

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,363,062	4,219,879	\$ 5,582,941
Restricted Cash and Cash Equivalents	114,870	643,443	758,313
Due from County Treasurer	480,067	-	480,067
Investments	-	914,787	914,787
Property Taxes Receivable, Net	859,802	-	859,802
Accounts Receivable, Net	62,337	1,250,741	1,313,078
Due from Other Governments	47,855	-	47,855
Internal Balances	(593,783)	593,783	-
Inventory	-	32,704	32,704
Prepays	66,896	10,324	77,220
Capital Assets:			
Non-Depreciable	703,441	399,575	1,103,016
Depreciable, Net	3,961,298	5,434,827	9,396,125
<b>TOTAL ASSETS</b>	<b>7,065,845</b>	<b>13,500,063</b>	<b>20,565,908</b>
<b>LIABILITIES</b>			
Accounts Payable	74,581	1,351,740	1,426,321
Accrued Salaries and Fringe Benefits	89,151	7,511	96,662
Accrued Interest Payable	16,984	16,443	33,427
Customer Deposits	16,937	35,225	52,162
Bond Anticipation Note Payable	-	1,014,170	1,014,170
Non-Current Liabilities:			
Due Within One Year	161,459	47,442	208,901
Due in More Than One Year	607,708	104,922	712,630
<b>TOTAL LIABILITIES</b>	<b>966,820</b>	<b>2,577,453</b>	<b>3,544,273</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,054,694	5,473,592	9,528,286
Restricted For:			
Community Development	44,827	-	44,827
Other Purposes	63,299	-	63,299
Unrestricted	1,936,205	5,449,018	7,385,223
<b>TOTAL NET ASSETS</b>	<b>\$ 6,099,025</b>	<b>10,922,610</b>	<b>\$ 17,021,635</b>

The notes to the basic financial statements are an integral part of this statement.  
See accompanying independent auditors' report.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
General Government	\$ 421,220	47,131	-	-	(374,089)	-	\$ (374,089)
Judicial	177,817	-	-	-	(177,817)	-	(177,817)
Public Safety	1,919,268	-	22,920	-	(1,896,348)	-	(1,896,348)
Streets and Sanitation	965,184	11,260	65,372	-	(888,552)	-	(888,552)
Recreation	493,379	82,438	23,376	50,000	(337,565)	-	(337,565)
Civic Center	50,785	30,819	-	-	(19,966)	-	(19,966)
Learning Academy	36,295	35,380	-	-	(915)	-	(915)
Interest and Other Charges	49,240	-	-	-	(49,240)	-	(49,240)
<b>Total Governmental Activities</b>	<b>4,113,188</b>	<b>207,028</b>	<b>111,668</b>	<b>50,000</b>	<b>(3,744,492)</b>	<b>-</b>	<b>(3,744,492)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Natural Gas	8,720,444	9,211,016	-	-	-	490,572	490,572
Sewer	262,992	302,443	-	-	-	39,451	39,451
<b>Total Business-Type Activities</b>	<b>8,983,436</b>	<b>9,513,459</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>530,023</b>	<b>530,023</b>
<b>TOTAL - PRIMARY GOVERNMENT</b>	<b>\$ 13,096,624</b>	<b>9,720,487</b>	<b>111,668</b>	<b>50,000</b>	<b>(3,744,492)</b>	<b>530,023</b>	<b>(3,214,469)</b>
General Revenues:							
Taxes:							
Property Taxes					2,700,629	-	2,700,629
Hospitality Taxes					53,767	-	53,767
Business Licenses					196,153	-	196,153
Administrative Fees					700,000	(700,000)	-
Local Government Fund					165,856	-	165,856
Fines and Forfeits					137,181	-	137,181
Miscellaneous Revenue					7,884	-	7,884
Investment Earnings					44,376	176,880	221,256
Transfers					62,647	(62,647)	-
<b>Total General Revenues and Transfers</b>					<b>4,068,493</b>	<b>(585,767)</b>	<b>3,482,726</b>
<b>CHANGE IN NET ASSETS</b>					<b>324,001</b>	<b>(55,744)</b>	<b>268,257</b>
NET ASSETS, Beginning of Year, As Previously Reported					4,817,290	8,228,626	13,045,916
PRIOR PERIOD ADJUSTMENTS					957,734	2,749,728	3,707,462
NET ASSETS, Beginning of Year, Restated					5,775,024	10,978,354	16,753,378
<b>NET ASSETS, End of Year</b>					<b>6,099,025</b>	<b>10,922,610</b>	<b>\$ 17,021,635</b>

