

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

6. *Accrued Liabilities and Long-Term Obligations (Continued)*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts as well as bond issuance costs, are deferred, if material, and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Amortization of premiums, discounts and bond issuance costs are included in interest expense. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, if applicable, are included in other assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Deferred Revenue*

Deferred Revenues in the governmental funds represent receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

8. *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, non-current receivables, prior year appropriations, grant projects, debt service, capital projects and special revenue programs.

In the governmental fund financial statements, the City can establish "designations" of fund balance which are to reflect tentative 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 an expenditure.

9. *Net Assets*

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets are classified as invested in capital assets net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, consist 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 component as the unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

10. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the year to control expenditures. Encumbrances do not constitute expenditures or liabilities. For budget purposes, encumbrances and unused expenditure appropriations lapse at year end.

11. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those 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. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements;

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.
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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. Of the City's bank balances of \$4,115,908 as of December 31, 2005 (which had a carrying value of \$4,121,601), \$371,362 was exposed to custodial credit risk as it was uninsured and uncollateralized.

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

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments

As of December 31, 2005, the City had the following investments:

Investment Type	Credit Rating	Fair Value	Weighted Average Maturity (Years)
Repurchase Agreements	Unrated	\$ 2,616,480	Less than 1 year
SC Pooled Investment Fund	Unrated	589,179	Less than 1 year
Total		\$ 3,205,659	

Interest Rate Risk: The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates but they do follow the investment policy statutes of the State of South Carolina.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of December 31, 2005, \$2,616,480 of the City's security investments were exposed to custodial credit risk as they were held by the counterparties' trust departments but not in the name of the City.

Concentration of Credit Risk for Investments: The City's investment policy places no limit on the amount it may invest in any one issuer. More than 5 percent of the City's investments are in the following issuers: Repurchase Agreement with Suntrust (62%) and Repurchase Agreement with Palmetto Bank (19%). Investments in external investment pools are excluded from this disclosure requirement.

The City had cash and cash equivalents of \$114,870 at December 31, 2005 that were restricted for the purchase of various capital equipment related to the 2005 Series GO Bond and capital lease agreements.

Reconciliation to the Financial Statements

A reconciliation of cash and investments as shown for all fund types follow:

Description	Amount
Carrying Value of Deposits	\$ 4,121,601
Fair Value of Investments	3,205,659
Total Deposits and Investments	7,327,260
Statement of Net Assets:	
Cash and Cash Equivalents	5,582,941
Restricted Cash and Cash Equivalents	758,313
Investments	914,787
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	71,219
Total Cash and Investments	\$ 7,327,260

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables and Deferred Revenue

Greenville County, South Carolina and Laurens County, South Carolina (the “Counties”) are responsible for levying and collecting sufficient property taxes to meet funding obligations for the City. This obligation is established each year by the City Council and does not necessarily represent actual taxes levied or collected. The property taxes are considered both measurable and available for purposes of recognizing revenue and a receivable from the Counties at the time they are collected by the Counties.

Property taxes were levied and billed by the Counties on real and personal properties on October 1st based on an assessed value of approximately \$20.2 million at the rate of 58.4 mills for the City and 23.2 mills for Fire Services. Property taxes receivable includes an allowance for uncollectibles of \$28,748 at December 31, 2005. Natural gas accounts receivable include an allowance for uncollectible of \$429,793 at December 31, 2005.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2005, the governmental funds reported \$305,729 in deferred revenues, all attributable to delinquent property taxes receivable.

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at December 31, 2005 (which are expected to be paid or received within one year), consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
<u>Major Funds:</u>		
General Fund	\$ -	\$ 593,783
Natural Gas Enterprise Fund	671,036	-
Sewer Enterprise Fund	-	77,253
Totals	<u>\$ 671,036</u>	<u>\$ 671,036</u>

The General Fund Payable at year end to the Natural Gas Fund was for the payment of operating costs and the purchase of capital assets. These amounts will later be repaid from future revenues from the General Fund. The remaining Sewer Fund Payable that was due to the Natural Gas Fund was for the payment of supplies and material.

Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Funds:</u>		
General Fund	\$ 62,647	\$ -
Natural Gas Enterprise Fund	-	62,647
Totals	<u>\$ 62,647</u>	<u>\$ 62,647</u>

During the course of normal operations and in order to support the numerous functions of the City, transactions between funds may occur. Natural Gas transfers to the General Fund were made for the purchase of capital assets.

