

**CITY OF FOUNTAIN INN,  
SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**



CITY OF FOUNTAIN INN, SOUTH CAROLINA

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YEAR ENDED DECEMBER 31, 2008

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**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**LISTING OF PRINCIPAL OFFICIALS**

**YEAR ENDED DECEMBER 31, 2008**

Established

1886

MAYOR

Gary Long

CITY COUNCIL MEMBERS

Jay Thomason

Celia Tuttle

Wanza Bates

Erick Chapman

Berry Woods Jr.

Matthew King

CITY ADMINISTRATOR

Eddie Case

CITY ATTORNEY

David Holmes

MUNICIPAL JUDGE

Janis Hall





## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council  
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, 2008, 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 basic 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, 2008, 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 our report dated March 31, 2009, 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 and budgetary comparison information for the General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Greene, Finney & Horton LLP*

Greene, Finney & Horton, LLP

March 31, 2009

## CITY OF FOUNTAIN INN, SOUTH CAROLINA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### YEAR ENDED DECEMBER 31, 2008

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This discussion and analysis of the City of Fountain Inn's (the "City") financial performance provides an overview of the City's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to present the City's financial performance as a whole; readers should also review the basic financial statements, the notes to the basic financial statements and the supplemental schedules to enhance their understanding of the City's financial performance.

#### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by approximately \$19,996,000 (*net assets*). Of this amount, approximately \$8,005,000 (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 approximately \$800,000 as revenues of approximately \$15,837,000 exceeded expenses of approximately \$15,037,000.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of approximately \$3,534,000, an increase of approximately \$1,183,000 in comparison with the prior year balance. The increase in the fund balance is primarily the result of proceeds from the issuance of General Obligation Bonds of \$1,060,000 and a Notes Payable (Master Lease) of \$275,000 and higher property tax collections of approximately \$306,000, partially offset by higher capital outlay of approximately \$223,000 and increased salary and related fringes of approximately \$250,000.
- Unreserved fund balance for the General Fund was approximately \$1,884,000 at December 31, 2008, or approximately 30% of total General Fund expenditures for the year ended December 31, 2008. The unreserved fund balance was approximately \$1,889,000 at December 31, 2007, or approximately 35% of total General Fund expenditures for the year ended December 31, 2007.
- The City's capital assets increased during 2008 by approximately \$1,793,000 (15%) to approximately \$13,769,000 at December 31, 2008. The increase was due to current year additions of approximately \$2,759,000, offset by depreciation expense of approximately \$959,000 and net disposals of \$7,000.
- The City's long term obligations increased during 2008 by approximately \$4,806,000 (192%) to approximately \$7,309,000 at December 31, 2008. The key factors in this increase were the issuance of a 2008 General Obligation Bond for \$1,060,000, a 2008 Natural Gas Revenue Bond for \$3,295,000, and two Notes Payable (Master Lease) for approximately \$544,000, partially offset by principal payments of approximately \$97,000 made during the year.
- The City's General Fund revenues were approximately \$5,540,000 for 2008, compared to approximately \$4,776,000 for the prior year. This increase is primarily due to higher property tax collections, fire service area revenues, and grant revenues received and recognized in 2008.
- The City's General Fund expenditures were approximately \$6,205,000 for 2008, compared to approximately \$5,414,000 for the prior year. This increase is primarily due to higher capital outlay and salaries and related fringes.
- Business-type activities revenues were approximately \$10,514,000 for 2008, compared to approximately \$9,411,000 for the prior year. This increase is primarily due to higher Natural Gas sales, which were offset by lower investment income. Business-type activities expenses were approximately \$9,781,000 for 2008, compared to approximately \$8,131,000 for the prior year. This increase is primarily due to higher Natural Gas purchases and personnel costs.

#### OVERVIEW OF 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*.

#### Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

**Government-Wide Financial Statements.** The basic financial statements include two kinds of statements that present different views of the City. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

# CITY OF FOUNTAIN INN, SOUTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2008

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### OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include General Government, Judicial, Public Safety, Streets and Sanitation, Recreation, Civic Center/Performing Arts, and Economic Development. The business-type activities of the City are Natural Gas and Sewer.

**Fund Financial Statements.** The remaining basic financial statements are *fund financial statements* that focus on *individual parts* of the City, reporting its operations in *more detail* than the government-wide statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into the following categories: governmental, proprietary, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term uses of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains several different types of governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund and the Special Revenue – Hospitality Tax Fund, which are considered to be major funds. The remaining special revenue funds are combined in the balance sheet and the statement of revenues, expenditures, and changes in fund balances since they are not considered major funds.

**Proprietary Funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its natural gas and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail; therefore, the proprietary funds financial statements provide more detailed information for the natural gas and sewer operations, which are considered major funds of the City.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City is the trustee, or agent, for the Drug Fund and Fireman's Fund.

**Notes to the Basic Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2008**

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. The City adopts an annual budget for its General Fund, as required by General Statutes. A required budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Other supplemental schedules referred to in the table of contents are presented immediately following the required supplementary information.

Figure A-1 Major Features of the City’s Government-Wide and Fund Basic Financial Statements				
Government-Wide Basic Statements		Fund Basic Financial 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 trustee or agent for someone else’s resources.
Required financial statements	<ul style="list-style-type: none"> <li>▪ Statement of net assets</li> <li>▪ Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Balance sheet</li> <li>▪ Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Statement of net assets</li> <li>▪ Statement of revenues, expenses, and changes in net assets</li> <li>▪ Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>▪ Statement of fiduciary net assets</li> <li>▪ Statement of changes in fiduciary net assets (if applicable)</li> </ul>
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 the 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 year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2008**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$19,996,000 at the close of the most recent year.

This table provides a summary of the City's net assets as of December 31, 2008 and 2007:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current Assets	\$ 4,342,266	3,373,637	10,981,437	7,996,034	15,323,703	\$ 11,369,671
Capital Assets, Net	5,588,562	4,686,432	8,180,053	7,289,531	13,768,615	11,975,963
Total Assets	<u>9,930,828</u>	<u>8,060,069</u>	<u>19,161,490</u>	<u>15,285,565</u>	<u>29,092,318</u>	<u>23,345,634</u>
<b>Liabilities</b>						
Other Liabilities	645,896	583,326	1,141,163	1,063,128	1,787,059	1,646,454
Long-Term Liabilities	1,627,597	349,420	5,681,709	2,154,182	7,309,306	2,503,602
Total Liabilities	<u>2,273,493</u>	<u>932,746</u>	<u>6,822,872</u>	<u>3,217,310</u>	<u>9,096,365</u>	<u>4,150,056</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	4,800,979	4,410,386	6,245,550	6,625,508	11,046,529	11,035,894
Restricted	484,936	303,489	459,144	161,177	944,080	464,666
Unrestricted	2,371,420	2,413,448	5,633,924	5,281,570	8,005,344	7,695,018
Total Net Assets	<u>\$ 7,657,335</u>	<u>7,127,323</u>	<u>12,338,618</u>	<u>12,068,255</u>	<u>19,995,953</u>	<u>\$ 19,195,578</u>

The net assets of the City's governmental activities increased by approximately \$530,000 or 7% to approximately \$7,657,000 at December 31, 2008, compared to approximately \$7,127,000 at December 31, 2007. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from approximately \$2,413,000 at December 31, 2007 to approximately \$2,371,000 at December 31, 2008. The increase in net assets is due to revenues and transfers exceeding expenses as discussed on the next page.

