

**CITY OF FOUNTAIN INN,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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**CITY OF FOUNTAIN INN, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
DECEMBER 31, 2010**

Established

1886

Mayor

Gary Long

CITY COUNCIL MEMBERS

Jay Thomason
Celia Tuttle
Rose Ann Woods
Erick Chapman
Berry Woods, Jr.
Matthew King

CITY ADMINISTRATOR

Eddie Case

CITY ATTORNEY

David Holmes

MUNICIPAL JUDGE

Isaac Johnson



INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of City Council, and City Administrator
City of Fountain Inn
Fountain Inn, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fountain Inn, South Carolina as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, Budgetary Comparison and other post employment benefit schedules, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and other supplementary information as listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Elliott Davis, LLC

Greenwood, South Carolina
April 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Fountain Inn's (the "City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2010. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by \$21,906,542 (*net assets*). Of this amount, \$9,812,830 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$138,460 as revenues of \$14,389,555 exceeded expenses of \$14,251,095.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of \$2,816,206, a decrease of \$1,105,185 in comparison with the prior year balance. The above decrease in the fund balance is primarily the result of completion of the Commerce Park and other capital projects.
- Unreserved fund balance for the General Fund was \$1,959,647 at December 31, 2010, or 28.8% of total General Fund expenditures for the year ended December 31, 2010. The unreserved fund balance was \$2,359,716 at December 31, 2009, or 39.1% of total General Fund expenditures for the year ended December 31, 2009.
- The City's capital assets increased during 2010 by \$1,063,915 (6.6%) to \$17,086,648 at December 31, 2010. The increase was due to current year additions of \$2,209,578, offset by depreciation expense of \$1,015,002 and net disposals of \$130,662.
- The City's long term obligations decreased during 2010 by \$200,726 (2.1%) to \$9,458,747 at December 31, 2010. The decrease was driven by the issuance of a 2010 General Obligation Bond in the amount of \$330,000, offset by principal payments of \$547,423 made during the year.
- The City's General Fund revenues were \$5,795,321 and \$5,444,146 for 2010 and 2009, respectively. This increase is primarily due to increases in property tax revenues, licenses and permits and performing arts revenues.
- The City's General Fund expenditures were \$6,796,596 for 2010, compared to \$6,039,527 for the prior year. This increase is primarily due to increased capital outlay associated with Commerce Park and other capital projects.
- Business-type activities revenues were \$8,506,506 for 2010, compared to \$8,661,958 for the prior year. This decrease is primarily due to lower pricing in natural gas sales. Business-type activities expenses were \$7,823,591 for 2010, compared to \$7,624,865 for the prior year. This increase is primarily driven by higher costs in natural gas purchases, personnel costs, materials and supplies and interest expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - *Introductory Section*, *Financial Section* (which includes management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information), and *Compliance Section*.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City’s operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as the natural gas and sewer activities.
 - *Fiduciary fund* statements provide information about resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that of the proprietary funds.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of City of Fountain Inn’s Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except Fiduciary funds)	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private businesses.	Instances in which the City is the agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health, or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The government-wide financial statements of the City are divided into two categories:

- *Governmental activities* - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* - The City charges fees to customers to help it cover the costs of certain services it provides.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- *Governmental funds* - Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

- *Fiduciary funds* - The City acts as agent, or *fiduciary*, for other entities resources. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets

The City's combined net assets increased \$138,460 or 0.6% between years 2010 and 2009. (See Table A-1.)

Table A-1
City of Fountain Inn's Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current assets	\$ 3,521,659	\$ 4,679,694	\$ 12,489,028	\$ 12,347,833	\$ 16,010,687	\$ 17,027,527
Capital assets, net	7,586,413	6,861,980	9,500,235	9,160,753	17,086,648	16,022,733
Total assets	11,108,072	11,541,674	21,989,263	21,508,586	33,097,335	33,050,260
Liabilities						
Other liabilities	634,103	593,373	1,097,943	1,029,332	1,732,046	1,622,705
Long-term liabilities	2,441,554	2,372,535	7,017,193	7,286,938	9,458,747	9,659,473
Total liabilities	3,075,657	2,965,908	8,115,136	8,316,270	11,190,793	11,282,178
Net assets						
Invest in capital assets,						
Net of related debt	5,653,518	4,011,411	5,273,052	5,818,816	10,926,570	9,830,227
Restricted	397,761	947,254	769,381	462,003	1,167,142	1,409,257
Unrestricted	1,981,136	3,617,101	7,831,694	6,911,497	9,812,830	10,528,598
Total nets assets	\$ 8,032,415	\$ 8,575,766	\$ 13,874,127	\$ 13,192,316	\$ 21,906,542	\$ 21,768,082

The net assets of our governmental activities decreased \$543,351 or 6.3%, primarily related to lower capital grants and contributions capital contribution of fire station additions. Net assets of our business-type activities increased \$681,811 or 5.2%. This is primarily the result of the favorable cost management and maintenance of revenue stream.

Changes in net assets. The City's total revenues decreased by 4.8% to \$14,389,555. (See Table A-2.) Approximately 19.1% of the City's revenue is derived from property taxes, 69.8% from fees charged for services, 3.7% from grants and contributions and 7.4% is from state and other sources.

The total cost of all programs and services increased \$900,748 or 6.7%. The City's expenses cover a range of services, with about 20.2% related to public safety and 54.9% related to enterprise fund operations.

Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table A-2
Changes in City of Fountain Inn's Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 1,553,747	\$ 1,447,406	\$ 8,484,393	\$ 8,622,235	\$ 10,038,140	\$ 10,069,641
Operating grants and contributions	308,078	310,879	-	-	308,078	310,879
Capital grants and contributions	226,802	945,860	-	-	226,802	945,860
General revenues:						
Property taxes	2,752,984	2,585,072	-	-	2,752,984	2,585,072
Administrative fees	700,000	700,000	-	-	700,000	700,000
Other	341,438	471,301	22,113	39,723	363,551	511,024
Total revenues	5,883,049	6,460,518	8,506,506	8,661,958	14,389,555	15,122,476
Program expenses						
General government	1,036,822	684,241	-	-	1,036,822	684,241
Judicial	298,600	256,728	-	-	298,600	256,728
Public safety	2,872,062	2,594,970	-	-	2,872,062	2,594,970
Streets and sanitation	937,694	958,840	-	-	937,694	958,840
Recreation	551,844	583,183	-	-	551,844	583,183
Civic center/performing arts	464,369	405,184	-	-	464,369	405,184
Economic development	136,032	133,065	-	-	136,032	133,065
Interest and other charges	130,081	109,271	-	-	130,081	109,271
Natural gas	-	-	7,201,663	7,025,487	7,201,663	7,025,487
Sewer	-	-	621,928	599,378	621,928	599,378
Total expenses	6,427,504	5,725,482	7,823,591	7,624,865	14,251,095	13,350,347
Change in net assets before transfers	(544,455)	735,036	682,915	1,037,093	138,460	1,772,129
Transfers in (out)	1,104	183,395	(1,104)	(183,395)	-	-
Change in net assets	(543,351)	918,431	681,811	853,698	138,460	1,772,129
Net assets, beginning of year	8,575,766	7,657,335	13,192,316	12,338,618	21,768,082	19,995,953
Net assets, end of year	\$ 8,032,415	\$ 8,575,766	\$ 13,874,127	\$ 13,192,316	\$ 21,906,542	\$ 21,768,082

Governmental Activities

Revenues for the City's governmental activities decreased \$577,469, or 8.9%, while total expenses increased \$702,022 or 12.3%.

The City is reliant on local property taxes to pay for many of the services provided to its citizens. The current millage rate for local property taxes for the City is 63.9 mills for Greenville County, which includes 11.6 mills for debt service, 63.9 mills for Laurens County, which includes 11.6 mills for debt service and 33.7 mills for the Fire Service Area of Greenville County and a fixed fee of approximately \$193,000 from the Fire Service District of Laurens County. The assessed value is 4% of market value for residential property, 6% for commercial property, and 10.5% for industrial property. Local property taxes and fire service area revenues accounted for 62.1% (\$3,653,390) of total General Fund revenue for the year ending December 31, 2010.

Business-Type Activities

Revenues of the City's business-type activities decreased \$155,452 or 1.8%, while expenses increased \$198,726, or 2.6%, primarily due to natural gas pricing and capacity management. (Refer to Table A-2.)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,816,206, or 28.2% less than last year. The primary reasons for the governmental fund's decrease mirror those highlighted in the analysis of governmental activities.

General Fund Budgetary Highlights

General fund expenditures were \$283,522 higher than budgeted amounts. This is primarily the result of higher than budgeted judicial, public safety, streets and sanitation, and civic center expenditures. The City incurred unbudgeted expenditures related to completion of capital projects in the amount of \$932,091.

Resources available for appropriation were \$536,849 above the budgeted amount. As noted earlier, property taxes, fines and forfeits and grants revenues were most notably in excess of budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$17,086,648, net of depreciation, in a broad range of capital assets. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$1,063,915, or 6.6% over last year.

