("ICAR") which will serve the state's existing automotive industries and help attract new ones by bringing together a graduate program specializing in systems integration with commercially viable automotive and motor sports R&D, testing laboratories and other support facilities. In 2005, the manufacturing industry announced capital investments that exceeded \$110 million.

Greenville County's location, access to the interstate system, diverse employment base, and educational institutions, favor a continuation of this growth trend toward more economic development and new jobs.

Long-Term Financial Planning

As evidenced by the basic financial statements contained in this report, Capital Projects are one of the main focus areas of the School District's financial planning. Prior to the adoption of the Long Range Facilities Plan, the School District sold general obligation bonds annually with eight-plus year repayment schedules. The School District has restructured its debt and shortened the repayment schedule of bonds; thereby reducing interest cost and freeing up additional capacity within the constitutional 8% debt limit.

In March 2002, the School District entered into a contract with Institutional Resources to address pressing facility needs. The contract included a financing component that established a non-profit foundation, referred to as BEST. As of June 2006, the non-profit had issued four series of bonds for a total of \$1.03 billion in Installment Purchase Revenue Bonds to fund the BEST construction program. These bonds will be matured for the most part with annual general obligation debt issued by the School District, within its 8% debt limitation, and future earnings on investments. These bonds are scheduled to be paid off in the year 2028.

Cash Management Policies and Practices

The School District pursues an aggressive cash management program by expediting the receipt of revenues and prudently depositing and investing available cash balances. Cash temporarily idle during the year was invested in the South Carolina Local Government Investment Pool. The average yield on investments was 4.19%. The amount of interest earned for the general fund was \$3,469,969.

At the end of each business day, collected balances in the School District's operating bank accounts are deposited into a SWEEP account. These funds are invested in securities according to state law.

Risk Management

The School District has a program of risk management supervised by the Director of Disbursement Services and supported by a Risk Insurance/Benefits Coordinator and a Safety/Loss Prevention Coordinator. The School District also utilizes the services of a firm for review, audit and analysis of losses; safety programs, policy design and coverage premiums as well as advising the School District on general risk issues.

A comprehensive package of employee benefits insurance is administered by the School District on behalf of its' employees. Benefit insurance coverage is provided through the State of South Carolina's program as well as specific carriers selected by the School District. Commercial insurance is carried to cover potential liabilities. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any previous policy years. The School District's

Workers' Compensation program is currently "self-insured" with funds budgeted through the General Fund. Funds are available to pay claims, claim reserves and the administrative costs of the program.

Pension/Retirement Plan

Substantially all School District employees are members of a pension plan. The South Carolina Retirement System administers five public pension plans; four are defined contribution plans (optional retirement plans) and one is a defined benefit plan. The Retirement System is a division of the South Carolina State Budget and Control Board. Currently, the majority of district employees are participants in the defined benefit plan.

The Systems' defined benefit plan offers retirement benefits, disability benefits, cost of living adjustments, life insurance and survivor benefits. The plan's provisions are established under Title 9 of the SC Code of Laws. Comprehensive Annual Financial Reports containing financial statements and required supplementary information for the System is issued and publicly available by writing the SC Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

The Optional Retirement Plans are administered by independent companies selected by the South Carolina Retirement Systems.

Awards and Acknowledgements

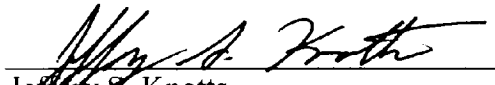
The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to The School District of Greenville County for its CAFR for the fiscal year ended June 30, 2005. This was the nineteenth consecutive year that the School District has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

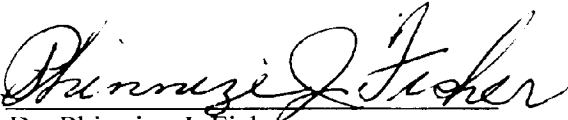
In addition, the School District was also awarded The Association of School Business Officials International Certificate of Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This award is the highest form of recognition in school financial reporting issued by the Association of School Business Officials International. The School District is pleased to receive this award and we believe our current report continues to conform to the Program requirements as a Certificate of Excellence is valid for one year only.

When a project of this magnitude is undertaken many people are deserving of thanks. Even so, sincere appreciation is expressed to the entire staff in the Finance Department who's dedicated and efficient services have made the timely preparation of this report possible. Thanks also to The School District of Greenville County's Board of Trustees for your support of excellence in financial reporting and fiscal integrity.

Respectfully submitted,



Jeffrey S. Knotts
Executive Director of Finance



Dr. Phinnize J. Fisher
Superintendent

**THE SCHOOL DISTRICT OF GREENVILLE COUNTY
GREENVILLE, SOUTH CAROLINA**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The School District
of Greenville County,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

THE SCHOOL DISTRICT OF GREENVILLE COUNTY

For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2005

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

President

Interim Executive Director