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	<u>GENERAL</u>	<u>COMMUNITY DEVELOPMENT</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,254,936	44,827	63,299	\$ 1,363,062
Restricted Cash and Cash Equivalents	114,870	-	-	114,870
Due from County Treasurer	480,067	-	-	480,067
Property Taxes Receivable, Net	859,802	-	-	859,802
Accounts Receivables	62,337	-	-	62,337
Due from Other Governments	47,855	-	-	47,855
Prepays	66,896	-	-	66,896
<b>TOTAL ASSETS</b>	<b><u>2,886,763</u></b>	<b><u>44,827</u></b>	<b><u>63,299</u></b>	<b><u>2,994,889</u></b>
<b>LIABILITIES</b>				
Accounts Payable	74,581	-	-	74,581
Accrued Salaries and Fringe Benefits	89,151	-	-	89,151
Customer Deposits	16,937	-	-	16,937
Due to Other Funds	593,783	-	-	593,783
Deferred Revenue	305,729	-	-	305,729
<b>TOTAL LIABILITIES</b>	<b><u>1,080,181</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,080,181</u></b>
<b>FUND BALANCES</b>				
Fund Balances				
Reserved for:				
Prepays	66,896	-	-	66,896
Capital Projects	114,870	-	-	114,870
Unreserved Reported in:				
General Fund	1,624,816	-	-	1,624,816
Community Development Fund	-	44,827	-	44,827
Other Governmental Funds	-	-	63,299	63,299
<b>TOTAL FUND BALANCES</b>	<b><u>1,806,582</u></b>	<b><u>44,827</u></b>	<b><u>63,299</u></b>	<b><u>1,914,708</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,886,763</u></b>	<b><u>44,827</u></b>	<b><u>63,299</u></b>	<b><u>\$ 2,994,889</u></b>

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**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

**DECEMBER 31, 2005**

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<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 1,914,708</b>
Amounts reported for the 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 as assets in governmental funds. The cost of the assets were \$10,940,599 and the accumulated depreciation was \$6,275,860.	4,664,739
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore have been deferred in the funds.	305,729
Accrued interest on long-term obligations in governmental accounting is not due and payable in the current period and therefore is not reported as a liability in the funds.	(16,984)
Long-term liabilities, including bonds and capital leases payable, 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 Capital Leases)	(724,915)
Compensated Absences (Sick Pay and Vacations)	(44,252)
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<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 6,099,025</b>

The notes to the basic financial statements are an integral part of this statement.  
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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2005

	GENERAL	COMMUNITY DEVELOPMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 2,710,523	-	53,767	\$ 2,764,290
Licenses and Permits	196,153	-	-	196,153
Intergovernmental	165,856	-	-	165,856
Fines and Forfeits	129,760	-	7,421	137,181
Charges for Services	158,121	-	-	158,121
Administrative Fees	700,000	-	-	700,000
Rent	27,669	-	-	27,669
Interest	43,243	700	432	44,375
Donations	50,000	-	-	50,000
Grant Revenue	111,668	-	-	111,668
Other Revenue	29,122	-	-	29,122
<b>TOTAL REVENUES ALL SOURCES</b>	<b>4,322,115</b>	<b>700</b>	<b>61,620</b>	<b>4,384,435</b>
<b>EXPENDITURES</b>				
Current:				
General Government	303,950	3	-	303,953
Judicial	177,273	-	-	177,273
Public Safety	1,743,008	-	11,571	1,754,579
Streets and Sanitation	756,347	-	-	756,347
Recreation	439,606	-	-	439,606
Civic Center	78,922	-	-	78,922
Learning Academy	36,295	-	-	36,295
Capital Outlay	368,482	-	-	368,482
Debt Service:				
Principal	106,384	-	-	106,384
Interest and Fiscal Charges	32,256	-	-	32,256
<b>TOTAL EXPENDITURES</b>	<b>4,042,523</b>	<b>3</b>	<b>11,571</b>	<b>4,054,097</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>279,592</b>	<b>697</b>	<b>50,049</b>	<b>330,338</b>
<b>OTHER FINANCING SOURCES</b>				
Issuance of Capital Lease	80,068	-	-	80,068
Issuance of General Obligation Bonds	275,000	-	-	275,000
Transfers In	62,647	-	-	62,647
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>417,715</b>	<b>-</b>	<b>-</b>	<b>417,715</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>697,307</b>	<b>697</b>	<b>50,049</b>	<b>748,053</b>
FUND BALANCE, Beginning of Year	1,109,275	44,130	13,250	1,166,655
<b>FUND BALANCES, End of Year</b>	<b>\$ 1,806,582</b>	<b>44,827</b>	<b>63,299</b>	<b>\$ 1,914,708</b>