Table A-3
City of Fountain Inn's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,066,591	\$ 1,066,591	\$ 100,125	\$ 43,676	\$ 1,166,716	\$ 1,110,267
Construction in progress	-	512,875	-	-	-	512,875
Buildings	4,543,501	3,151,390	456,251	413,317	4,999,752	3,564,707
Infrastructure / utility systems	569,752	462,386	8,548,488	8,243,480	9,118,240	8,705,866
Machinery, equipment, furniture & fixtures	456,154	567,053	341,384	378,373	797,538	945,426
Vehicles	950,415	1,101,685	53,987	81,908	1,004,402	1,183,593
Totals	\$ 7,586,413	\$ 6,861,980	\$ 9,500,235	\$ 9,160,754	\$ 17,086,648	\$ 16,022,734

This year's major capital asset additions included:

- \$1.4 million in the completed Commerce Park complex.
- \$689 thousand of Sewer rehabilitation.

More detailed information about the City's capital assets is presented in Notes 1 and 5 to the financial statements.

Long-term Debt

At year-end the City had \$9,458,747 in long term obligations outstanding - a decrease of 2.1% over last year, as shown in Table A-4. More detailed information about the City's long-term debt is presented in Note 8 to the financial statements.

Table A-4
City of Fountain Inn's Outstanding Debt

Long-term obligations	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 1,220,000	\$ 1,080,000	\$ -	\$ -	\$ 1,220,000	\$ 1,080,000
Revenue bonds	-	-	6,885,000	7,080,000	6,885,000	7,080,000
Notes payable - master lease	186,473	239,341	116,087	195,642	302,560	434,983
Ground lease/ purchase.	970,000	1,000,000	-	-	970,000	1,000,000
Compensated absences	65,081	53,194	16,106	11,296	81,187	64,490
Totals	\$ 2,441,554	\$ 2,372,535	\$ 7,017,193	\$ 7,286,938	\$ 9,458,747	\$ 9,659,473

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City is geographically located in Greenville and Laurens Counties. Unemployment rates in these two counties as of year end was 9.0% and 11.0%, respectively, in comparison to the state rate of 10.9% and the national rate of 9.4% at the same period end.
- Inflationary trends in the region compare favorably to national indices.

These indicators were taken into account when adopting the general fund budget for 2011. Amounts available for appropriation in the general fund budget are \$5,824,459 which is an increase of \$565,987, or 10.8%, when compared with the final 2010 budget, and \$29,138 greater than actual 2010 revenues.

Expenditures for 2011 are budgeted at \$5,894,410, which is an increase of \$313,427, or 5.6%, when compared to the final 2010 budget, and an increase of \$29,905, or 0.5% greater than actual 2010 expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions about this report or requests for additional financial information should be directed to the City Clerk, 200 North Main Street, Fountain Inn, South Carolina, 29644, or by visiting www.fountaininn.org.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 575,618	\$ 3,351,180	\$ 3,926,798
Restricted cash and cash equivalents	894,501	3,543,285	4,437,786
Due from County Treasurer	659,004	-	659,004
Investments	-	3,920,165	3,920,165
Property taxes receivable, net	1,335,450	-	1,335,450
Accounts receivable	-	1,659,813	1,659,813
Due from other governments	42,968	-	42,968
Inventory	-	14,585	14,585
Prepays	14,118	-	14,118
Capital assets:			
Non- depreciable	1,066,591	100,125	1,166,716
Depreciable, net	6,519,822	9,400,110	15,919,932
Total assets	<u>\$ 11,108,072</u>	<u>\$ 21,989,263</u>	<u>\$ 33,097,335</u>
LIABILITIES			
Accounts payable	\$ 132,411	\$ 827,106	\$ 959,517
Accrued salaries and fringe benefits	246,166	30,411	276,577
Accrued interest payable	23,995	51,625	75,620
Customer deposits	209,660	189,259	398,919
Unearned revenue	19,718	-	19,718
Net other post employment benefit obligation	1,695	-	1,695
Internal balances	458	(458)	-
Non-current liabilities			
Due within one year	353,683	309,505	663,188
Due in more than one year	2,087,871	6,707,688	8,795,559
Total liabilities	<u>3,075,657</u>	<u>8,115,136</u>	<u>11,190,793</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,653,518	5,273,052	10,926,570
Restricted for:			
Hospitality tax	114,312	-	114,312
Fire operations	185,374	-	185,374
Museum	39,656	-	39,656
Cultural arts	25,772	-	25,772
Victims assistance	32,647	-	32,647
Debt service	-	769,381	769,381
Unrestricted	1,981,136	7,831,694	9,812,830
Total net assets	<u>\$ 8,032,415</u>	<u>\$ 13,874,127</u>	<u>\$ 21,906,542</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business type Activities	
PRIMARY GOVERNMENT							
General government	\$ 915,967	\$ 44,713	\$ 37,375	\$ -	\$ (833,879)	\$ -	\$ (833,879)
Judicial	298,600	-	-	-	(298,600)	-	(298,600)
Public safety	2,872,062	1,159,283	79,237	9,919	(1,623,623)	-	(1,623,623)
Streets and sanitation	937,694	31,335	11,608	-	(894,751)	-	(894,751)
Recreation	551,844	78,104	68,718	-	(405,022)	-	(405,022)
Civic center / performing arts	585,224	240,312	-	-	(344,912)	-	(344,912)
Economic development	136,032	-	111,140	216,983	192,091	-	192,091
Interest and other charges	130,081	-	-	-	(130,081)	-	(130,081)
Total governmental activities	6,427,504	1,553,747	308,078	226,902	(4,338,777)	-	(4,338,777)
Business-type activities							
Natural gas	7,201,663	8,004,027	-	-	-	802,364	802,364
Sewer	621,928	480,366	-	-	-	(141,562)	(141,562)
Total business-type activities	7,823,591	8,484,393	-	-	-	660,802	660,802
Total primary government	\$ 14,251,095	\$ 10,038,140	\$ 308,078	\$ 226,902	\$ (4,338,777)	\$ 660,802	\$ (3,677,975)

General revenues			
Taxes:			
Property Taxes	2,752,984	-	2,752,984
Business Licenses	219,453	-	219,453
Administrative Fees	700,000	-	700,000
Intergovernmental Revenue	154,913	-	154,913
Donations	81,447	-	81,447
Loss on disposal of capital assets	(121,897)	-	(121,897)
Investment Earnings	7,422	22,113	29,535
Transfers	1,104	(1,104)	-
Total general revenues and transfers	3,795,426	21,009	3,816,435
Change in net assets	(543,351)	681,811	138,460
Net assets beginning of year	8,575,766	13,192,316	21,768,082
Net assets end of year	\$ 8,032,415	\$ 13,874,127	\$ 21,906,542

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Hospitality Tax	Capital Projects - Commerce Park	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 385,939	\$ 116,274	\$ -	\$ 73,405	\$ 575,618
Restricted cash and cash equivalents	790,497	-	78,232	25,772	894,501
Due from county treasurer	659,004	-	-	-	659,004
Property taxes receivable, net	1,335,450	-	-	-	1,335,450
Accounts receivables	-	-	-	-	-
Due from other governments	42,968	-	-	-	42,968
Due from other funds	1,504	-	-	-	1,504
Prepays	14,118	-	-	-	14,118
Total assets	<u>\$ 3,229,480</u>	<u>\$ 116,274</u>	<u>\$ 78,232</u>	<u>\$ 99,177</u>	<u>\$ 3,523,163</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	132,411	-	-	-	132,411
Accrued salaries and fringe benefits	246,166	-	-	-	246,166
Deposits	209,660	-	-	-	209,660
Due to other funds	-	1,962	-	-	1,962
Deferred property taxes	97,040	-	-	-	97,040
Deferred and unearned revenue	19,718	-	-	-	19,718
Total liabilities	<u>704,995</u>	<u>1,962</u>	<u>-</u>	<u>-</u>	<u>706,957</u>
FUND BALANCES					
Reserved					
Prepays	14,118	-	-	-	14,118
Capital projects	365,346	-	78,232	-	443,578
Fire operations	185,374	-	-	-	185,374
Museum	-	-	-	39,656	39,656
Hospitality tax	-	114,312	-	-	114,312
Cultural arts	-	-	-	25,772	25,772
Victims assistance	-	-	-	32,647	32,647
Unreserved:					
Designated for:					
Master plan	55,663	-	-	-	55,663
Equipment replacement	100,000	-	-	-	100,000
Contingency	110,596	-	-	-	110,596
Undesignated, reported in:					
General fund	1,693,388	-	-	-	1,693,388
Special revenue funds	-	-	-	1,102	1,102
Total fund balances	<u>2,524,485</u>	<u>114,312</u>	<u>78,232</u>	<u>99,177</u>	<u>2,816,206</u>
Total liabilities and fund balances	<u>\$ 3,229,480</u>	<u>\$ 116,274</u>	<u>\$ 78,232</u>	<u>\$ 99,177</u>	<u>\$ 3,523,163</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