The net assets of the City's business-type activities increased by approximately \$270,000 or 2% to approximately \$12,339,000 at December 31, 2008, compared to approximately \$12,068,000 at December 31, 2007. The increase in net assets is due to revenues exceeding expenses and transfers as discussed on the next page.

The largest portion of the City's net assets (approximately \$11,047,000 or 55%) reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must generally be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current year, the City is able to report positive balances in all categories of net assets. The same situation held true for the prior year.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2008**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

This table shows the changes in net assets for the years ended 2008 and 2007:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 289,342	208,948	10,379,204	8,747,617	10,668,546	\$ 8,956,565
Operating Grants and Contributions	251,092	57,067	-	-	251,092	57,067
Capital Grants and Contributions	818,687	125,141	-	328,034	818,687	453,175
<b>General Revenues:</b>						
Property Taxes	2,332,558	2,266,620	-	-	2,332,558	2,266,620
Fire Service Area Revenues	818,377	859,126	-	-	818,377	859,126
Administrative Fees	700,000	700,000	(700,000)	(700,000)	-	-
Other	812,759	811,341	134,719	335,502	947,478	1,146,843
<b>Total Revenues</b>	<b>6,022,815</b>	<b>5,028,243</b>	<b>9,813,923</b>	<b>8,711,153</b>	<b>15,836,738</b>	<b>13,739,396</b>
<b>Program Expenses</b>						
General Government	723,237	479,282	-	-	723,237	479,282
Judicial	265,243	264,715	-	-	265,243	264,715
Public Safety	2,533,494	2,280,535	-	-	2,533,494	2,280,535
Streets and Sanitation	1,234,690	1,158,161	-	-	1,234,690	1,158,161
Recreation	731,615	662,165	-	-	731,615	662,165
Civic Center/Performing Arts	275,657	130,218	-	-	275,657	130,218
Economic Development	121,232	129,291	-	-	121,232	129,291
Interest and Other Charges	70,385	12,149	-	-	70,385	12,149
Natural Gas	-	-	8,576,113	6,984,945	8,576,113	6,984,945
Sewer	-	-	504,697	446,316	504,697	446,316
<b>Total Expenses</b>	<b>5,955,553</b>	<b>5,116,516</b>	<b>9,080,810</b>	<b>7,431,261</b>	<b>15,036,363</b>	<b>12,547,777</b>
Change in Net Assets Before Transfers	67,262	(88,273)	733,113	1,279,892	800,375	1,191,619
Transfers In (Out)	462,750	337,241	(462,750)	(337,241)	-	-
<b>Change in Net Assets</b>	<b>530,012</b>	<b>248,968</b>	<b>270,363</b>	<b>942,651</b>	<b>800,375</b>	<b>1,191,619</b>
Net Assets, Beginning of Year	7,127,323	6,878,355	12,068,255	11,125,604	19,195,578	18,003,959
<b>Net Assets, End of Year</b>	<b>\$ 7,657,335</b>	<b>7,127,323</b>	<b>12,338,618</b>	<b>12,068,255</b>	<b>19,995,953</b>	<b>\$ 19,195,578</b>

**Governmental Activities.** The City's net assets increased from 2007 to 2008 by approximately \$530,000 or 7%, compared to an increase of approximately \$249,000 for 2007. In 2008, the Natural Gas Fund transferred approximately \$463,000 to the Governmental Activities to supplement General Fund operations and to fund the mid-year salary increases as a result of a salary study. In the prior year, the Natural Gas Fund transferred approximately \$327,000 to the Governmental Activities for the purchase of 102 Depot Street. The City acquired approximately \$555,000 in land and equipment for fire protection which was paid for by Greenville County in accordance with the agreement the City has with Greenville County. The City experienced higher salaries and related benefits due to a 3% cost of living adjustment and a 4% increase as a result of implementing the recommendations of a salary study. In addition, the City incurred higher performing arts costs (new department combined with Civic Center) in 2008, combined with higher public safety and general government costs.

**Business-Type Activities.** The City's net assets increased from 2007 to 2008 by approximately \$270,000 or 2%, compared to an increase of approximately \$943,000 for 2007. The increase in 2008 is primarily due to higher Natural Gas sales of approximately \$1,600,000, partially offset by higher Natural Gas purchases of approximately \$1,378,000.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2008**

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**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the year. The General Fund is the chief operating fund of the City.

At December 31, 2008, the City's governmental funds reported a combined ending fund balance of approximately \$3,534,000. Of this amount, approximately \$1,805,000 is unreserved but designated for the City's fund balance policy, master plan, and other designations; approximately \$80,000 is unreserved, undesignated, which can be used at the City's discretion, and approximately \$1,649,000 of the remainder is reserved for capital projects, fire operations, hospitality taxes, museum, victims assistance, and prepaid expenditures.

General Fund Revenues

The General Fund is the principal fund that accounts for the daily operations of the City. Total revenue for 2008 was approximately \$5,540,000, compared to approximately \$4,776,000 in the prior year. Taxes, fire service area revenues, licenses and permits, and administrative fees charged to the Natural Gas Fund make up 78% of all General Fund revenues, or approximately \$4,314,000. The remaining General Fund revenue sources totaled approximately \$1,226,000 and consisted of shared revenue (with the state and county), grants, fines, and other miscellaneous sources. The increase in revenues over the prior year is primarily due to higher property tax collections, fire service area revenues, and grant revenues received and recognized in 2008.

As with most municipalities in the State of South Carolina, the City is dependent 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 9.2 mills for debt service, 63.9 mills for Laurens County, which includes 9.2 mills for debt service and 22.8 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% (approximately \$3,415,000) of total General Fund revenue for the year ending December 31, 2008.

General Fund Expenditures

General Fund expenditures for the year ended December 31, 2008 totaled approximately \$6,205,000 compared to approximately \$5,414,000 for the prior year. The increase is primarily due to higher capital outlay and salaries and fringe benefits.