The notes to the basic financial statements are an integral part of this statement.  
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**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2005**

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<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 748,053</b>
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. They are considered revenues in the Statement of Activities.	(9,894)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	106,384
Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt or entering into capital leases increases long-term liabilities in the Statement of Net Assets.	(355,068)
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 is due.	(16,984)
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.	(44,252)
Governmental funds report capital asset additions as expenditures (\$337,146). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$441,384). This is the amount by which depreciation exceeded capital asset additions in the current period.	<u>(104,238)</u>
<b>TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 324,001</u></b>

The notes to the basic financial statements are an integral part of this statement.  
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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

DECEMBER 31, 2005

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Natural Gas</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 4,177,209	42,670	\$ 4,219,879
Restricted Cash and Cash Equivalents	-	643,443	643,443
Investments	914,787	-	914,787
Receivables, Net of Allowance for Doubtful Accounts			
Utility Services	1,173,843	74,865	1,248,708
Interest	2,033	-	2,033
Due From Other Funds	671,036	-	671,036
Inventory	32,704	-	32,704
Prepays	9,597	727	10,324
<b>Total Current Assets</b>	<b>6,981,209</b>	<b>761,705</b>	<b>7,742,914</b>
Noncurrent Assets			
Nondepreciable Capital Assets	243,676	155,899	399,575
Depreciable Capital Assets, Net	2,592,478	2,842,349	5,434,827
<b>Total Noncurrent Assets</b>	<b>2,836,154</b>	<b>2,998,248</b>	<b>5,834,402</b>
<b>TOTAL ASSETS</b>	<b>9,817,363</b>	<b>3,759,953</b>	<b>13,577,316</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	1,348,142	3,598	1,351,740
Accrued Salaries and Fringe Benefits	6,840	671	7,511
Compensated Absences - Current Portion	2,000	124	2,124
Accrued Interest Payable	4,767	11,676	16,443
Customer Deposits	35,225	-	35,225
Due to Other Funds	-	77,253	77,253
Bond Anticipation Note Payable	-	1,014,170	1,014,170
Capital Lease Payable - Current Portion	45,318	-	45,318
<b>Total Current Liabilities</b>	<b>1,442,292</b>	<b>1,107,492</b>	<b>2,549,784</b>
Noncurrent Liabilities			
Compensated Absences - Noncurrent Portion	8,001	494	8,495
Capital Lease Payable - Noncurrent Portion	96,427	-	96,427
<b>Total Non-Current Liabilities</b>	<b>104,428</b>	<b>494</b>	<b>104,922</b>
<b>TOTAL LIABILITIES</b>	<b>1,546,720</b>	<b>1,107,986</b>	<b>2,654,706</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	2,694,409	2,779,183	5,473,592
Unrestricted	5,576,234	(127,216)	5,449,018
<b>TOTAL NET ASSETS</b>	<b>\$ 8,270,643</b>	<b>2,651,967</b>	<b>\$ 10,922,610</b>

The notes to the basic financial statements are an integral part of this statement.

See accompanying independent auditors' report.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Service			
Natural Gas Sales	\$ 9,102,913	-	\$ 9,102,913
Sewer Maintenance Fees	-	301,792	301,792
Other Charges for Service	108,103	-	108,103
Miscellaneous	-	651	651
<b>TOTAL OPERATING REVENUES</b>	<b>9,211,016</b>	<b>302,443</b>	<b>9,513,459</b>
<b>OPERATING EXPENSES</b>			
Natural Gas Purchases	7,405,474	-	7,405,474
Administrative Fees	700,000	-	700,000
Personnel Services	514,371	76,198	590,569
Contractual Services	23,422	437	23,859
Materials and Supplies	112,982	698	113,680
Other Operating Expenses	434,878	26,738	461,616
Depreciation	223,616	116,044	339,660
<b>TOTAL OPERATING EXPENSES</b>	<b>9,414,743</b>	<b>220,115</b>	<b>9,634,858</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(203,727)</b>	<b>82,328</b>	<b>(121,399)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Bond Issuance Costs	-	(20,796)	(20,796)
Investment Income	158,323	18,557	176,880
Interest Expense	(5,701)	(22,081)	(27,782)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>152,622</b>	<b>(24,320)</b>	<b>128,302</b>
Transfer Out	(62,647)	-	(62,647)
<b>CHANGE IN NET ASSETS</b>	<b>(113,752)</b>	<b>58,008</b>	<b>(55,744)</b>
NET ASSETS, Beginning of Year, As Previously Reported	8,384,395	(155,769)	8,228,626
PRIOR PERIOD ADJUSTMENT	-	2,749,728	2,749,728
NET ASSETS, Beginning of Year, Restated	8,384,395	2,593,959	10,978,354
<b>NET ASSETS, End of Year</b>	<b>\$ 8,270,643</b>	<b>2,651,967</b>	<b>\$ 10,922,610</b>