TOTAL FUND BALANCE- GOVERNMENTAL FUNDS		\$ 2,816,206
Amounts reported for governmental activities in the Statement of Net Assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets was \$14,707,261 and the accumulated depreciation was \$7,120,848		7,586,413
Property taxes receivable will be collected this year, but are not available soon enough for the current period's expenditures, and therefore have been deferred in the fund financial statements.		97,040
Accrued interest on long-term obligations in governmental accounting is not due or payable in the current period and therefore are not reported as liabilities in the funds.		(23,995)
Long-term liabilities, including bonds and notes, are not due or payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities consisted of the following:		
Long-Term Debt (Including Notes Payable- Master Lease)	(2,376,473)	
Compensated Absences (Sick Pay and Vacations)	(65,081)	
Other post-employment benefit (OPEB) liability	(1,695)	(2,443,249)
TOTAL NET ASSETS- GOVERNMENTAL ACTIVITIES		\$ 8,032,415

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended December 31, 2010

	General	Hospitality Tax	Capital Projects - Commerce Park	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,842,231	\$ 111,140	\$ -	\$ -	\$ 2,953,371
Fire service area revenues	900,406	-	-	-	900,406
Licenses and permits	219,453	-	-	-	219,453
Intergovernmental	154,913	-	-	-	154,913
Fines and forfeitures	244,890	-	-	13,987	258,877
Charges for services	154,152	-	-	-	154,152
Administrative fees	700,000	-	-	-	700,000
Performing arts	186,602	-	-	-	186,602
Rent- Civic Center	53,710	-	-	-	53,710
Donations	-	-	-	81,447	81,447
Interest	6,459	622	-	341	7,422
Grants	323,740	-	-	100,100	423,840
Other	8,765	-	-	-	8,765
Total revenues all sources	<u>5,795,321</u>	<u>\$ 111,762</u>	<u>\$ -</u>	<u>195,875</u>	<u>6,102,958</u>
EXPENDITURES					
Current:					
General government	746,585	48,275	-	-	794,860
Judicial	298,600	-	-	-	298,600
Public safety					
Police	1,563,279	-	-	8,159	1,571,438
Fire	1,097,302	-	-	-	1,097,302
Streets and sanitation	799,481	-	-	-	799,481
Recreation	492,951	-	-	-	492,951
Civic Center/Performing Arts/Museum	376,833	-	-	120,930	497,763
Economic development	136,032	-	-	-	136,032
Commerce Park	18,744	-	-	-	18,744
Capital outlay	959,252	-	491,257	-	1,450,509
Debt service:					
Principal	242,868	-	30,000	-	272,868
Interest	42,389	-	44,030	-	86,419
Lease issue costs	22,280	-	-	-	22,280
Total expenditures	<u>6,796,596</u>	<u>48,275</u>	<u>565,287</u>	<u>129,089</u>	<u>7,539,247</u>
Excess of revenues over (under) expenditures	<u>(1,001,275)</u>	<u>63,487</u>	<u>(565,287)</u>	<u>66,786</u>	<u>(1,436,289)</u>
Other financing sources:					
Bond Proceeds	330,000	-	-	-	330,000
Transfers in	1,104	-	92,291	5,970	99,365
Transfers out	(47,158)	(51,103)	-	-	(98,261)
Total other financing sources	<u>283,946</u>	<u>(51,103)</u>	<u>92,291</u>	<u>5,970</u>	<u>331,104</u>
Net change in fund balances	(717,329)	12,384	(472,996)	72,756	(1,105,185)
Fund balances, beginning of year	3,241,814	101,928	551,228	26,421	3,921,391
Fund balances, end of year	<u>\$ 2,524,485</u>	<u>\$ 114,312</u>	<u>\$ 78,232</u>	<u>\$ 99,177</u>	<u>\$ 2,816,206</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - Total government funds	\$	(1,105,185)
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues that do not provide financial resources with which to pay for current expenditures are reported as deferred revenues in the fund financial statements. However, such items are reported as revenues in the Statements of Activities.		(89,247)
Repayment of bonds and notes payable principle is recognized in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This amount is the total reduction in the outstanding principle in the current year.		272,868
Bonds and notes payable proceeds provide current financial resources to governmental funds, but issuing debt or entering into notes payable increases long-term liabilities in the Statement of Net Assets.		(330,000)
Interest on long term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it due for payment.		(2,638)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(11,887)
The cost of capital assets disposed of during the current year is expensed in the statement of of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the undepreciated cost of the disposed assets.		(130,662)
In the Statement of Activities, the cost of other post-employment benefits is measured by the increase in the net OPEB obligation during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for the OPEB costs. This is the amount of the increase in the OPEB obligation in excess of the amount paid in the current period.		(1,695)
Governmental funds report capital asset additions as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciations expense in the current period.		
Capital asset additions	1,371,686	
Depreciation expense	(516,591)	855,095
Total change in net assets of governmental activities	\$	(543,351)

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-Type Activities		
	Natural Gas	Sewer	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,969,434	\$ 381,746	\$ 3,351,180
Cash and cash equivalents - restricted	1,878,632	1,664,653	3,543,285
Investments	3,920,165	-	3,920,165
Receivables, net of allowance for doubtful accounts			
Utility Services	1,539,809	117,971	1,657,780
Interest	2,033	-	2,033
Inventory	14,585	-	14,585
Due from other funds	328	130	458
Total current assets	<u>10,324,986</u>	<u>2,164,500</u>	<u>12,489,486</u>
Noncurrent Assets			
Nondepreciable capital assets	100,125	-	100,125
Depreciable capital assets, net	5,087,229	4,312,881	9,400,110
Total noncurrent assets	<u>5,187,354</u>	<u>4,312,881</u>	<u>9,500,235</u>
TOTAL ASSETS	<u>15,512,340</u>	<u>\$ 6,477,381</u>	<u>21,989,721</u>
LIABILITIES			
Current Liabilities			
Accounts payable	828,004	(898)	827,106
Accrued salaries and fringe benefits	24,491	5,920	30,411
Accrued interest payable	26,075	25,550	51,625
Customer deposits	189,259	-	189,259
Compensated absences	3,697	330	4,027
Revenue bond payable	185,000	40,000	225,000
Notes payable (master lease)	80,478	-	80,478
Total current liabilities	<u>1,337,004</u>	<u>70,902</u>	<u>1,407,906</u>
Noncurrent Liabilities			
Compensated absences	11,092	987	12,079
Revenue bonds payable	2,765,000	3,895,000	6,660,000
Notes payable (master lease)	35,609	-	35,609
Total noncurrent liabilities	<u>2,811,701</u>	<u>3,895,987</u>	<u>6,707,688</u>
TOTAL LIABILITIES	<u>4,148,705</u>	<u>3,966,889</u>	<u>8,115,594</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,640,058	1,632,994	5,273,052
Restricted for debt service	359,841	409,540	769,381
Unrestricted	7,363,736	467,958	7,831,694
TOTAL NET ASSETS	<u>\$ 11,363,635</u>	<u>\$ 2,510,492</u>	<u>\$ 13,874,127</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the year ended December 31, 2010

	Business-Type Activities		
	Natural Gas	Sewer	Total
OPERATING REVENUES			
Charges for service			
Natural gas sales	\$ 7,861,811	\$ -	\$ 7,861,811
Sewer fees	-	480,366	480,366
Other charges for services	142,216	-	142,216
TOTAL OPERATING REVENUES	8,004,027	480,366	8,484,393
OPERATING EXPENSES			
Natural gas purchases	4,774,211	-	4,774,211
Administrative fees	700,000	-	700,000
Personnel services	753,811	158,780	912,591
Contractual services	26,071	-	26,071
Materials and supplies	72,137	3,955	76,092
Other operating expenses	475,180	89,967	565,147
Depreciation	288,086	210,325	498,411
TOTAL OPERATING EXPENSES	7,089,496	463,027	7,552,523
OPERATING INCOME (LOSS)	914,531	17,339	931,870
NONOPERATING REVENUES (EXPENSES)			
Investment income	21,620	493	22,113
Interest expense	(112,167)	(158,901)	(271,068)
TOTAL NONOPERATING REVENUES (EXPENSES)	(90,547)	(158,408)	(248,955)
Transfers out	(1,104)	-	(1,104)
CHANGE IN NET ASSETS	822,880	(141,069)	681,811
NET ASSETS, BEGINNING OF YEAR	10,540,755	2,651,561	13,192,316
NET ASSETS, END OF YEAR	\$ 11,363,635	\$ 2,510,492	\$ 13,874,127

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended December 31, 2010

	Business-Type Activities		
	Natural Gas	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 7,941,539	\$ 468,418	\$ 8,409,957
Cash payments for goods and services	(5,956,238)	(90,019)	(6,046,257)
Cash payments for employees	(755,401)	(157,548)	(912,949)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,229,900	220,851	1,450,751
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	(923)	(130)	(1,053)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(923)	(130)	(1,053)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(142,571)	(695,321)	(837,892)
Principle payments on revenue bond payable	(175,000)	(20,000)	(195,000)
Principle payments on notes payable- master leases	(79,555)	-	(79,555)
Interest payments	(114,296)	(160,601)	(274,897)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(511,422)	(875,922)	(1,387,344)
CASH FLOWS FROM INVESTING ACTIVITIES			
Income on investments	21,620	493	22,113
NET CASH PROVIDED BY INVESTING ACTIVITIES	21,620	493	22,113
NET INCREASE (DECREASE) IN RESTRICTED AND UNRESTRICTED CASH CASH EQUIVALENTS, AND INVESTMENTS	739,175	(654,708)	84,467
RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, BEGINNING OF YEAR	8,029,056	2,701,107	10,730,163
RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, END OF YEAR	\$ 8,768,231	\$ 2,046,399	\$ 10,814,630
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 914,531	\$ 17,339	\$ 931,870
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	288,086	210,325	498,411
Change in:			
Accounts receivable	(62,488)	(11,948)	(74,436)
Inventory	507	-	507
Prepaid expenses	12,094	5,107	17,201
Accounts payable	63,819	(1,669)	62,150
Accrued salaries and fringe benefits	(1,590)	1,232	(358)
Compensated absences	4,345	465	4,810
Deposits	10,596	-	10,596
Net cash provided by operating activities	\$ 1,229,900	\$ 220,851	\$ 1,450,751