The Public Safety (Police and Fire) and Streets and Sanitation functions accounted for approximately 65% of all General Fund expenditures (excluding capital outlay). Actual expenditures for these functions, excluding capital outlay, were approximately \$2,293,000 for Public Safety and \$954,000 for Streets and Sanitation. The remaining 35% of General Fund expenditures (excluding capital outlay) came from the areas of Recreation of \$540,000, Judicial of \$265,000, Civic Center/Performing Arts of \$206,000, Economic Development of \$103,000 and General Government of \$624,000. The City also had Capital Outlay in the General Fund of approximately \$1,092,000 and debt service expenditures of approximately \$117,000 for 2008.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2008**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)**

General Fund Balance

The General Fund fund balance increased approximately \$1,132,000 in 2008 to approximately \$3,393,000. This was primarily the result of General Obligation Bond proceeds of \$1,060,000, Notes Payable (Master Lease) proceeds of \$275,000, higher grant revenues of approximately \$387,000, and higher property tax revenues of approximately \$306,000 due to the timing of the collection of taxes combined with an increase in millage. This was partially offset by higher capital outlay of approximately \$396,000, increased salaries and fringe benefits of approximately \$250,000, and higher fuel costs, supplies, and repair and maintenance. Unreserved fund balance, both designated and undesignated, for the General Fund was approximately \$1,884,000 (compared to approximately \$1,889,000 for the prior year) or approximately 30% of total General Fund expenditures for the year ended December 31, 2008 (compared to 35% for the prior year). Unreserved and undesignated fund balance was approximately \$79,000 at December 31, 2008.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net Assets of the Enterprise Funds at the end of the year amounted to approximately \$12,339,000. Factors concerning the operations of these funds have already been addressed in the discussion of the City's business-type activities above.

**General Fund Budgetary Highlights**

The City's budget is prepared according to South Carolina law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The General Fund, Natural Gas, and Sewer Funds have legally adopted budgets. Amendments totaling approximately \$1,652,000 were made to the General Fund budget during 2008.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2008, the City had invested a net amount of approximately \$13,769,000 in capital assets.

This table shows 2008 Capital Asset balances (net of depreciation) compared to 2007:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,096,113	1,051,439	43,676	43,676	1,139,789	\$ 1,095,115
Buildings	2,433,139	2,537,096	428,745	20,243	2,861,884	2,557,339
Infrastructure / Utility Systems	475,312	465,356	7,261,713	6,987,300	7,737,025	7,452,656
Machinery & Equipment	416,946	252,850	361,083	135,431	778,029	388,281
Vehicles	1,167,052	379,691	84,836	102,881	1,251,888	482,572
Totals	\$ 5,588,562	4,686,432	8,180,053	7,289,531	13,768,615	\$ 11,975,963

The major capital asset transactions during the year for the City were as follows:

- Depreciation expense of approximately \$959,000
- Natural Gas system infrastructure additions of approximately \$439,000.
- Sewer System infrastructure additions of approximately \$248,000.
- Contributed developer infrastructure of approximately \$62,000.
- Contributed land and vehicles from Greenville County for the Fire Service Area of \$25,000 and \$530,000, respectively.
- Purchase of vehicles of approximately \$519,000.
- Purchase of a building for the Natural Gas Department for approximately \$430,000.
- Purchase of equipment for approximately \$446,000.
- Purchase of property for approximately \$20,000.

See the notes to the basic financial statements for additional information regarding the City's capital assets.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2008**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Obligations**

As of December 31, 2008, the City had total long-term obligations of approximately \$7,309,000, which was an increase of over \$4.8 million from the prior year as detailed below.

This table presents a summary of the City's outstanding long-term obligations for 2008 compared to 2007:

Long-Term Obligations	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 1,265,000	230,000	-	-	1,265,000	\$ 230,000
Revenue Bonds	-	-	5,385,000	2,110,000	5,385,000	2,110,000
Notes Payable - Master Lease	313,651	73,483	287,737	34,847	601,388	108,330
Compensated Absences	48,946	45,937	8,972	9,335	57,918	55,272
Totals	\$ 1,627,597	349,420	5,681,709	2,154,182	7,309,306	\$ 2,503,602

The major long-term obligation events for the current year included the following:

- The City issued a General Obligation Bond in the amount of \$1,060,000, a Natural Gas Revenue Bond in the amount of \$3,295,000, a Master Lease Schedule 4 for Governmental Activities in the amount of \$275,000, and a Master Lease Schedule 1 for the Natural Gas Fund in the amount of \$269,726.
- The City made approximately \$97,000 in principal payments and \$100,000 in interest payments.

The State of South Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The City's statutory debt limit at December 31, 2008 was approximately \$1,878,000. The City had non-referendum bonded debt of \$1,265,000 which resulted in the City having an unused legal debt margin of approximately \$613,000.

See the notes to the basic financial statements for additional information regarding the City's long-term obligations.

**ECONOMIC FACTORS**

Economic factors that were considered in preparing the FY 09 budget were as follows:

- The unemployment rate in the City is 4.5% at December 31, 2008. The City's unemployment rate compares more favorably than that of the State of South Carolina at approximately 8.8%.
- The City had 12 new businesses to open during 2008.
- There are approximately 7,200 residents living in the City.

The adopted FY 09 operating budget for the General Fund is approximately \$5,563,000 in expenditures. Highlights of FY 09 operating budget were as follows:

- The City's tax millage rate increased in October 2008 to 63.9 mills (1.8 mill operating increase to 54.7 and a 9.2 mill debt millage added) for Greenville County and 63.9 for Laurens County property taxes from 52.9 mills (Greenville County) and 58.4 mills (Laurens County), to pay for general obligation debt for a capital improvement plan that was implemented during 2008.
- The City will issue a 3% cost of living raise for all employees.

**REQUESTS FOR INFORMATION**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Clerk, 200 North Main Street, Fountain Inn, South Carolina, 29644 or by visiting [www.fountaininn.org](http://www.fountaininn.org).