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 9,077,606	302,443	\$ 9,380,049
Cash Payments for Goods and Services	(8,475,835)	(25,057)	(8,500,892)
Cash Payments to Employees	(520,938)	(76,695)	(597,633)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>80,833</b>	<b>200,691</b>	<b>281,524</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers to Other Funds	(102,304)	(8,606)	(110,910)
<b>NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(102,304)</b>	<b>(8,606)</b>	<b>(110,910)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of Capital Assets	(54,730)	(315,899)	(370,629)
Proceeds from Rollover of Bond Anticipation Note Payable	-	24,007	24,007
Bond Issuance Costs	-	(20,796)	(20,796)
Proceeds from Capital Lease Payable	17,554	-	17,554
Principal Payments on Capital Lease Payable	(39,506)	-	(39,506)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(76,682)</b>	<b>(312,688)</b>	<b>(389,370)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Investments	117,182	18,557	135,739
Interest Payments	(5,701)	(22,081)	(27,782)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>111,481</b>	<b>(3,524)</b>	<b>107,957</b>
<b>NET INCREASE (DECREASE) IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>13,328</b>	<b>(124,127)</b>	<b>(110,799)</b>
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	4,163,881	810,240	4,974,121
<b>RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year</b>	<b>\$ 4,177,209</b>	<b>686,113</b>	<b>\$ 4,863,322</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (203,727)	82,328	\$ (121,399)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	223,616	116,044	339,660
Change in:			
Increase in Accounts Receivable	(128,336)	-	(128,336)
Increase in Accounts Payable	200,921	2,816	203,737
Decrease in Accrued Salaries and Fringe Benefits	(6,567)	(497)	(7,064)
Decrease in Customer Deposits	(5,074)	-	(5,074)
Net Cash Provided by Operating Activities	\$ 80,833	200,691	\$ 281,524

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

DECEMBER 31, 2005

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	<u>DRUG FUND</u>	<u>FIREMAN'S FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 15,599	55,620	\$ 71,219
<b>TOTAL ASSETS</b>	<u>15,599</u>	<u>55,620</u>	<u>71,219</u>
<b>LIABILITIES</b>			
Held in Custody for Others	15,599	55,620	71,219
<b>TOTAL LIABILITIES</b>	<u>\$ 15,599</u>	<u>55,620</u>	<u>\$ 71,219</u>

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## CITY OF FOUNTAIN INN, SOUTH CAROLINA

### NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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The City of Fountain Inn (“City”) is an incorporated municipality located in Greenville County, South Carolina that was established on May 3, 1911. 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.”

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. The Reporting Entity

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America, (“GAAP”), 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 more significant of the City’s accounting policies are described below.

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 or both of 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, on the other hand, 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 City does not have any blended or discrete component units.

##### B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide basic financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these basic financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants and donations. Property taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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. Property taxes, intergovernmental revenues, franchise taxes, licenses, and interest associated with the current period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current period. For this purpose, the government considers its revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. Capital asset acquisitions are reported as capital outlay expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The following major funds and fund types are used by the City.

**Governmental Fund Types** 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, a major fund**, is the general operating fund of the City and accounts for all revenues and expenditures of the City except those required to be accounted for in another fund. Principal sources of revenue are property taxes, licenses and permits, state and county shared revenues and charges for administrative services from other funds. Primary expenditures are for general government, police and fire protection, culture and recreation, judicial, and streets and sanitation.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

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 *Community Development Fund, an unbudgeted major fund*, is the fund used to account for grant proceeds and expenditures related to community development projects.

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: Hospitality Tax Fund, Victims Fund, K-9 Fund, and 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. The City applies all applicable GASB pronouncements, as well as the requirements of Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARBs”), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The City has elected not to follow the aforementioned guidance issued after November 30, 1989, as allowed by GAAP.