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

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital Assets

Capital asset activity for the City for governmental activities for the year ended December 31, 2005, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 690,941	12,500	-	\$ 703,441
Total Capital Assets, Non-Depreciable	<u>690,941</u>	<u>12,500</u>	<u>-</u>	<u>703,441</u>
Capital Assets, Depreciable:				
Buildings	3,265,251	302,500	-	3,567,751
Infrastructure	3,307,188	-	-	3,307,188
Machinery and Equipment	1,278,624	22,146	-	1,300,770
Vehicles	2,061,449	-	-	2,061,449
Total Capital Assets, Depreciable	<u>9,912,512</u>	<u>324,646</u>	<u>-</u>	<u>10,237,158</u>
Less: Accumulated Depreciation for:				
Buildings	886,580	85,413	-	971,993
Infrastructure	2,591,278	165,360	-	2,756,638
Machinery and Equipment	955,666	64,721	-	1,020,387
Vehicles	1,400,952	125,890	-	1,526,842
Total Accumulated Depreciation	<u>5,834,476</u>	<u>441,384</u>	<u>-</u>	<u>6,275,860</u>
Total Capital Assets, Depreciable, Net	<u>4,078,036</u>	<u>(116,738)</u>	<u>-</u>	<u>3,961,298</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 4,768,977</u>	<u>(104,238)</u>	<u>-</u>	<u>\$ 4,664,739</u>

* The beginning balance has been restated to reflect infrastructure acquired prior to January 1, 2005, which resulted in an increase in Net Assets of \$715,910. See Note IV. D. for additional information.

Depreciation expense for the year ended December 31, 2005 for governmental activities was charged to functions as follows:

	Depreciation Expense
Governmental Activities:	
General Government	\$ 29,981
Public Safety	136,768
Streets and Sanitation	200,868
Recreation	41,671
Civic Center	32,096
Total Depreciation Expense - Governmental Activities	<u>\$ 441,384</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital Assets (Continued)

Capital asset activity for the City for business-type activities for the year ended December 31, 2005, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 206,500	37,176	-	\$ 243,676
Construction in Progress	-	155,899		155,899
Total Capital Assets, Non-Depreciable	<u>206,500</u>	<u>193,075</u>	<u>-</u>	<u>399,575</u>
Capital Assets, Depreciable:				
Buildings	130,128	-	-	130,128
Utility Systems	9,113,217	65,000	-	9,178,217
Machinery and Equipment	819,411	17,554	-	836,965
Vehicles	376,314	95,000	-	471,314
Furniture and Fixtures	53,785	-	-	53,785
Total Capital Assets, Depreciable	<u>10,492,855</u>	<u>177,554</u>	<u>-</u>	<u>10,670,409</u>
Less: Accumulated Depreciation for:				
Buildings	87,157	7,497	-	94,654
Utility Systems	3,850,293	239,603	-	4,089,896
Machinery and Equipment	570,320	62,958	-	633,278
Vehicles	335,769	29,312	-	365,081
Furniture and Fixtures	52,383	290	-	52,673
Total Accumulated Depreciation	<u>4,895,922</u>	<u>339,660</u>	<u>-</u>	<u>5,235,582</u>
Total Capital Assets, Depreciable, Net	<u>5,596,933</u>	<u>(162,106)</u>	<u>-</u>	<u>5,434,827</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 5,803,433</u>	<u>30,969</u>	<u>-</u>	<u>\$ 5,834,402</u>

* The beginning balances have been restated to reflect sewer lines not previously reported, which resulted in an increase in Net Assets of \$2,749,728. The sewer lines are included with utility systems in the table above. See Note IV. D for additional information.

Capital Lease

The cost and accumulated amortization of equipment recorded under capital lease was approximately \$628,000 and \$174,000, respectively, at December 31, 2005. Amortization of assets recorded under capital lease obligations has been included with depreciation expense.