# Basic Financial Statements

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,183,379	5,001,960	\$ 6,185,339
Restricted Cash and Cash Equivalents	1,208,761	3,918,785	5,127,546
Due from County Treasurer	532,395	-	532,395
Investments	-	1,012,459	1,012,459
Property Taxes Receivable, Net	1,192,082	-	1,192,082
Accounts Receivable, Net	62,337	1,058,653	1,120,990
Due from Other Governments	42,968	-	42,968
Internal Balances	53,448	(53,448)	-
Inventory	-	32,704	32,704
Prepays	66,896	10,324	77,220
Capital Assets:			
Non-Depreciable	1,096,113	43,676	1,139,789
Depreciable, Net	4,492,449	8,136,377	12,628,826
<b>TOTAL ASSETS</b>	<b>9,930,828</b>	<b>19,161,490</b>	<b>29,092,318</b>
<b>LIABILITIES</b>			
Accounts Payable	150,279	942,831	1,093,110
Accrued Salaries and Fringe Benefits	113,407	11,882	125,289
Accrued Interest Payable	16,400	31,903	48,303
Customer Deposits	267,310	154,547	421,857
Unearned Revenue	98,500	-	98,500
Non-Current Liabilities:			
Due Within One Year	271,550	309,423	580,973
Due in More Than One Year	1,356,047	5,372,286	6,728,333
<b>TOTAL LIABILITIES</b>	<b>2,273,493</b>	<b>6,822,872</b>	<b>9,096,365</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,800,979	6,245,550	11,046,529
Restricted For:			
Hospitality Tax	124,684	-	124,684
Fire Operations	332,184	-	332,184
Museum	13,025	-	13,025
Victims Assistance	15,043	-	15,043
Debt Service	-	459,144	459,144
Unrestricted	2,371,420	5,633,924	8,005,344
<b>TOTAL NET ASSETS</b>	<b>\$ 7,657,335</b>	<b>12,338,618</b>	<b>\$ 19,995,953</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, 2008

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		Total
					Governmental Activities	Business-Type Activities	
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
General Government	\$ 723,237	39,504	4,000	-	(679,733)	-	\$ (679,733)
Judicial	265,243	-	-	-	(265,243)	-	(265,243)
Public Safety	2,533,494	-	166,904	530,443	(1,836,147)	-	(1,836,147)
Streets and Sanitation	1,234,690	11,121	74,688	62,344	(1,086,537)	-	(1,086,537)
Recreation	731,615	104,101	5,500	27,400	(594,614)	-	(594,614)
Civic Center/Performing Arts	275,657	134,616	-	198,500	57,459	-	57,459
Economic Development	121,232	-	-	-	(121,232)	-	(121,232)
Interest and Other Charges	70,385	-	-	-	(70,385)	-	(70,385)
<b>Total Governmental Activities</b>	<b>5,955,553</b>	<b>289,342</b>	<b>251,092</b>	<b>818,687</b>	<b>(4,596,432)</b>	<b>-</b>	<b>(4,596,432)</b>
Business-Type Activities:							
Natural Gas	8,576,113	10,012,619	-	-	-	1,436,506	1,436,506
Sewer	504,697	366,585	-	-	-	(138,112)	(138,112)
<b>Total Business-Type Activities</b>	<b>9,080,810</b>	<b>10,379,204</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,298,394</b>	<b>1,298,394</b>
<b>TOTAL - PRIMARY GOVERNMENT</b>	<b>\$ 15,036,363</b>	<b>10,668,546</b>	<b>251,092</b>	<b>818,687</b>	<b>(4,596,432)</b>	<b>1,298,394</b>	<b>(3,298,038)</b>
General Revenues:							
Taxes:							
Property Taxes					2,332,558	-	2,332,558
Hospitality Taxes					111,346	-	111,346
Fire Service Area Revenues					818,377	-	818,377
Business Licenses					199,944	-	199,944
Administrative Fees					700,000	(700,000)	-
Intergovernmental Revenue					199,131	-	199,131
Fines and Forfeits					211,949	-	211,949
Miscellaneous Revenue					52,694	-	52,694
Investment Earnings					37,695	134,719	172,414
Transfers					462,750	(462,750)	-
<b>Total General Revenues and Transfers</b>					<b>5,126,444</b>	<b>(1,028,031)</b>	<b>4,098,413</b>
<b>CHANGE IN NET ASSETS</b>					<b>530,012</b>	<b>270,363</b>	<b>800,375</b>
NET ASSETS, Beginning of Year					7,127,323	12,068,255	19,195,578
<b>NET ASSETS, End of Year</b>					<b>7,657,335</b>	<b>12,338,618</b>	<b>\$ 19,995,953</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

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2008

	GENERAL	HOSPITALITY TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,036,403	130,963	16,013	\$ 1,183,379
Restricted Cash and Cash Equivalents	1,208,761	-	-	1,208,761
Due from County Treasurer	532,395	-	-	532,395
Property Taxes Receivable, Net	1,192,082	-	-	1,192,082
Accounts Receivables	62,337	-	-	62,337
Due from Other Governments	42,968	-	-	42,968
Due from Other Funds	59,727	-	-	59,727
Prepays	66,896	-	-	66,896
<b>TOTAL ASSETS</b>	<b>4,201,569</b>	<b>130,963</b>	<b>16,013</b>	<b>4,348,545</b>
<b>LIABILITIES</b>				
Accounts Payable	150,279	-	-	150,279
Accrued Salaries and Fringe Benefits	113,407	-	-	113,407
Deposits	267,310	-	-	267,310
Due to Other Funds	-	6,279	-	6,279
Deferred and Unearned Revenue	277,713	-	-	277,713
<b>TOTAL LIABILITIES</b>	<b>808,709</b>	<b>6,279</b>	<b>-</b>	<b>814,988</b>
<b>FUND BALANCES</b>				
Reserved for:				
Prepays	66,896	-	-	66,896
Capital Projects	1,097,236	-	-	1,097,236
Fire Operations	332,184	-	-	332,184
Museum	13,025	-	-	13,025
Hospitality Taxes	-	124,684	-	124,684
Victims Assistance	-	-	15,043	15,043
Unreserved:				
Designated for:				
Master Plan	105,901	-	-	105,901
Equipment Replacement	100,000	-	-	100,000
Contingency	99,921	-	-	99,921
Fund Balance Policy	1,498,818	-	-	1,498,818
Undesignated, Reported in:				
General Fund	78,879	-	-	78,879
Other Governmental Funds	-	-	970	970
<b>TOTAL FUND BALANCES</b>	<b>3,392,860</b>	<b>124,684</b>	<b>16,013</b>	<b>3,533,557</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,201,569</b>	<b>130,963</b>	<b>16,013</b>	<b>\$ 4,348,545</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

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

DECEMBER 31, 2008

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<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 3,533,557</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 was \$11,848,966 and the accumulated depreciation was \$6,260,404.	5,588,562
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.	179,213
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.	(16,400)
Long-term liabilities, including bonds and notes 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 Notes Payable - Master Lease)	(1,578,651)
Compensated Absences (Sick Pay and Vacations)	(48,946)
	<u>(1,627,597)</u>
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 7,657,335</u></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, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2008