The accompanying notes are an integral part of these financial statements.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

	DRUG FUND	FIREMAN'S FUND	TOTAL
ASSETS			
Cash and cash equivalents	\$ 17,447	\$ 48,189	\$ 65,636
TOTAL ASSETS	\$ 17,447	\$ 48,189	\$ 65,636
LIABILITIES			
Held in custody for others	\$ 17,447	\$ 48,189	\$ 65,636
TOTAL LIABILITIES	\$ 17,447	\$ 48,189	\$ 65,636

The accompanying notes are an integral part of these financial statements.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of City of Fountain Inn, South Carolina (the City), have been prepared in conformity with accounting principles (GAAP) generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 for its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the government's accounting policies are described below.

Reporting Entity

The City is an incorporated municipality located in Greenville County, South Carolina that was established in 1886. Section 47-26 of the 1962 Code of Laws, as amended ("Home Rule Act"), requires that municipalities adopt a specific form of government. Accordingly, the City operates under a Mayor-Council form of government. The six city council members serve 4 year staggered terms and the mayor is elected for a 4 year term; they are collectively referred to as "Council."

All activities for which the Council exercises oversight responsibility have been incorporated into the basic financial statements to form the reporting entity. The City's basic financial statements include the accounts of all City operations, including, but not limited to, general operations and supporting services, public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, natural gas and sewer services, and agency transactions.

The primary criterion for determining inclusion or exclusion of a legally separate entity as a component unit is financial accountability, which is presumed to exist if the City both appoints a voting majority of the entity's governing body, and either: 1) the City is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on, the City. If either both or the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the City. In order to be considered fiscally independent, an entity must have the authority to do all three of the following: (a) determine its budget without the City having the authority to approve or modify that budget, (b) levy taxes or set rates or charges without approval by the City, and (c) issue bonded debt without approval by the City.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City's basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units, however, are reported in a separate column in the government-wide basic financial statements to emphasize they are legally separate from the City. Based on the criteria above, the Fountain Inn Museum (the "Museum") and the Cultural Arts Foundation Fountain Inn (CAFFI) are considered to be blended component units. The City has no discretely presented component units.

The Museum is a 501(c)(3) not-for-profit organization incorporated for the specific charitable purpose of serving as a "support organization" for the City. Because the Museum is effectively controlled by and exclusively benefits the City, the Museum's financial information is blended with that of the City in these basic financial statements. Separate financial statements for the Museum are not issued.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Cultural Arts Foundation Fountain Inn is a not-for-profit organization incorporated for the specific charitable purpose of serving as a “support organization” for the City. CAFFI’s 501(c)(3) status is pending approval of its application with the Internal Revenue Service. Because CAFFI is effectively controlled by and exclusively benefits the City, CAFFI’s financial information is blended with that of the City in these basic financial statements. Separate financial statements for CAFFI are not issued.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund financial statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources management focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are those through which all governmental functions of the City are financed. The City's expendable financial resources and related assets and liabilities are accounted for through governmental funds. Governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. The following are the City's major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balance is considered a resource available for use.

The **Hospitality Tax Fund**, a major fund, is used to account for hospitality tax revenues that are restricted to expenditures for specific tourism generating purposes.

The **Capital Projects Commerce Park Fund**, a major fund, is used to account for the construction of the Commerce Park and Historical Center.

The **Other Governmental Funds**, nonmajor funds, are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds include the following: The Museum Fund, Cultural Arts Foundation Fountain Inn, Victims Fund and the EUDL Police Fund.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types include the following funds:

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City has two major enterprise funds:

The **Natural Gas Fund**, a budgeted fund, is used to account for the City’s natural gas operations.

The **Sewer Fund**, a budgeted fund, is used to account for the City’s sewer line maintenance operations.

Fiduciary Fund Types are used to account for expendable assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Fiduciary Fund Types include:

Agency Funds, unbudgeted funds, account for the assets of the employees’ drug fund and the City’s firemen’s fund. These funds have no equity (assets are equal to liabilities) and do not include revenues and expenditures for general operation of the City. These funds are custodial in nature and do not present results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and investments

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Pooled Investment Fund (“Pool”) to be cash equivalents. Securities with an initial maturity of more than three months when initially purchased are reported as investments. The City’s investment policy is designed to operate within existing statutes (which are identical for all funds, fund types and component units within the State of South Carolina) that authorize the City to invest in the following:

- (1) Obligations of the United States and agencies thereof;
- (2) General obligations of the State of South Carolina or any of its political units;
- (3) Financial institutions to the extent that the same are insured by an agency of the federal government;
- (4) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (5) Repurchase agreements when collateralized by securities as set forth in this section;

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- (6) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or other financial institution when acting as trustee or agent for a bond or other debt issue of the County, if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

Investments are stated at fair value; except that repurchase agreements and U.S. Government agencies that have a maturity at the time of purchase of one year or less are shown at amortized cost.

The City has certain funds invested with the South Carolina State Treasurer's Office, which established the South Carolina Local Government Investment Pool (the "Pool") pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC"), an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. The City's cash investment objectives are preservation of capital, liquidity and yield.

Receivables and payables

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers or resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers in (out). In addition, the Natural Gas Fund pays an administrative fee to the General Fund as directed by City Council. To the extent that certain transactions between funds had not been paid or received as of December 31, 2009, balances of interfund receivables or payables have been recorded.

Property taxes receivable represent current real and personal property tax as well as delinquent real and personal property taxes, less an allowance for amounts estimated to be uncollectible. All net property taxes receivable at year end, except those received by the City within 60 days, are recorded as deferred tax revenue in the governmental funds and thus not recognized as revenue until collected.

The City received property taxes on real and personal property located in Greenville County and Laurens County, South Carolina. Property taxes are assessed and collected by the Counties under joint billing and collection agreements. Real property and all personal property taxed other than vehicle property taxes attach as an enforceable lien on property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates:

January 16 th through February 1 st	–	3%
February 2 nd through March 15 th	–	10% of tax
After March 15 th	–	15% of tax plus collection cost

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Current year real and personal property taxes become delinquent on March 16th. Unpaid property taxes become a lien against the property as of June 1st of the calendar year following the levy date. The levy date for motor vehicles is the first day of the month in which the motor vehicle license expires. These taxes are due by the last day of the same month.

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Trade receivables are comprised of amounts due from entities and individuals for a variety of types of fees, charges, and services, including natural gas and sewer fees and charges.

Inventories and Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as inventory or prepaid items using the consumption method. A current asset for the inventory or prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which inventory or services are consumed.

Capital assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 for its capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred in the proprietary fund during the construction of capital assets is capitalized.

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are complete. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Governmental Activities	
Description	Estimated Lives
Buildings	15 - 40 years
Improvements (Other than Buildings)	10 - 20 years
Machinery and Equipment	3 - 10 years
Vehicles	5 - 10 years
Furniture and Fixtures	5 - 10 years
Infrastructure	20 - 50 years

Restricted assets

Certain cash, cash equivalents and investments are restricted on the basic financial statements as they have been set aside for specific purposes. These assets have been restricted because their use is (a) limited to purchases of certain capital assets as outlined in a capital lease agreement, (b) limited for debt service or (c) limited for other special purposes.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." The entire compensated absence liability and expense is reported on the governmental-wide financial statements. The portion applicable to the proprietary fund is also recorded in the proprietary fund financial statements. The governmental funds will also recognize compensated absences for termination and retirements that occurred prior to year end and are expected to be paid within a short time subsequent to year end, if they are material. No compensated absences were recognized in the governmental funds as unpaid at December 31, 2010.

Employees eligible for leave include (1) regular full-time employees and (2) part-time employees who work one-half of the regular workweek. Annual leave for part-time employees who are scheduled to work at least one-half the regular workweek shall earn credit for paid annual leave at a rate based on the appropriate schedule and in proportion to the percentage of the regular workweek they are scheduled to work.

Employees may carry 96 hours and firemen may carry 80 hours of unused annual leave from one calendar year to the next. Upon termination of employment, all annual leave accrued by an employee shall be liquidated by a lump sum payment at their regular rate of pay.

Sick leave is earned at the rate of one day per month. Employees are authorized to carry over a maximum of ninety days of unused sick leave per calendar year. Upon termination of employment, employees are not paid for unused sick leave. Accordingly, sick leave is charged to expenditures when taken. No provision has been made in the financial statements for unused sick leave.

Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund balance

In the fund financial statements, the City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

In the governmental fund financial statements, the City's use of the term "reserve" relative to the fund balance of its governmental funds is limited to indicating that portion of fund balance that is not appropriable for expenditure or is legally segregated for some specific future use. Fund balance reserves can be established for, but not limited to, the following: prepaids, inventory, hospitality taxes, prior year appropriations, the museum, fire operations, grant projects, debt service, capital projects and special revenue programs.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In the governmental fund financial statements, the City can establish "*designations*" of fund balance which are to reflect plans for financial resource utilization in future periods. Designations of fund balance represent tentative management plans that are subject to change and ultimately may not be legally authorized or result in expenditures. Currently, designations of fund balance include amounts designated for fund balance policy, which represents funds set aside by resolution of the Council to maintain and improve upon the City's credit rating and meet seasonal cash flow shortfalls. The policy sets aside a minimum of 30% of the General Fund operating expenditures, excluding capital outlay and debt service. As the undesignated General Fund balance at December 31, 2010 is 30.6% of General Fund operating expenditures, no amount has been designated. The City's policy states that if the Fund Balance falls below 30%, then the City shall rebuild the balance within one year. The City has designated \$100,000 for Equipment Replacement Reserves, \$55,663 for the Master Plan, and \$110,596 for contingencies.

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt, which has not been spent, is included in the same net assets components as the unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Accounting estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

Subsequent events have been evaluated through April 15, 2011, the date which the financial statements were available for issue.

NOTE 2 - BUDGETARY ACCOUNTING AND REPORTING

Budgetary policies

An annual appropriated budget is adopted for the General Fund and is presented as required supplementary information. No budget was prepared for the Hospitality Tax Special Revenue Fund. The budget is presented on a modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. No supplemental appropriations were approved during the year.

The following is the City's procedure for establishing and adopting a budget:

1. During the month of November, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments.

Continued

NOTE 2 - BUDGETARY ACCOUNTING AND REPORTING, Continued

3. Prior to January 1, the budget is legally enacted through Council approval.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Proprietary Funds. The legal level of control for each budget is maintained at the departmental level.
5. All budgets are adopted on an accounting basis that is consistent with generally accepted accounting principals.
6. The City Council adopts a budget ordinance at the outset of each calendar year establishing revenue anticipated on a line item basis and appropriations on a departmental basis. The City Council has authority to amend the approved budget during the calendar year as necessary as recommended by management.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. At December 31, 2010, the carrying amount of the City's deposits was \$4,043,855 and the bank balance was \$4,077,854 all of which was insured or collateralized.

Investments

As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>5 - 10</u>
Repurchase agreements	\$ 1,592,518	\$ 1,592,518	\$ -	\$ -
Money market mutual funds	3,297,794	3,297,794	-	-
Certificates of deposit	2,902,775	2,902,775	-	-
South Carolina local government investment pool	<u>512,293</u>	<u>512,293</u>	-	-
	<u>\$ 8,305,380</u>	<u>\$ 8,305,380</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

The City's investment portfolio is designed to obtain a market rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs.

Credit risk

The City has no investment policy that would further limit its investment choices other than state law. As of December 31, 2010, the underlying security ratings of the City's investment in the South Carolina Local Government Investment Pool may be obtained from the LGIP's complete financial statements. These financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Box 11778
Columbia, South Carolina 29211

(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS, Continued

Concentration of credit risk

The City's investment policy states that with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution. Investments in external investment pools are excluded from this disclosure requirement. At December 31, 2010, more than 50% of the City's investment portfolio was in certificates of deposit and repurchase agreements with Palmetto Trust.

The City had cash and cash equivalents of \$4,412,014 at December 31, 2010 that were restricted for (1) debt service related to the 2008 Natural Gas Revenue Bonds and 2009 Sewer Revenue Bonds; (2) sewer and natural gas line upgrades and purchases of various capital equipment related to the 2008 Natural Gas Revenue Bonds, the 2009 Sewer Revenue Bonds, and the 2008 General Obligation Bonds; and (3) funds to be used for other capital projects.

Reconciliation to the Financial Statements

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the statement of net assets:

	<u>December 31, 2010</u>
Disclosures regarding deposits and investments:	
Cash on hand	\$ 1,150
Carrying value of deposits	4,043,855
Fair value of investments	<u>8,305,380</u>
Total	<u><u>\$ 12,350,385</u></u>
Statements of net assets fiduciary net assets:	
Statement of net assets:	
Cash and cash equivalents:	
Unrestricted	\$ 3,926,798
Restricted – capital improvement funds	4,437,786
Investments:	
Gas fund investments	3,920,165
Statement of fiduciary net assets:	
Cash and cash equivalents	<u>65,636</u>
Total	<u><u>\$ 12,350,385</u></u>

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Hospitality tax</u>	<u>Other governmental funds</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Property taxes receivable	\$ 1,362,704	\$ -	\$ -	\$ 1,362,704	\$ -	\$ 1,362,704
Accounts receivable	-	-	-	-	1,992,860	1,992,860
Interest	-	-	-	-	2,033	2,033
Due from County Treasurer	659,004	-	-	659,004	-	659,004
Intergovernmental	<u>42,968</u>	<u>-</u>	<u>-</u>	<u>42,968</u>	<u>-</u>	<u>42,968</u>
	2,064,676	-	-	2,064,676	1,994,893	4,029,569
Less: allowance	<u>(27,254)</u>	<u>-</u>	<u>-</u>	<u>(27,254)</u>	<u>(335,080)</u>	<u>(362,334)</u>
Net receivables	<u><u>\$ 2,037,422</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,037,422</u></u>	<u><u>\$ 1,659,813</u></u>	<u><u>\$ 3,697,235</u></u>
Deferred revenue	<u><u>\$ 116,758</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 116,758</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 116,758</u></u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2010 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Governmental Activities:					
Capital assets, non-depreciable:					
Land	\$ 1,066,591	\$ -	\$ -	\$ -	1,066,591
Construction in progress	512,875	916,648	114,809	(1,314,714)	-
Total capital assets, non-depreciable	<u>1,579,466</u>	<u>916,648</u>	<u>114,809</u>	<u>(1,314,714)</u>	<u>1,066,591</u>
Capital assets, depreciable					
Buildings and improvements	4,624,604	123,762	-	1,426,710	6,175,076
Furniture and fixtures	14,411	7,260	-	-	21,671
Infrastructure	3,538,430	150,000	-	18,930	3,707,360
Machinery and equipment	1,146,858	50,010	-	(94,805)	1,102,063
Vehicles	2,613,339	124,006	66,724	(36,121)	2,634,500
Total capital assets, depreciable	<u>11,937,642</u>	<u>455,038</u>	<u>66,724</u>	<u>1,314,714</u>	<u>13,640,670</u>
Less: accumulated depreciation for:					
Buildings	1,473,214	158,361	-	-	1,631,575
Furniture and fixtures	490	3,306	-	-	3,796
Infrastructure	3,076,044	61,564	-	-	3,137,608
Machinery and equipment	593,726	70,058	-	-	663,784
Vehicles	1,511,654	223,302	50,871	-	1,684,085
Total accumulated depreciation	<u>6,655,128</u>	<u>516,591</u>	<u>50,871</u>	<u>-</u>	<u>7,120,848</u>
Total capital assets, depreciable, net	<u>5,282,514</u>	<u>(61,553)</u>	<u>15,853</u>	<u>1,314,714</u>	<u>6,519,822</u>
Total governmental activities capital assets, net	<u>\$ 6,861,980</u>	<u>\$ 855,095</u>	<u>\$ 130,662</u>	<u>\$ -</u>	<u>\$ 7,586,413</u>
	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Business-type activities:					
Capital assets, non-depreciable:					
Land	\$ 43,676	\$ 56,449	\$ -	\$ -	100,125
Total capital assets, non-depreciable	<u>43,676</u>	<u>56,449</u>	<u>-</u>	<u>-</u>	<u>100,125</u>
Capital assets, depreciable					
Buildings and improvements	469,254	59,155	-	-	528,409
Infrastructure	13,701,845	687,830	-	-	14,389,675
Machinery and equipment	828,854	27,608	2,048	-	854,414
Vehicles	266,461	6,850	-	-	273,311
Total capital assets, depreciable	<u>15,266,414</u>	<u>781,443</u>	<u>2,048</u>	<u>-</u>	<u>16,045,809</u>
Less: accumulated depreciation for:					
Buildings	55,937	16,221	-	-	72,158
Infrastructure	5,458,365	382,822	-	-	5,841,187
Machinery and equipment	450,481	64,597	2,048	-	513,030
Vehicles	184,553	34,771	-	-	219,324
Total accumulated depreciation	<u>6,149,336</u>	<u>498,411</u>	<u>2,048</u>	<u>-</u>	<u>6,645,699</u>
Total capital assets, depreciable, net	<u>9,117,078</u>	<u>283,032</u>	<u>-</u>	<u>-</u>	<u>9,400,110</u>
Total business-type activities capital assets, net	<u>\$ 9,160,754</u>	<u>\$ 339,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,500,235</u>

(Continued)

NOTE 5 - CAPITAL ASSETS, Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 28,702
Public safety	203,322
Streets and Sanitation	138,213
Recreation	58,893
Civic Center/Performing Arts	<u>87,461</u>
Total depreciation expense - Governmental activities	<u>\$ 516,591</u>
Business-type activities:	
Enterprise Funds:	
Natural Gas Fund	\$ 288,086
Sewer Fund	<u>210,325</u>
Total depreciation expense - Business-type activities	<u>\$ 498,411</u>

The carrying value of assets acquired under master leases and lease purchase agreements was \$1,454,524, and is included above as cost of \$1,639,467 and accumulated depreciation of \$184,943. Amortization of assets recorded under master lease and lease purchase obligations has been included with depreciation expense.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at December 31, 2010 consist of an amounts payable from the General Fund and Hospitality tax Fund to the Natural Gas Fund totaling \$458 and an amount payable from the Hospitality Tax Fund to the General Fund in the amount of \$1,962. These balances are expected to be paid within one year.