Construction Commitments

The City had approximately \$130,000 in commitments under contract for construction as of December 31, 2005.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Short-Term Obligations

The City issued a Sewer System Bond Anticipation Note, Series 2004 in June 2004, with a maturity in June 2005. This note was repaid with the proceeds of a Sewer System Bond Anticipation Note, Series 2005, which was issued in June 2005. The 2005 Note has a stated interest rate of 3.11% and matures in June 2006. The City expects to repay this indebtedness from the proceeds of an improvement revenue bond it anticipates issuing in the near future for its on-going capital improvement project related to its sewer operations.

The following is a summary of the changes in the City's short-term obligations for 2005:

Business-Type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Sewer System Bond Anticipation Notes	\$ 990,163	1,014,170	990,163	\$ 1,014,170
Total Business-Type Activities	<u>\$ 990,163</u>	<u>1,014,170</u>	<u>990,163</u>	<u>\$ 1,014,170</u>

F. Long-Term Obligations

Presented below is a summary of changes in long-term obligations for the year ended December 31, 2005:

<u>Long-Term Obligations</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bond, Series 2005	\$ -	275,000	-	275,000	\$ 20,000
Capital Leases	476,231	80,068	106,384	449,915	130,396
Compensated Absences	43,365	887	-	44,252	11,063
Total Governmental Activities	<u>519,596</u>	<u>355,955</u>	<u>106,384</u>	<u>769,167</u>	<u>161,459</u>
Business-Type Activities:					
Capital Leases	163,697	17,554	39,506	141,745	45,318
Compensated Absences	10,619	-	-	10,619	2,124
Total Business-Type Activities	<u>\$ 174,316</u>	<u>17,554</u>	<u>39,506</u>	<u>152,364</u>	<u>\$ 47,442</u>

The City issued a General Obligation Bond in the amount of \$275,000 in May 2005. 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 \$20,000 to \$35,000 through April 2015, with interest at 3.78%

The City has entered into the following capital lease agreements as of December 31, 2005:

- A lease purchase agreement was executed on January 20, 2004 in the amount of \$355,527 to finance the purchase of various equipment. This agreement requires five annual payments ranging from \$58,472 to \$75,883, including interest calculated at 3.343 percent, beginning January 20, 2005. Approximately 88% was for governmental activities and 12% was for business-type activities.
- A lease purchase agreement was executed on May 26, 2004 in the amount of \$284,401 to finance the purchase of various equipment. This agreement requires ten semi-annual payments ranging from \$9,187 to \$23,648, including interest calculated at 2.992 percent, beginning January 3, 2005. Approximately 57% was for governmental activities and 43% was for business-type activities.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Obligations (Continued)

- A lease purchase agreement was executed on April 21, 2005 in the amount of \$97,622 to finance the purchase of various equipment. This agreement requires 9 annual payments ranging from \$8,752 to \$14,839, including interest calculated at 2.992 percent, beginning January 3, 2005. Approximately 82% was for governmental activities and 18% was for business-type activities.

Presented below is a summary of the City's debt service requirements to maturity for its governmental and business-type activities.

Year Ending December 31,	Bonds		Capital Lease Obligations		Totals
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2006	\$ 20,000	14,031	130,396	15,373	\$ 179,800
2007	25,000	9,167	134,786	10,419	179,372
2008	25,000	8,222	89,529	6,099	128,850
2009	25,000	7,277	88,156	3,044	123,477
2010	25,000	6,332	7,048	129	38,509
2011 - 2015	155,000	15,023	-	-	170,023
Totals	<u>\$ 275,000</u>	<u>60,052</u>	<u>449,915</u>	<u>35,064</u>	<u>\$ 820,031</u>
<u>Business-Type Activities</u>					
2006	\$ -	-	45,318	4,677	\$ 49,995
2007	-	-	46,846	3,025	49,871
2008	-	-	24,080	1,609	25,689
2009	-	-	23,956	762	24,718
2010	-	-	1,545	28	1,573
Totals	<u>\$ -</u>	<u>-</u>	<u>141,745</u>	<u>10,101</u>	<u>\$ 151,846</u>

The General Obligation Bond is a direct obligation of the City, which pledged its full faith and credit upon issuance. The Capital 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 capital lease obligations. Resources from the General Fund and the Enterprise Funds have been used to liquidate the City's long-term obligations.