	GENERAL	HOSPITALITY TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 2,462,671	111,346	-	\$ 2,574,017
Fire Service Area Revenues	951,880	-	-	951,880
Licenses and Permits	199,944	-	-	199,944
Intergovernmental	199,131	-	-	199,131
Fines and Forfeits	198,981	-	12,968	211,949
Charges for Services	201,793	-	-	201,793
Administrative Fees	700,000	-	-	700,000
Rent - Civic Center	61,455	-	-	61,455
Interest	34,851	2,844	-	37,695
Donations	7,900	-	-	7,900
Grants	442,292	-	1,800	444,092
Other	78,790	-	-	78,790
<b>TOTAL REVENUES ALL SOURCES</b>	<b>5,539,688</b>	<b>114,190</b>	<b>14,768</b>	<b>5,668,646</b>
<b>EXPENDITURES</b>				
Current:				
General Government	634,026	36,940	-	670,966
Judicial	265,244	-	-	265,244
Public Safety:				
Police	1,561,715	-	12,217	1,573,932
Fire	731,643	-	-	731,643
Streets and Sanitation	954,052	-	-	954,052
Recreation	539,895	-	-	539,895
Civic Center/Performing Arts	206,051	-	-	206,051
Economic Development	103,434	-	-	103,434
Capital Outlay	1,092,057	29,230	-	1,121,287
Debt Service:				
Principal	59,832	-	-	59,832
Interest	10,628	-	-	10,628
Bond Issuance Costs	46,817	-	-	46,817
<b>TOTAL EXPENDITURES</b>	<b>6,205,394</b>	<b>66,170</b>	<b>12,217</b>	<b>6,283,781</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>(665,706)</b>	<b>48,020</b>	<b>2,551</b>	<b>(615,135)</b>
<b>OTHER FINANCING SOURCES</b>				
Notes Payable - Master Lease	275,000	-	-	275,000
General Obligation Bonds	1,060,000	-	-	1,060,000
Transfers In	462,750	-	-	462,750
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>1,797,750</b>	<b>-</b>	<b>-</b>	<b>1,797,750</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,132,044</b>	<b>48,020</b>	<b>2,551</b>	<b>1,182,615</b>
FUND BALANCES, Beginning of Year	2,260,816	76,664	13,462	2,350,942
<b>FUND BALANCES, End of Year</b>	<b>\$ 3,392,860</b>	<b>124,684</b>	<b>16,013</b>	<b>\$ 3,533,557</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**

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

**YEAR ENDED DECEMBER 31, 2008**

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**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 1,182,615**

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.	(263,616)
Repayment of bond and notes payable principal 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 outstanding principal in the current year.	59,832
Bond 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.	(1,335,000)
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 is due.	(12,940)
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.	(3,009)
In the Statement of Activities the loss on the disposal of capital assets is reported, whereas in the governmental funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed.	(5,323)
In the Statement of Activities, infrastructure, land, and equipment contributed by developers and others are reported as revenues. Since such contributions result in neither the receipt nor the use of current financial resources, they are not reflected in the fund statements.	617,787
Governmental funds report capital asset additions as expenditures (\$769,736). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$480,070). This is the amount by which capital asset additions exceeded depreciation expense in the current period.	289,666

**TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 530,012**

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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 NET ASSETS - PROPRIETARY FUNDS

DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 4,717,878	284,082	\$ 5,001,960
Restricted Cash and Cash Equivalents	2,997,510	921,275	3,918,785
Investments	1,012,459	-	1,012,459
Receivables, Net of Allowance for Doubtful Accounts			
Utility Services	981,755	74,865	1,056,620
Interest	2,033	-	2,033
Inventory	32,704	-	32,704
Prepays	9,597	727	10,324
<b>Total Current Assets</b>	<b>9,753,936</b>	<b>1,280,949</b>	<b>11,034,885</b>
Noncurrent Assets			
Nondepreciable Capital Assets	43,676	-	43,676
Depreciable Capital Assets, Net	4,469,638	3,666,739	8,136,377
<b>Total Noncurrent Assets</b>	<b>4,513,314</b>	<b>3,666,739</b>	<b>8,180,053</b>
<b>TOTAL ASSETS</b>	<b>14,267,250</b>	<b>4,947,688</b>	<b>19,214,938</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	939,082	3,749	942,831
Accrued Salaries and Fringe Benefits	9,636	2,246	11,882
Compensated Absences - Current Portion	2,214	117	2,331
Accrued Interest Payable	17,301	14,602	31,903
Customer Deposits	154,547	-	154,547
Due to Other Funds	41,181	12,267	53,448
Revenue Bond Payable - Current Portion	170,000	45,000	215,000
Notes Payable (Master Lease) - Current Portion	92,092	-	92,092
<b>Total Current Liabilities</b>	<b>1,426,053</b>	<b>77,981</b>	<b>1,504,034</b>
Noncurrent Liabilities			
Compensated Absences - Noncurrent Portion	6,641	-	6,641
Revenue Bond Payable - Noncurrent Portion	3,125,000	2,045,000	5,170,000
Notes Payable (Master Lease) - Noncurrent Portion	195,645	-	195,645
<b>Total Non-Current Liabilities</b>	<b>3,327,286</b>	<b>2,045,000</b>	<b>5,372,286</b>
<b>TOTAL LIABILITIES</b>	<b>4,753,339</b>	<b>2,122,981</b>	<b>6,876,320</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,704,723	2,540,827	6,245,550
Restricted for Debt Service	287,765	171,379	459,144
Unrestricted	5,521,423	112,501	5,633,924
<b>TOTAL NET ASSETS</b>	<b>\$ 9,513,911</b>	<b>2,824,707</b>	<b>\$ 12,338,618</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, 2008