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:

*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.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2005**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Equity**

**1. Cash, Cash Equivalents, and Investments**

***Cash and Cash Equivalents***

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.

***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:

- (a) Obligations of the United States and agencies thereof;
- (b) General obligations of the State of South Carolina or any of its political units;
- (c) Savings and Loan Associations to the extent that the same are insured by an agency of the Federal Government;
- (d) Certificates of Deposit and funds in deposit accounts with banking institutions provided that such certificates and funds in deposit accounts are collaterally secured by securities of the type described in (a) and (b) above, held by a third party as escrow agent, or custodian of a market value, not less than the amount of the certificates or funds in deposit accounts 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;
- (e) Collateralized repurchase agreements when collateralized by securities as set forth in (a) and (b) above and held by the governmental entity or a third party as escrow agent or custodian; and
- (f) 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 savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer 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 (a), (b), and (e) 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.

The City's cash investment objectives are preservation of capital, liquidity and yield. The City reports its cash and investments at fair value which is normally determined by quoted market prices. The City currently or in the past year has primarily used the following investments:

- Certificates of Deposit ("CD") are bond-type investments issued by a bank when a person or company deposits a certain amount of money for a determined amount of time. The maturity can be up to five years, and interest is paid to the holder of the CD at an agreed upon rate. Money removed before maturity is subject to a penalty.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2005**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Equity (Continued)**

**2. Cash, Cash Equivalents, and Investments (Continued)**

*Investments (Continued)*

- Repurchase agreements are a type of transaction in which a money market participant acquires immediately available funds by selling securities and simultaneously agreeing to repurchase the same or similar securities after a specified time at a given price, which typically includes interest at an agreed-upon rate. The City's repurchase agreements are considered cash and cash equivalents as they are purchased with maturities of less than three months.
- South Carolina Pooled Investment Fund (the "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina 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") as 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.

**2. Receivables and Payables**

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of 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, 2005, balances of interfund amounts or payables have been recorded.

Property taxes receivable represent current real and personal property 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 collected 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 these Counties under joint billing and collection agreements. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16<sup>th</sup>. Taxes are levied and billed on October 1<sup>st</sup> on all property other than vehicles and are payable without penalty until January 15<sup>th</sup> of the following year. Penalties are assessed on unpaid taxes on the following dates:

January 16 <sup>th</sup> through February 1 <sup>st</sup>	-	3%
February 2 <sup>nd</sup> through March 15 <sup>th</sup>	-	10% of tax
After March 15 <sup>th</sup>	-	15% of tax plus collection cost

Current year real and personal property taxes become delinquent on March 16<sup>th</sup>. Unpaid property taxes become a lien against the property as of June 1<sup>st</sup> 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.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2005**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities, and Equity (Continued)**

**2. Receivables and Payables (Continued)**

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.

**3. Inventories and Prepaid Assets**

Inventories of the City are stated at cost (first-in, first-out method) and are recorded as expenditures when consumed rather than when purchased (consumption method). Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets.

**4. 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 valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Public domain (“infrastructure”) general capital assets acquired prior to January 1, 2005 consist of the road network (streets, sidewalks, curbs and gutters) and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980. These assets are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. The City maintained a minimum capitalization threshold of \$5,000 for all capital assets other than those associated with infrastructure. The City’s minimum capitalization threshold for infrastructure assets is \$100,000.

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are complete, at which time the complete costs of the project are transferred to the appropriate capital asset category. 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:

Description	Governmental Activities Estimated Lives
Buildings	25 - 40 years
Improvements Other Than Buildings	10 - 20 years
Utility Systems	30 - 50 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 10 years
Furniture and Fixtures	5 - 10 years
Infrastructure	20 - 50 years

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

5. *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 in the government-wide financial statements. The portion applicable to the Proprietary Funds 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.

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 all full-time employees (except firemen) is earned at the rate indicated below:

Years of Service	Number of Hours Earned Per Month
Up to 1 Year	3.34
1 to 10 Years	6.67
10 to 20 Years	10.00
20 Years or More	13.34

Annual leave for firemen is earned at the rate indicated below:

Years of Service	Earned Per Month
Up to 1 Year	6.00
1 to 10 Years	10.00
10 to 20 Years	14.00
20 Years or More	20.00

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 the equivalent of four workweeks and firemen the equivalent of two workweeks 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.

6. *Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. The portion applicable to the Proprietary Funds is also recorded in the Proprietary Fund financial statements. All current payables and accrued liabilities from governmental funds are reported in the governmental fund financial statements.