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 rebated to the federal government. The City had no arbitrage liability at December 31, 2005.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or City shall incur any bonded debt which shall exceed eight percent of the assessed value of the property therein and no such debt shall be created without the electors of such City or City voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exemption was thirty five percent. In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent of assessed valuation; whereas, with a referendum any amount can be floated. As of December 31, 2005, the City had \$275,000 of bonded debt subject to the 8% limit of approximately \$1,604,000, resulting in an unused legal debt margin of approximately \$1,329,000.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

IV. OTHER INFORMATION

A. Retirement Plans

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. Only the South Carolina State Budget and Control Board has the authority to establish and amend benefits. 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.

Funding Policy – Both employees and employers are required to contribute to the Plans under authority of Title 9 of the SC Code of Laws. Employee contributions to the Plans are as follows: SCRS – 6.25% of salary; PORS Class II – 6.5% of salary; PORS Class I – \$21 per month. Employers are required to contribute at the following actuarially determined rates: SCRS State Agencies & Public Schools – 7.55%; local government 7.55%; PORS Class II – 10.3%; PORS Class I – 7.8%. In addition to the above rates, participating employers of the SCRS contribute 0.15% of payroll to provide a group life insurance benefit for their participants. Participating employers of the PORS contribute 0.20% of payroll to provide a group life insurance benefit and 0.20% of payroll to provide an accidental death benefit for their participants. All employers contribute at the actuarially required contribution rates. The City contributed amounts equal to the required contribution to the SCRS of \$84,076, PORS of \$105,593; SCRS of \$78,163, PORS of \$110,198; and SCRS of \$81,418, PORS of \$125,166, for the years ended December 31, 2005, 2004, and 2003 respectively. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

B. 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; injuries to employees’ and natural disasters. The City purchases commercial insurance to cover these liabilities. Additionally, the City purchases commercial insurance to cover employee health insurance benefits. There were no significant reductions in coverage in the past year and there were no settlements exceeding insurance coverage in the past three years.

C. Grants

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount of program expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Prior Period Adjustments

GASB issued Statement No. 34 in 1999, with required implementation dates based on the size of the governmental entity. Certain provisions regarding the recognition of infrastructure could be phased in up to three years after the adoption of the other provisions of this statement. The City adopted GASB Statement No. 34 for the year ended December 31, 2003. In accordance with the transition provisions of this Statement, the City recorded during 2005 its public domain (infrastructure) general capital assets acquired prior to January 1, 2005, which resulted in an increase in Net Assets of \$715,910, which is the cost, net of accumulated depreciation, for the public domain infrastructure as of January 1, 2005. This adjustment negatively impacted the change in Net Assets for the year ending December 31, 2004 as previously reported by \$165,359 for depreciation expense on the infrastructure.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

IV. OTHER INFORMATION (CONTINUED)

D. Prior Period Adjustments (Continued)

During 2005, the City discovered that it had not included the sewer lines that it owns and maintains in its financial statements. Accordingly, the City recorded a prior period adjustment in the amount of \$2,749,728, which is the cost, net of accumulated depreciation, for its sewer lines as of December 31, 2004. This adjustment negatively impacted the change in Net Assets for the year ending December 31, 2004 as previously reported by \$95,178 for depreciation expense on the sewer lines.

In addition, the City did not properly account for property tax revenues, resulting in an increase to Net Assets at December 31, 2004 of \$241,824. This adjustment had a net impact of \$65,917 on the change in Net Assets for the year ending December 31, 2004.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes	\$ 2,670,131	2,670,131	2,710,523	\$ 40,392
Licenses and Permits	137,500	137,500	196,153	58,653
Intergovernmental	160,000	160,000	165,856	5,856
Fines and Forfeits	200,000	200,000	129,760	(70,240)
Charges for Services	204,873	204,873	158,121	(46,752)
Administrative Fees	700,000	700,000	700,000	-
Rent	13,400	13,400	27,669	14,269
Donations	-	-	50,000	50,000
Interest Earnings	5,000	5,000	43,243	38,243
Grant Revenue	152,404	152,404	111,668	(40,736)
Other Revenue	2,000	2,000	29,122	27,122
TOTAL REVENUE ALL SOURCES	4,245,308	4,245,308	4,322,115	76,807
EXPENDITURES				
General Government:				
City:				
Other Services and Charges	85,000	85,000	50,969	34,031
Total City	85,000	85,000	50,969	34,031
Administration:				
Salaries and Related Expenses	140,346	140,346	135,749	4,597
Supplies	15,000	15,000	9,267	5,733
Other Services and Charges	37,340	37,340	26,434	10,906
Total Administration	192,686	192,686	171,450	21,236
Mayor and City Council:				
Salaries and Related Expenses	44,364	44,364	41,440	2,924
Supplies	500	500	669	(169)
Other Services and Charges	14,712	14,712	14,311	401
Total Mayor and City Council	59,576	59,576	56,420	3,156
Miscellaneous:				
Other Services and Charges	-	-	25,111	(25,111)
Total Miscellaneous	-	-	25,111	(25,111)
Total General Government	337,262	337,262	303,950	33,312
Judicial:				
Salaries and Related Expenses	64,806	64,806	59,116	5,690
Supplies	4,000	4,000	2,991	1,009
Other Services and Charges	153,103	153,103	115,166	37,937
Total Judicial	\$ 221,909	221,909	177,273	\$ 44,636