NOTE 7 - TRANSFERS IN AND (OUT)

Transfer from (to) other funds for the year ended December 31, 2010 consisted of the following:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Natural Gas Enterprise Fund	\$ 1,104
Capital Projects Fund	Hospitality Tax Fund	51,103
Capital Projects Fund	General Fund	41,188
Other Governmental Fund	General Fund	<u>5,970</u>
		<u>\$ 99,365</u>

During the course of normal operations and in order to support the numerous functions of the City, transactions between funds may occur. Transfers from the Natural Gas Fund to the General Fund were to supplement General Fund Operations.

NOTE 8 - LONG-TERM OBLIGATIONS

Detail for each outstanding long term debt and capital lease issue as of December 31, 2010 was as follows:

Principal outstanding at year end

Revenue Bonds

2008 Natural Gas Revenue Bond – issued in December 2008 in the amount of \$3,295,000. Bonds are due in annual installments ranging from \$170,000 to \$275,000 through October 2023, with interest at 3.46%. The proceeds are to be used to pay issuance costs related to this issue and to establish a debt service reserve fund as required by the bond agreement; the balance is to be used for improvements and expansion to the City’s natural gas line system.

2009 Sewer Revenue Bond – issued in October 2009 in the amount of \$3,955,000. Bonds are due in annual installments ranging from \$20,000 to \$325,000 through 2029, with interest at 3.95%. The proceeds were used to refund the 2006 series Sewer Revenue Bonds (\$2,090,000 outstanding at December 31, 2008); the balance is to be used for improvements and expansion to the City’s sewer line system.

General Obligation Bonds

2005 General Obligation Bond – issued May 2005 in the amount of \$275,000. The proceeds are to be used for renovations and improvements to the Civic Center and other capital projects. Bonds are due in annual installments ranging from \$25,000 to \$35,000 through April 2015, with interest at 3.78%.

2008 General Obligation Bond – issued in September 2008 in the amount of \$1,060,000. The proceeds are to be used for renovations to City Hall, Civic Center, Law Enforcement Center, Public Works Facility, Activities Center, and other property. Bonds are due in annual installments ranging from \$160,000 to \$195,000 through April 2014, with interest at 3.49%.

2010 General Obligation Bond – issued in July 2010 in the amount of \$330,000. The proceeds are to be used for purchases of various needed equipment for the police, public works, and recreation departments. Bonds are due in annual installments ranging from \$50,000 to \$60,000 through April 2016, with interest at 3.04%.

Master Lease Agreements (Notes Payable)

A lease purchase agreement was executed on April 21, 2005 in the amount of \$97,622 to finance the purchase of various pieces of equipment. This agreement requires nine semi-annual payments ranging from \$8,752 to \$14,839, including interest at 3.64%, beginning January 1, 2006. Approximately 82% was for governmental activities and 18% was for business-type activities. Final payment on this agreement was due on January 1, 2010.

A lease purchase agreement was executed on August 20, 2008 in the amount of \$275,000 to finance the purchase of sanitation equipment (governmental activities). This agreement requires 23 quarterly payments of \$13,304, including interest at 3.39%, beginning January 20, 2009.

A lease purchase agreement was executed on December 18, 2008 in the amount of \$269,726 to finance the purchase of equipment for natural gas operations (business-type activities). This agreement requires ten semi-annual payments ranging from \$18,372 to \$82,317, including interest at 3.15%, beginning April 1, 2009.

(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS, Continued

The City entered into a ground lease/purchase agreement with Branch Banking and Trust Company (lessor) in May 2009 in the amount of \$1,000,000 for the purpose of constructing buildings to be used as a farmers' market, visitors' center, a historical center to be used as a museum, and for offices for the Chamber of Commerce. This ground lease/purchase agreement requires semi-annual payments ranging from \$1,676 to \$76,676, including interest at 4.47%, beginning October 1, 2009 through April 1, 2029. As the project will promote tourism and provide related benefits to the citizens of the City, payments for this ground lease/purchase agreement will be funded through local hospitality tax revenues.

The following is a summary of changes in the City's long-term obligations for the year ended December 31, 2010:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bond, Series 2005	\$ 180,000	\$ -	\$ 25,000	\$ 155,000	\$ 30,000
General Obligation Bond, Series 2008	900,000	-	165,000	735,000	175,000
General Obligation Bond, Series 2010	-	330,000	-	330,000	50,000
Notes Payable - Master Lease	239,341	-	52,868	186,473	47,413
Ground Lease/Purchase, Series 2009	1,000,000	-	30,000	970,000	35,000
Compensated Absences	53,194	11,887	-	65,081	16,270
Total Governmental Activities	<u>\$ 2,372,535</u>	<u>\$ 341,887</u>	<u>\$ 272,868</u>	<u>\$ 2,441,554</u>	<u>\$ 353,683</u>
Business-Type Activities:					
Natural Gas Revenue Bond, Series 2008	\$ 3,125,000	\$ -	\$ 175,000	\$ 2,950,000	185,000
Sewer Revenue Bond, Series 2009	3,955,000	-	20,000	3,935,000	40,000
Notes Payable - Master Lease	195,642	-	79,555	116,087	80,478
Compensated Absences	11,296	4,810	-	16,106	4,027
Total Business-Type Activities	<u>\$ 7,286,938</u>	<u>\$ 4,810</u>	<u>\$ 274,555</u>	<u>\$ 7,017,193</u>	<u>\$ 309,505</u>

Presented below is a summary of the debt service requirements to maturity by year for the governmental and business-type funds of the City:

<u>Year ending December 31,</u>	<u>Debt</u>		<u>Capital Lease Obligations</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<u>Governmental Activities</u>					
2011	\$ 290,000	\$ 82,108	\$ 47,413	\$ 5,802	\$ 425,323
2012	300,000	69,249	49,052	4,163	422,464
2013	305,000	58,510	50,772	2,443	416,725
2014	320,000	47,397	39,236	676	407,309
2015	130,000	39,306	-	-	169,306
2016 - 2029	845,000	272,801	-	-	1,117,801
Totals	<u>\$ 2,190,000</u>	<u>\$ 569,371</u>	<u>\$ 186,473</u>	<u>\$ 13,084</u>	<u>\$ 2,958,928</u>
<u>Business-Type Activities</u>					
2011	\$ 225,000	\$ 256,713	\$ 80,478	\$ 3,678	\$ 565,869
2012	255,000	248,238	17,525	1,136	521,899
2013	290,000	238,504	18,084	577	547,165
2014	350,000	227,017	-	-	577,017
2015	370,000	213,900	-	-	583,900
2016 - 2029	5,395,000	1,365,690	-	-	6,760,690
Totals	<u>\$ 6,885,000</u>	<u>\$ 2,550,062</u>	<u>\$ 116,087</u>	<u>\$ 5,391</u>	<u>\$ 9,556,540</u>

(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS, Continued

All General Obligation Bonds are direct obligations of the City, which pledged its full faith and credit upon issuance. The Sewer and Natural Gas Revenue Bonds are to be repaid from the operations of those funds. The Master Lease obligations are special obligations of the City payable from the general revenues of the City. The full faith, credit, and taxing powers of the City are not pledged for the payment of the Sewer and Natural Gas Revenue Bonds and the Master Lease obligations. Resources from the General Fund and the Enterprise Funds have been used to liquidate the City's long-term obligations.

There are numerous limitations, restrictions, and covenants contained in the bond indentures and ordinances. At December 31, 2010, management believes the City is in compliance with all significant restrictions and covenants.

Interest paid on the debt issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be refunded to the federal government. The City had no arbitrage liability at December 31, 2010.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City shall incur any bonded debt which shall exceed 8% of the assessed value of the property therein and no such debt shall be created without the electors of such City voting in favor of such further bonded debt. As of December 31, 2010, the City had \$1,220,000 of bonded debt subject to the 8% limit of approximately \$2,200,000, resulting in an unused legal debt margin of approximately \$980,000.

NOTE 9 - OTHER INFORMATION

Contingent liabilities

The City participates in a number of federal and state assisted grant programs that are governed by various rules and regulations of grantor agencies. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The City believes it has substantially complied with the contract/grant provisions. Based on prior experience, the City's management believes such disallowances, if any, would not be significant; therefore, no provision has been recorded in the accompanying government-wide and fund financial statements for such contingencies.