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Service			
Natural Gas Sales	\$ 9,856,711	-	\$ 9,856,711
Sewer Fees	-	366,585	366,585
Other Charges for Service	155,908	-	155,908
<b>TOTAL OPERATING REVENUES</b>	<b>10,012,619</b>	<b>366,585</b>	<b>10,379,204</b>
<b>OPERATING EXPENSES</b>			
Natural Gas Purchases	7,108,643	-	7,108,643
Administrative Fees	700,000	-	700,000
Personnel Services	610,943	171,462	782,405
Contractual Services	28,786	-	28,786
Materials and Supplies	23,225	4,223	27,448
Other Operating Expenses	458,533	29,695	488,228
Depreciation	267,940	211,327	479,267
<b>TOTAL OPERATING EXPENSES</b>	<b>9,198,070</b>	<b>416,707</b>	<b>9,614,777</b>
<b>OPERATING INCOME (LOSS)</b>	<b>814,549</b>	<b>(50,122)</b>	<b>764,427</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Bond Issuance Costs	(64,400)	-	(64,400)
Investment Income	110,351	24,368	134,719
Interest Expense	(13,643)	(87,990)	(101,633)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>32,308</b>	<b>(63,622)</b>	<b>(31,314)</b>
Transfers Out	(462,750)	-	(462,750)
<b>CHANGE IN NET ASSETS</b>	<b>384,107</b>	<b>(113,744)</b>	<b>270,363</b>
NET ASSETS, Beginning of Year	9,129,804	2,938,451	12,068,255
<b>NET ASSETS, End of Year</b>	<b>\$ 9,513,911</b>	<b>2,824,707</b>	<b>\$ 12,338,618</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 CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 9,922,246	366,585	\$ 10,288,831
Cash Payments for Goods and Services	(8,298,758)	(32,910)	(8,331,668)
Cash Payments to Employees	(617,523)	(171,368)	(788,891)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,005,965</b>	<b>162,307</b>	<b>1,168,272</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Advances and Transfers (to) from Other Funds	(424,322)	11,359	(412,963)
<b>NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(424,322)</b>	<b>11,359</b>	<b>(412,963)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Net Acquisition of Capital Assets	(886,418)	(483,368)	(1,369,786)
Proceeds from Revenue Bond Payable	3,295,000	-	3,295,000
Proceeds from Notes Payable - Master Lease	269,726	-	269,726
Bond Issuance Costs	(64,400)	-	(64,400)
Principal Payments on Revenue Bond Payable	-	(20,000)	(20,000)
Principal Payments on Notes Payable - Master Lease	(16,836)	-	(16,836)
Interest Payments	(1,109)	(87,990)	(89,099)
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>2,595,963</b>	<b>(591,358)</b>	<b>2,004,605</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Income on Investments	110,351	24,368	134,719
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>110,351</b>	<b>24,368</b>	<b>134,719</b>
<b>NET INCREASE (DECREASE) IN RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS</b>	<b>3,287,957</b>	<b>(393,324)</b>	<b>2,894,633</b>
RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, Beginning of Year	5,439,890	1,598,681	7,038,571
<b>RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, End of Year</b>	<b>\$ 8,727,847</b>	<b>1,205,357</b>	<b>\$ 9,933,204</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 814,549	(50,122)	\$ 764,427
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	267,940	211,327	479,267
Change in:			
Accounts Receivable	(140,560)	-	(140,560)
Accounts Payable	20,429	1,008	21,437
Accrued Salaries and Fringe Benefits	(6,567)	444	(6,123)
Compensated Absences	(13)	(350)	(363)
Deposits	50,187	-	50,187
Net Cash Provided by Operating Activities	\$ 1,005,965	162,307	\$ 1,168,272

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 NET ASSETS - FIDUCIARY FUNDS

DECEMBER 31, 2008

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	<u>DRUG FUND</u>	<u>FIREMAN'S FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 8,077	73,621	\$ 81,698
<b>TOTAL ASSETS</b>	<u>8,077</u>	<u>73,621</u>	<u>81,698</u>
<b>LIABILITIES</b>			
Held in Custody for Others	8,077	73,621	81,698
<b>TOTAL LIABILITIES</b>	<u>\$ 8,077</u>	<u>73,621</u>	<u>\$ 81,698</u>

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

### NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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The City of Fountain Inn (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.”

#### 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 Fountain Inn Museum (the “Museum”) is considered to be a blended component unit. 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.

##### 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

*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, fire service area fees, 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, recreation, judicial, and streets and sanitation.

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, an unbudgeted major fund*, is the fund used to account for hospitality tax revenues that are restricted to expenditures for specified purposes.

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: 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. 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**

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

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

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

***Investments (Continued)***

- (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.
- 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.
- Open ended mutual funds, primarily invested in money market funds which invest in short term obligations of the United States and related agencies.
- 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. Annual Financial Reports containing financial statements and required supplementary information for the Pool are issued and publicly available by writing the South Carolina State Treasurer's Office, P.O. Box 11778, Columbia, SC 29211.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

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

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

**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, 2008, 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 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 receives 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 16th. 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.

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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

4. Capital Assets (Continued)

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. In addition, the City receives roads and sewer systems that are constructed by developers and transferred to the City upon completion and acceptance by the City for its subsequent operation and maintenance.

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	15 - 40 years
Improvements Other Than Buildings	10 - 20 years
Utility Systems	30 - 50 years
Machinery and Equipment	3 - 10 years
Vehicles	5 - 10 years
Furniture and Fixtures	5 - 10 years
Infrastructure	20 - 50 years

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 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in 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 and Unearned Revenue*

The government-wide financial statements and the governmental funds defer revenue recognition in connection with revenues that have been received but not yet earned. In addition, governmental funds report deferred revenue in the fund financial statements in connection with 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, hospitality taxes, prior year appropriations, the museum, fire operations, 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 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. 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; accordingly, approximately \$1,499,000 has been designated for the fund balance policy at December 31, 2008. The City's policy states that if the Fund Balance falls below 30%, then the City shall rebuild the balance within one year. In addition, the City has designated \$100,000 for Equipment Replacement Reserves, approximately \$106,000 for the Master Plan, and approximately \$100,000 for contingencies.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**

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

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

*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.

*10. 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.

*11. Reclassifications*

Certain amounts in the 2007 statements have been reclassified to conform to the 2008 presentation.

**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.

During the year ended December 31, 2008, supplementary appropriations of \$1,651,803 for the General Fund were approved by the City Council. These appropriations consisted primarily of proceeds of \$275,000 for a Note Payable – Master Lease (capital equipment), \$1,060,000 for a General Obligation Bond (capital equipment and improvements), \$200,000 for road improvements funded through usage of fund balance, and approximately \$105,000 for a salary upgrade.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

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. As of December 31, 2008, \$234,377 of the City's bank balances of \$5,645,312 (which had a carrying value of \$5,474,041), were exposed to custodial credit risk, as this amount was uninsured and uncollateralized. The bank pledged sufficient additional collateral on January 2, 2009.

*Investments*

As of December 31, 2008, the City had the following investments:

Investment Type	Credit Rating	Fair Value	Weighted Average Maturity
Repurchase Agreements	Unrated	\$ 2,724,709	Less than 1 year
Money Market Mutual Funds	AAAm, Aaa	3,539,642	Less than 1 year
SC Pooled Investment Funds	Unrated	668,650	Less than 1 year
Total		<u>\$ 6,933,001</u>	

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

**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, 2008, \$2,724,709 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 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. More than 5% of the City's investments are in the following issuers: Repurchase Agreement with Suntrust (36%), Repurchase Agreement with Palmetto Bank (3%), and Money Market Mutual Fund with US Bank (51%). Investments in external investment pools are excluded from this disclosure requirement.