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Public Safety:				
Police:				
Salaries and Related Expenses	\$ 1,061,283	1,061,283	1,008,565	\$ 52,718
Supplies	14,350	14,350	12,311	2,039
Other Services and Charges	165,040	165,040	154,932	10,108
Total Police	<u>1,240,673</u>	<u>1,240,673</u>	<u>1,175,808</u>	<u>64,865</u>
Fire:				
Salaries and Related Expenses	514,026	514,026	477,434	36,592
Supplies	4,000	4,000	2,701	1,299
Other Services and Charges	173,501	173,501	87,065	86,436
Total Fire	<u>691,527</u>	<u>691,527</u>	<u>567,200</u>	<u>124,327</u>
Total Public Safety	<u>1,932,200</u>	<u>1,932,200</u>	<u>1,743,008</u>	<u>189,192</u>
Streets and Sanitation:				
Public Works:				
Salaries and Related Expenses	81,869	81,869	76,006	5,863
Supplies	5,700	5,700	4,047	1,653
Other Services and Charges	40,680	40,680	55,989	(15,309)
Total Public Works	<u>128,249</u>	<u>128,249</u>	<u>136,042</u>	<u>(7,793)</u>
Streets:				
Salaries and Related Expenses	224,993	224,993	171,438	53,555
Supplies	2,000	2,000	1,675	325
Other Services and Charges	258,271	258,271	169,850	88,421
Total Streets	<u>485,264</u>	<u>485,264</u>	<u>342,963</u>	<u>142,301</u>
Sanitation:				
Supplies	1,000	1,000	94	906
Other Services and Charges	208,701	208,701	237,660	(28,959)
Total Sanitation	<u>209,701</u>	<u>209,701</u>	<u>237,754</u>	<u>(28,053)</u>
Recycling:				
Salaries and Related Expenses	33,577	33,577	32,759	818
Supplies	1,700	1,700	188	1,512
Other Services and Charges	17,860	17,860	6,641	11,219
Total Recycling	<u>53,137</u>	<u>53,137</u>	<u>39,588</u>	<u>13,549</u>
Total Streets and Sanitation	<u>876,351</u>	<u>876,351</u>	<u>756,347</u>	<u>120,004</u>
Recreation:				
Salaries and Related Expenses	253,966	253,966	247,353	6,613
Supplies	6,700	6,700	10,600	(3,900)
Other Services and Charges	224,389	224,389	181,653	42,736
Total Recreation	<u>\$ 485,055</u>	<u>485,055</u>	<u>439,606</u>	<u>\$ 45,449</u>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGETS AND ACTUAL

YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Civic Center:				
Salaries and Related Expenses	\$ 3,000	3,000	2,779	\$ 221
Supplies	1,500	1,500	986	514
Other Services and Charges	79,867	79,867	75,157	4,710
Total Civic Center	<u>84,367</u>	<u>84,367</u>	<u>78,922</u>	<u>5,445</u>
Learning Academy:				
Salaries and Related Expenses	17,561	17,561	9,229	8,332
Supplies	500	500	15	485
Other Services and Charges	44,687	44,687	27,051	17,636
Total Learning Academy	<u>62,748</u>	<u>62,748</u>	<u>36,295</u>	<u>26,453</u>
Capital Outlays	<u>364,979</u>	<u>364,979</u>	<u>368,482</u>	<u>(3,503)</u>
Debt Service:				
Principal	120,073	120,073	106,384	13,689
Interest and Fiscal Changes	21,750	21,750	32,256	(10,506)
Total Debt Service	<u>141,823</u>	<u>141,823</u>	<u>138,640</u>	<u>3,183</u>
TOTAL EXPENDITURES	<u>4,506,694</u>	<u>4,506,694</u>	<u>4,042,523</u>	<u>464,171</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(261,386)</u>	<u>(261,386)</u>	<u>279,592</u>	<u>540,978</u>
OTHER FINANCING SOURCES				
Issuance of Capital Lease	-	-	80,068	80,068
Issuance of General Obligation Bonds	275,000	275,000	275,000	-
Transfers In	-	-	62,647	62,647
TOTAL OTHER FINANCING SOURCES	<u>275,000</u>	<u>275,000</u>	<u>417,715</u>	<u>142,715</u>
NET CHANGE IN FUND BALANCE	13,614	13,614	697,307	683,693
FUND BALANCE, Beginning of Year	<u>1,109,275</u>	<u>1,109,275</u>	<u>1,109,275</u>	<u>-</u>
FUND BALANCE, End of Year	<u>\$ 1,122,889</u>	<u>1,122,889</u>	<u>1,806,582</u>	<u>\$ 683,693</u>

Note: The budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2005

	FUND 102 HOSPITALITY TAX	FUND 525 VICTIMS FUND	FUND 540 K-9 FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 54,186	8,975	138	-	\$ 63,299
TOTAL ASSETS	54,186	8,975	138	-	63,299
LIABILITIES					
Due to Other Funds	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-
FUND BALANCES					
Unreserved - Undesignated	54,186	8,975	138	-	63,299
TOTAL FUND BALANCES	54,186	8,975	138	-	63,299
TOTAL LIABILITIES AND FUND BALANCES	\$ 54,186	8,975	138	-	\$ 63,299

CITY OF FOUNTAIN INN, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
OTHER GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2005

	FUND 102 HOSPITALITY TAX	FUND 525 VICTIMS FUND	FUND 540 K-9 FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES					
Fines and Forfeits	\$ -	7,421	-	-	\$ 7,421
Taxes	53,767	-	-	-	53,767
Interest	432	-	-	-	432
TOTAL REVENUES ALL SOURCES	54,199	7,421	-	-	61,620
EXPENDITURES					
Current:					
Public Safety	-	7,393	-	4,165	11,558
Miscellaneous	13	-	-	-	13
TOTAL EXPENDITURES	13	7,393	-	4,165	11,571
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	54,186	28	-	(4,165)	50,049
NET CHANGES IN FUND BALANCES	54,186	28	-	(4,165)	50,049
FUND BALANCES, Beginning of Year	-	8,947	138	4,165	13,250
FUND BALANCES, End of Year	\$ 54,186	8,975	138	-	\$ 63,299

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED DECEMBER 31, 2005

Court Assessments

Court Assessments Collected	\$	142,376
Court Assessments Retained by the City		77,939
Total Court Assessments Remitted to the State Treasurer		64,437

Court Surcharges

Court Surcharges Collected		4,633
Court Surcharges Retained by the City		4,633
Total Court Surcharges Remitted to State Treasurer		-

Victim Fund

Court Assessments Allocated to Victim Fund		13,571
Victim Fund Expenditures		4,596
Funds Available for Carryforward	\$	8,975

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF BASIC 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2005-1.

We noted certain other matters that we reported to management of the City in a separate letter dated March 21, 2006.

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


Greene, Finney & Horton, LLP
March 21, 2006

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2005

Findings - 2005 Financial Statements Audit

2005-1: NONCOMPLIANCE WITH LAWS AND REGULATIONS

- Condition:** The City of Fountain Inn's ("City") bank deposits were under collateralized by approximately \$371,362 at December 31, 2005.
- Criteria:** State law requires all monies deposited by a government entity at a financial institution be collateralized for any amount in excess of FDIC insurance.
- Effect:** The City was not in compliance with State law at December 31, 2005.
- Recommendation:** We recommend that the City coordinate with the bank in order to maintain sufficient collateral on these deposits at all times.
- Response:** Management is working with the financial institutions to address this problem and to ensure that proper collateral is in place going forward.