The City is routinely the subject of litigation by a variety of plaintiffs. City management believes that such amounts claimed by these plaintiffs, net of the applicable insurance coverage, are immaterial.

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City was insured with the State of South Carolina Insurance Reserve Fund until November 2010, at which time it changed insurance coverage providers to South Carolina Municipal Insurance Reserve Fund. It pays an annual premium for this coverage. For the year ended December 31, 2010, the City made premium payments totaling approximately \$118,800. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

(Continued)

NOTE 9 - OTHER INFORMATION, Continued

The City has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust (SCMIT), a public entity risk pool operating as a common risk management and insurance program for workers' compensation. The City pays an annual premium to SCMIT. For the year ended December 31, 2010, the City made premium payments totaling approximately \$118,800. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

Natural Gas Agreements

The City enters into contracts with its suppliers of natural gas for the purchase of specified volumes of gas at defined prices, time periods, and locations. These agreements are entered into to manage the volatility of natural gas prices and to stabilize the cost to the City's residential, commercial, and industrial customers. In addition, the City enters into agreements with certain of its industrial customers to lock in the future sale of specified volumes of gas at defined prices.

Fountain Inn Fire Service Area Agreement

In January 2008 but effective October 2007, the City entered into an agreement with Greenville County whereby the City will provide fire protection services to the unincorporated area of Greenville County known as the Fountain Inn Fire Service Area. The County will pay the City operating fees based on millage (presently 29.6 mills). This agreement expires in June 2011 but is automatically renewed each year thereafter for one year terms; however, each party may terminate the agreement subject to a 90 day written notice to the other party prior to the annual June 30 expiration date.

The County issued a \$1,865,000 general obligation bond in 2007, with the proceeds to be used for the renovations, expansion, and equipping of the main fire station of the City, the acquisition of land and the construction and equipping of a fire substation within the Fountain Inn Fire Service Area, the acquisition of a ladder fire truck, a pumper fire truck and other fire-related equipment, and providing funds for the acquisition of additional fire equipment, among other uses. In accordance with the terms of the agreement and the bond documents, the City has no obligation whatsoever for the repayment of this indebtedness.

The County issued a \$635,000 general obligation bond in 2010, with the proceeds to be used for the acquisition of one pumper fire truck and other fire-related equipment, one rescue truck, jaws of life and miscellaneous replacement fire-related equipment. In accordance with the terms of the agreement and the bond documents, the City has no obligation whatsoever for the repayment of this indebtedness.

Pension plan

Plan Description. Substantially all City employees are members of the South Carolina Retirement System ("SCRS") or the Police Officers Retirement System ("PORS"). The South Carolina Retirement System and the Police Officers Retirement System are cost-sharing multi-employer defined benefit pension plans administered by the South Carolina Retirement Systems; a division of the South Carolina State Budget and Control Board. Both systems 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. Comprehensive Annual Financial Reports containing financial statements and required supplementary information for the Systems are issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

(Continued)

NOTE 9 - OTHER INFORMATION, Continued

Employees eligible for service retirement may participate in the Teacher and Retiree Incentive Program (TERI). TERI participants may retire and begin accumulating retirement benefits on a deferred basis without termination employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Effective July 1, 2006, TERI participants who entered the program after July 1, 2005 are required to pay the same pre-tax contribution to SCRS during the TERI period, but do not earn service credit.

Funding Policy. Both employees and employers are required to contribute to the Plan under authority of Title 9 of the SC Code of Laws. The employee required contribution rate is 6.5% of gross salary for both SCRS and PORS participants. The City was required to contribute 9.24% of gross earnings under SCRS and 10.65% of gross earnings under PORS Class II. In addition to the above rates participating employers of the South Carolina Retirement System contribute .15% of payroll to provide a group life insurance benefit for their participants. All employers contribute at the actuarially required contribution rates. The City contributed approximately \$146,383, \$141,500, and \$137,600 to the SCRS for the years 2010, 2009 and 2008, respectively. The City contributed approximately \$162,023, \$134,800 and \$133,200 to the PORS for the years 2010, 2009, and 2008 respectively. All amounts were 100% of the required contributions for each year. Covered payrolls for the years 2010, 2009 and 2008 were \$3,194,838, \$2,921,757 and \$2,819,795, respectively.

Other Post Employment Benefits (OPEB)

Plan description, contribution information and funding policies

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Employees retiring from the City with a minimum of 20 years service, or who have a total of ten years of medical coverage under the City's group health insurance program, are eligible to participate in the Retiree Insurance Plan. The retirees pay the full premium for the coverage while the City pays the implicit subsidy for retirees under age 65. Coverage stops when the retiree reaches age 65 or becomes Medicare eligible, whichever comes first. Spouses are not covered by the Plan. The City retains the right to terminate or modify these benefits at any time subject to applicable law. For the year ended December 31, 2010, the City has one employee that participates in the Retiree Insurance Plan.

Annual OPEB costs and Net OPEB Obligation

The City first had an actuarial valuation performed for the plan as of July 1, 2008 to determine the funded status of the plan as of that date as well as the employer's annual required contribution. The City's annual OPEB cost of \$11,000 is equal to the ARC for the initial reporting year since the transition liability was set at zero as of July 1, 2008. The City's annual OPEB costs and the net OPEB obligation for December 31, 2010 was as follows:

Employer normal costs	\$	6,000
Amortization of UAAL*		5,000
Annual required contribution (ARC)		11,000
Interest on net obligation		-
Annual OPEB costs		11,000
Contributions made		(11,211)
Net decrease in OPEB obligation		(211)
Net OPEB obligation - beginning of year		1,906
Net OPEB obligation - end of year	\$	1,695

* Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 30 years.

(Continued)

NOTE 9 - OTHER INFORMATION, Continued

Plan participation

Active members	89
Retirees	<u>1</u>
Total	<u>90</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010:

<u>Fiscal Net OPEB Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Obligation</u>
2009	\$ 11,000	82.67%	\$ 1,906
2010	\$ 11,000	100.19%	\$ 1,695

Funded Status and Funding Progress

The funded status of the plans as of December 31, 2010, was as follows:

Actuarial accrued liability	\$ 84,000
Actuarial value of plan assets	<u>20,304</u>
Unfunded actuarial accrued liability	<u>\$ 63,696</u>
Funded Ratio	24.17%
Covered payroll	\$ 3,194,838
Unfunded actuarial accrued liability as a percentage of covered payroll	1.99%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events well into the future. Examples would include assumptions about future employment, rates of retirement, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the July 1, 2008 actuarial valuation, the projected entry age cost method was used. The UAAL amortization payment is the level% of payroll required to fully amortize the UAAL over a 30 year period on a closed basis. The actuarial assumptions included 7.5% rate of investment return. The valuation assumes a 10.5% health and dental care trend inflation rate for 2009 and decreases 0.5% each year until 2020, and thereafter 5.0% was assumed.

NOTE 10 – NET ASSETS

Net assets represent the difference between assets and liabilities. The restricted net assets were as follows:

	<u>Governmental</u>	<u>Business-type</u>
Invested in capital assets, net of related debt:		
Net capital assets	\$ 7,586,413	\$ 9,500,235
Less: Bonds payable, net	(1,220,000)	(6,885,000)
Capital leases payable	(1,156,473)	(116,087)
Add: Unspent bond proceeds	443,578	2,773,904
	<u>5,653,518</u>	<u>5,273,052</u>
Restricted for hospitality tax, fire operations, capital activity, museum and victims' assistance	841,339	3,543,285
Less: Unspent bond proceeds	(443,578)	(2,773,904)
	<u>397,761</u>	<u>769,381</u>
Unrestricted	<u>1,981,136</u>	<u>7,831,694</u>
Total net assets	<u>\$ 8,032,415</u>	<u>\$ 13,874,127</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the year ended December 31, 2010

	GENERAL FUND		
	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes	\$ 2,621,845	\$ 2,842,231	\$ 220,386
Fire service area revenues	908,485	900,406	(8,079)
Licenses and permits	186,750	219,453	32,703
Intergovernmental	160,508	154,913	(5,595)
Fines and forfeits	180,000	244,890	64,890
Charges for service	137,034	154,152	17,118
Administrative fees	700,000	700,000	-
Performing arts	160,000	186,602	26,602
Rent- Civic Center	50,880	53,710	2,830
Interest earnings	10,000	6,459	(3,541)
Grants	92,220	323,740	231,520
Other	50,750	8,765	(41,985)
Total revenues	5,258,472	5,795,321	536,849
EXPENDITURES			
General government:			
City:			
Other services and charges	434,242	349,552	84,690
Total City	434,242	349,552	84,690
Administration:			
Salaries and related expenses	241,651	242,383	(732)
Supplies	12,500	15,281	(2,781)
Other services and charges	35,440	44,426	(8,986)
Total Administration	289,591	302,090	(12,499)
Mayor and City Council:			
Salaries and related expenses	70,614	77,693	(7,079)
Supplies	1,500	1,804	(304)
Other services and charges	8,850	15,446	(6,596)
Total Mayor and City Council	80,964	94,943	(13,979)
Total general government	804,797	746,585	58,212
Judicial:			
Salaries and related expenses	75,569	86,268	(10,699)
Supplies	2,500	2,510	(10)
Other services and charges	136,400	209,822	(73,422)
Total Judicial	214,469	298,600	(84,131)