The City had cash and cash equivalents of \$5,127,546 at December 31, 2008 that were restricted for (1) debt service related to the 2006 Sewer Revenue Bonds and the 2008 Natural Gas Revenue Bonds; (2) sewer and natural gas line upgrades and the purchase of various capital equipment related to the 2006 Sewer Revenue Bonds, the 2008 Natural Gas Revenue Bonds and the 2008 General Obligation Bonds; and (3) funds to be used for other capital projects.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

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**III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)**

**A. Deposits and Investments (Continued)**

*Reconciliation to the Financial Statements*

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

Description	Amount
Carrying Value of Deposits	\$ 5,474,041
Fair Value of Investments	<u>6,933,001</u>
Total Deposits and Investments	<u><u>12,407,042</u></u>
Statement of Net Assets:	
Cash and Cash Equivalents	6,185,339
Restricted Cash and Cash Equivalents	5,127,546
Investments	1,012,459
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	<u>81,698</u>
Total Cash and Investments	<u><u>\$ 12,407,042</u></u>

**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 1<sup>st</sup> based on an assessed value of approximately \$23.5 million at the rate of 63.9 mills (Greenville County, which includes 9.2 mills for debt service), 63.9 mills (Laurens County, which includes 9.2 mills for debt service) for the City and 22.8 mills for the Fountain Inn Fire Service Area of Greenville County. Property taxes receivable includes an allowance for uncollectible amounts of \$32,874 at December 31, 2008. Natural gas accounts receivable include an allowance for uncollectible amounts of \$357,367 at December 31, 2008.

At December 31, 2008, the governmental funds reported \$277,713 in deferred revenues, of which \$179,213 is attributable to delinquent property taxes receivable and \$98,500 is attributable to proceeds from grants that were received but no expenditures were incurred during the year.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

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**III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)**

**C. Interfund Receivables, Payables, and Transfers**

*Interfund Receivables and Payables*

Interfund balances at December 31, 2008 (which are expected to be paid or received within one year), consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund	\$ 59,727	\$ -
Hospitality Tax Fund	-	6,279
Natural Gas Enterprise Fund	-	41,181
Sewer Enterprise Fund	-	12,267
Totals	\$ 59,727	\$ 59,727

The Hospitality Tax, Natural Gas, and Sewer Fund payables at year end to the General Fund were for the payment of operating costs. These amounts will be repaid from future Hospitality Tax, Natural Gas, and Sewer Fund revenues.

*Interfund Transfers*

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Fund	Transfers In	Transfers Out
General Fund	\$ 462,750	\$ -
Natural Gas Enterprise Fund	-	462,750
Totals	\$ 462,750	\$ 462,750

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 for debt service payments on notes payable financing arrangements, to supplement General Fund operations, and to fund the mid-year salary increases given as a result of a salary study.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

**III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)**

**D. Capital Assets**

Capital asset activity for the City for governmental activities for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Non-Depreciable:				
Land	\$ 1,051,439	44,674	-	\$ 1,096,113
Total Capital Assets, Non-Depreciable	<u>1,051,439</u>	<u>44,674</u>	<u>-</u>	<u>1,096,113</u>
Capital Assets, Depreciable:				
Buildings and Improvements	3,786,200	18,232	-	3,804,432
Infrastructure	3,436,624	62,344	-	3,498,968
Machinery and Equipment	735,568	231,663	17,492	949,739
Vehicles	1,469,104	1,030,610	-	2,499,714
Total Capital Assets, Depreciable	<u>9,427,496</u>	<u>1,342,849</u>	<u>17,492</u>	<u>10,752,853</u>
Less: Accumulated Depreciation for:				
Buildings	1,249,104	122,189	-	1,371,293
Infrastructure	2,971,268	52,388	-	3,023,656
Machinery and Equipment	482,718	62,244	12,169	532,793
Vehicles	1,089,413	243,249	-	1,332,662
Total Accumulated Depreciation	<u>5,792,503</u>	<u>480,070</u>	<u>12,169</u>	<u>6,260,404</u>
Total Capital Assets, Depreciable, Net	<u>3,634,993</u>	<u>862,779</u>	<u>5,323</u>	<u>4,492,449</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 4,686,432</u>	<u>907,453</u>	<u>5,323</u>	<u>\$ 5,588,562</u>

Depreciation expense for the year ended December 31, 2008 for governmental activities was charged to functions as follows:

	Depreciation Expense
<b>Governmental Activities:</b>	
General Government	\$ 27,941
Public Safety	215,994
Streets and Sanitation	105,286
Recreation	48,849
Civic Center/Performing Arts	82,000
Total Depreciation Expense - Governmental Activities	<u>\$ 480,070</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Capital Assets (Continued)

Capital asset activity for the City for business-type activities for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Reclasses	Ending Balance
<b>Business-Type Activities:</b>					
Capital Assets, Non-Depreciable:					
Land	\$ 43,676	-	-	-	\$ 43,676
Total Capital Assets, Non-Depreciable	43,676	-	-	-	43,676
Capital Assets, Depreciable:					
Buildings	127,705	430,326	88,777	-	469,254
Utility Systems	11,714,515	687,104	-	(48,666)	12,352,953
Machinery and Equipment	491,256	235,150	20,978	48,666	754,094
Vehicles	233,955	18,500	22,105	-	230,350
Total Capital Assets, Depreciable	12,567,431	1,371,080	131,860	-	13,806,651
Less: Accumulated Depreciation for:					
Buildings	107,462	20,533	87,486	-	40,509
Utility Systems	4,727,215	364,025	-	-	5,091,240
Machinery and Equipment	355,825	58,164	20,978	-	393,011
Vehicles	131,074	36,545	22,105	-	145,514
Total Accumulated Depreciation	5,321,576	479,267	130,569	-	5,670,274
Total Capital Assets, Depreciable, Net	7,245,855	891,813	1,291	-	8,136,377
Total Business-Type Activities Capital Assets, Net	\$ 7,289,531	891,813	1,291	-	\$ 8,180,053

E. Long-Term Obligations

Presented below is a summary of changes in long-term obligations for the year ended December 31, 2008:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bond, Series 2005	\$ 230,000	-	25,000	205,000	\$ 25,000
General Obligation Bond, Series 2008	-	1,060,000	-	1,060,000	160,000
Notes Payable - Master Lease	73,483	275,000	34,832	313,651	74,313
Compensated Absences	45,937	3,009	-	48,946	12,237
Total Governmental Activities	349,420	1,338,009	59,832	1,627,597	271,550
<b>Business-Type Activities:</b>					
Sewer Revenue Bond, Series 2006	2,110,000	-	20,000	2,090,000	45,000
Natural Gas Revenue Bond, Series 2008	-	3,295,000	-	3,295,000	170,000
Notes Payable - Master Lease	34,847	269,726	16,836	287,737	92,092
Compensated Absences	9,335	-	363	8,972	2,331
Total Business-Type Activities	\$ 2,154,182	3,564,726	37,199	5,681,709	\$ 309,423

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**

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**III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)**

**E. Long-Term Obligations (Continued)**

The City has entered into the following revenue bond agreements as of December 31, 2008:

- 2006 Sewer Revenue Bond – issued in June 2006 in the amount of \$2,120,000. Bonds are due in annual installments ranging from \$10,000 to \$245,000 through May 2021, with interest at 4.19%. The proceeds were used to repay the remaining balance due on the 2005 BAN, 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 to upgrade the City’s sewer line infrastructure.
- 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. The City incurred issuance costs of approximately \$56,000, which were expensed.