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the year ended December 31, 2010

	GENERAL FUND		
	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
Public Safety:			
Police:			
Salaries and related expenses	1,216,364	1,356,756	(140,392)
Supplies	29,000	24,508	4,492
Other services and charges	174,255	182,015	(7,760)
Total Police	<u>1,419,619</u>	<u>1,563,279</u>	<u>(143,660)</u>
Fire:			
Salaries and related expenses	883,164	909,858	(26,694)
Supplies	31,000	25,703	5,297
Other services and charges	216,600	161,741	54,859
Total Fire	<u>1,130,764</u>	<u>1,097,302</u>	<u>33,462</u>
Total Public Safety	<u>2,550,383</u>	<u>2,660,581</u>	<u>(110,198)</u>
Streets and sanitation:			
Public Works:			
Salaries and related expenses	170,557	170,946	(389)
Supplies	6,050	7,177	(1,127)
Other services and charges	34,293	59,932	(25,639)
Total Public Works	<u>210,900</u>	<u>238,055</u>	<u>(27,155)</u>
Streets:			
Salaries and related expenses	225,386	205,223	20,163
Supplies	4,000	5,912	(1,912)
Other services and charges	169,300	236,643	(67,343)
Total streets	<u>398,686</u>	<u>447,778</u>	<u>(49,092)</u>
Sanitation:			
Salaries and related expenses	47,871	48,848	(977)
Supplies	1,300	1,152	148
Other services and charges	50,280	62,780	(12,500)
Total sanitation	<u>99,451</u>	<u>112,780</u>	<u>(13,329)</u>
Recycling:			
Other services and charges	1,250	868	382
Total recycling	<u>1,250</u>	<u>868</u>	<u>382</u>
Total streets and sanitation	<u>710,287</u>	<u>799,481</u>	<u>(89,194)</u>
Recreation:			
Salaries and related expenses	331,609	296,815	34,794
Supplies	8,500	9,428	(928)
Other services and charges	187,462	186,708	754
Total recreation	<u>527,571</u>	<u>492,951</u>	<u>34,620</u>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the year ended December 31, 2010

	GENERAL FUND		
	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
Civic Center/Performing Arts:			
Salaries and related expenses	12,996	5,829	7,167
Supplies	12,000	17,913	(5,913)
Other services and charges	236,484	353,091	(116,607)
Total Civic Center	<u>261,480</u>	<u>376,833</u>	<u>(115,353)</u>
Economic Development			
Salaries and related expenses	104,193	104,033	160
Other services and charges	27,988	31,999	(4,011)
Total economic development	<u>132,181</u>	<u>136,032</u>	<u>(3,851)</u>
Commerce Park			
Salaries and related expenses	-	1,075	(1,075)
Other services and charges	11,630	17,669	(6,039)
Total Commerce Park	<u>11,630</u>	<u>18,744</u>	<u>(7,114)</u>
Capital outlay	<u>84,030</u>	<u>27,161</u>	<u>56,869</u>
Debt service:			
Principal	242,868	242,868	-
Interest	41,287	42,389	(1,102)
Bond Issuance Costs	-	22,280	(22,280)
Total debt service	<u>284,155</u>	<u>307,537</u>	<u>(23,382)</u>
TOTAL BUDGETED EXPENDITURES	<u>5,580,983</u>	<u>5,864,505</u>	<u>(283,522)</u>
EXCESS (DEFICIENCY) OF BUDGETED REVENUES OVER (UNDER) BUDGETED EXPENDITURES	<u>(322,511)</u>	<u>(69,184)</u>	<u>253,327</u>
UNBUDGETED EXPENDITURES			
Capital outlay		<u>932,091</u>	
TOTAL UNBUDGETED EXPENDITURES		<u>932,091</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		<u><u>\$ (1,001,275)</u></u>	

CITY OF FOUNTAIN INN
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
YEAR ENDED DECEMBER 31, 2010

The County's annual Other Post Employment Benefits Plan (OPEB) cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years are as follow:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$11,000	82.67%	\$1,906
2010	\$11,000	100.19%	\$1,695

The funded status and funding progress of the plan was as follows:

Actuarial valuation date	Fiscal year ended	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll
7/1/2008	12/31/2009	\$ 9,094	\$ 84,000	\$ 74,906	10.83%	\$ 2,507,000	2.99%
	12/31/2010	\$ 20,304	\$ 84,000	\$ 63,696	24.17%	\$ 3,194,838	1.99%

CITY OF FOUNTAIN INN, SOUTH CAROLINA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
For the year ended December 31, 2010

	FUND 190 THE MUSEUM	FUND 300 CULTURAL ARTS FOUNDATION	FUND 525 VICTIMS FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 39,656	\$ -	\$ 32,647	\$ 1,102	\$ 73,405
Restricted cash and cash equivalents	-	25,772	-	-	25,772
TOTAL ASSETS	\$ 39,656	\$ 25,772	\$ 32,647	\$ 1,102	\$ 99,177
FUND BALANCES					
Reserved	\$ 39,656	\$ 25,772	\$ 32,647	\$ -	\$ 98,075
Unreserved:					
Undesignated	-	-	-	1,102	1,102
TOTAL FUND BALANCES	39,656	25,772	32,647	1,102	99,177
TOTAL FUND BALANCES	\$ 39,656	\$ 25,772	\$ 32,647	\$ 1,102	\$ 99,177

CITY OF FOUNTAIN INN, SOUTH CAROLINA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	FUND 190 THE MUSEUM	FUND 300 CULTURAL ARTS FOUNDATION	FUND 525 VICTIMS FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES					
Donations	\$ 55,600	\$ 25,847	\$ -	\$ -	\$ 81,447
Fines and forfeits	-	-	13,987	-	13,987
Grant revenue	98,600	-	-	1,500	100,100
Interest	341	-	-	-	341
TOTAL REVENUES	154,541	25,847	13,987	1,500	195,875
EXPENDITURES					
Current:					
Museum	120,855	-	-	-	120,855
Performing arts	-	75	-	-	75
Public safety	-	-	6,750	1,409	8,159
TOTAL EXPENDITURES	120,855	75	6,750	1,409	129,089
EXCESS OF REVENUES OVER EXPENDITURES	33,686	25,772	7,237	91	66,786
OTHER FINANCING SOURCES					
Transfers in	5,970	-	-	-	5,970
NET CHANGES IN FUND BALANCES	39,656	25,772	7,237	91	72,756
FUND BALANCES, BEGINNING OF YEAR	-	-	25,410	1,011	26,421
FUND BALANCES, END OF YEAR	\$ 39,656	\$ 25,772	\$ 32,647	\$ 1,102	\$ 99,177

CITY OF FOUNTAIN INN, SOUTH CAROLINA
SCHEDULE OF REVENUES AND DIRECT EXPENDITURES - GENERAL FUND FIRE DEPARTMENT OPERATIONS
YEAR ENDED DECEMBER 31, 2010

	Actual
Revenues	
Fees received from Greenville County	703,846
Fees received from Laurens County	196,560
Total revenues	900,406
 Direct Expenditures	
Salaries	638,894
Volunteers	8,613
Overtime	6,589
Christmas bonus	1,700
Employee insurance	91,935
FICA	49,368
Retirement	71,736
Workers compensation	41,023
Portable radio maintenance	3,574
Vehicle maintenance	28,750
Operating equipment	37,635
Fire station maintenance	9,791
Computer support	3,687
Property, vehicle and tort insurance	17,861
Telephone	3,615
Nextel communications	3,661
Conferences	3,227
Health screenings	187
Training	8,730
General supplies	7,545
Office supplies and printing	3,035
Utilities	17,020
Vehicle gas	19,836
Publications	356
Professional memberships	625
Inspection and prevention	1,243
Uniforms	15,122
Miscellaneous	1,944
Total direct expenses	1,097,302
Excess of direct expenditures over revenues	(196,896)
Excess of revenues over direct expenditures, prior year	382,270
Excess of revenues over direct expenditures, end of year	185,374 (1)

(1) This schedule does not account for any indirect expenses incurred by the City in its Administrative, General Government, Police or Public Works departments that support the Fire Service operations. In addition, it does not recognize future capital, personnel or operational expenditures that the City will incur pursuant to the City's fire service contract with Greenville County.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES
For the year ended December 31, 2010

Court fines and assessments	
Court fines and assessments collected	\$ 180,751
Court fines and assessments retained by the City	75,666
	<hr/>
Total court fines and assessments remitted to the State Treasurer	105,085
	<hr/> <hr/>
Court surcharges	
Court surcharges collected	64,139
Court surcharges retained by the City	26,850
	<hr/>
Total court surcharges remitted to the State Treasurer	37,289
	<hr/> <hr/>
Victims fund	
Funds available for carry forward, beginning of year	25,410
Court assessments allocated to victim fund- January 2010 through December 2010	13,987
Victim fund expenditures	(6,750)
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Funds available for carry forward, end of year	\$ 32,647
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor and Members of City Council
City of Fountain Inn
Fountain Inn, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the City, and other government entities with oversight responsibility and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Elliott Davis, LLC".

Greenwood, South Carolina
April 15, 2011