The City has entered into the following general obligation bond agreements as of December 31, 2008:

- 2005 General Obligation Bond – issued in 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 \$20,000 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 and improvements to City Hall, Civic Center, Law Enforcement Center, Public Works Facility, and Activities Center and other equipment. Bonds are due in annual installments ranging from \$160,000 to \$195,000 through April 2014, with interest at 3.49%. The City incurred issuance costs of approximately \$38,000, which were expensed.

The City has entered into the following note payable financing arrangements (“Master Lease”) as of December 31, 2008:

- 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 \$16,101 to \$41,445, including interest at 3.45%, beginning January 3, 2005. Approximately 57% was for governmental activities and 43% was for business-type activities.
- 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 nine semi-annual payments ranging from \$8,752 to \$14,839, including interest at 3.64%, beginning January 3, 2005. Approximately 82% was for governmental activities and 18% was for business-type activities.
- 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 3.17%, beginning April 1, 2009.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Long-Term Obligations (Continued)

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		Master Lease Obligations		Totals
	Principal	Interest	Principal	Interest	
<b><u>Governmental Activities</u></b>					
2009	\$ 185,000	43,740	74,313	11,632	\$ 314,685
2010	190,000	34,863	52,866	7,526	285,255
2011	205,000	27,890	47,413	5,802	286,105
2012	210,000	20,561	49,052	4,163	283,776
2013	215,000	13,058	50,772	2,443	281,273
2014-2018	260,000	5,955	39,235	676	305,866
Totals	<u>\$ 1,265,000</u>	<u>146,067</u>	<u>313,651</u>	<u>32,242</u>	<u>\$ 1,756,960</u>
<b><u>Business-Type Activities</u></b>					
2009	\$ 215,000	176,250	92,092	7,239	\$ 490,581
2010	240,000	192,449	79,559	6,170	518,178
2011	270,000	183,251	80,478	3,678	537,407
2012	300,000	172,765	17,525	1,136	491,426
2013	330,000	161,058	18,083	577	509,718
2014-2018	2,040,000	590,098	-	-	2,630,098
2019-2023	1,990,000	181,886	-	-	2,171,886
Totals	<u>\$ 5,385,000</u>	<u>1,657,757</u>	<u>287,737</u>	<u>18,800</u>	<u>\$ 7,349,294</u>

The 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, 2008, 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 rebated to the federal government. The City had no arbitrage liability at December 31, 2008.

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, 2008, the City had \$1,265,000 of bonded debt subject to the 8% limit of approximately \$1,878,000, resulting in an unused legal debt margin of approximately \$613,000.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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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. Employees covered under PORS were required to contribute 6.50% of their salary. Employees covered under SCRS were required to contribute 6.50% of their salary. The City was required to contribute 10.30% of gross earnings under PORS for the first two quarters of the year and 10.65% of gross earnings for the last two quarters of the year. The City was required to contribute 9.06% of gross earnings under SCRS for the first two quarters of the year and 9.24% of gross earnings for the last two quarters of the year. 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 approximately \$137,600, PORS of \$133,200; SCRS of \$121,700, PORS of \$135,800; and SCRS of \$89,700, PORS of \$112,900, for the years ended December 31, 2008, 2007, and 2006 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, and natural disasters. The City is insured with State of South Carolina Insurance Reserve Fund. It pays an annual premium for this coverage. For the year ended December 31, 2008, the City made premium payments totaling approximately \$95,000. 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.

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 worker’s compensation. The City pays an annual premium to SCMIT. In the year ended December 31, 2008, the City made premium payments totaling approximately \$206,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net assets from its most recently issued audited financial statements at December 31, 2007, totaled approximately \$15,342,000. 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.

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.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**

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**IV. OTHER INFORMATION (CONTINUED)**

**D. Litigation**

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

**E. 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.

**F. Post-Retirement Health Care Benefits**

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; the City pays the implicit subsidy. Coverage stops when the retiree reaches age 65 or becomes Medicare eligible, whichever comes first. The City retains the right to terminate or modify these benefits at any time subject to applicable law. Currently, the City has one retired employee that participates in the Retiree Insurance Plan.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of Other Post Employment Benefits ("OPEB") expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City will adopt Statement No. 45 during fiscal 2009 when it is required to do so. Actuarial reports estimate that the City's unfunded actuarial accrued liability as of December 31, 2009 would be approximately \$84,000 and the annual required contribution for 2009 would be approximately \$11,000.

**G. 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 22.8 mills). This agreement expires in June 2011 but is automatically renewed each year thereafter for one year terms; however, either party may terminate the agreement subject to a 90 day written notice to the other party prior to the annual June 30 expiration date.

In addition, 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 this agreement and the bond documents, the City has no obligation whatsoever for the repayment of this indebtedness. During 2008, the City acquired land and equipment totaling approximately \$555,000 under this arrangement.

**H. Subsequent Event**

In January 2009, the City sold a parcel of land on Quillen Avenue, receiving proceeds of approximately \$219,000 for the sale and an additional \$40,000 contribution from the seller, totaling approximately \$259,000. The proceeds will be used for the construction of Fountain Inn Commerce Park.

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## Required Supplementary Information

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

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

YEAR ENDED DECEMBER 31, 2008

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
<b>REVENUES</b>				
Taxes	\$ 2,071,400	2,071,400	2,462,671	\$ 391,271
Fire Service Area Revenues	947,658	947,658	951,880	4,222
Licenses and Permits	231,500	231,500	199,944	(31,556)
Intergovernmental	183,000	183,000	199,131	16,131
Fines and Forfeits	140,000	140,000	198,981	58,981
Charges for Services	194,350	194,350	201,793	7,443
Administrative Fees	700,000	700,000	700,000	-
Rent - Civic Center	61,022	61,022	61,455	433
Donations	-	-	7,900	7,900
Interest Earnings	70,000	70,000	34,851	(35,149)
Grants	432,511	432,511	442,292	9,781
Other	2,000	2,000	78,790	76,790
<b>TOTAL REVENUE ALL SOURCES</b>	<b>5,033,441</b>	<b>5,033,441</b>	<b>5,539,688</b>	<b>506,247</b>
<b>EXPENDITURES</b>				
General Government:				
City:				
Other Services and Charges	129,682	129,682	154,107	(24,425)
<b>Total City</b>	<b>129,682</b>	<b>129,682</b>	<b>154,107</b>	<b>(24,425)</b>
Administration:				
Salaries and Related Expenses	267,891	267,891	284,512	(16,621)
Supplies	14,000	14,000	12,629	1,371
Other Services and Charges	36,712	36,712	51,596	(14,884)
<b>Total Administration</b>	<b>318,603</b>	<b>318,603</b>	<b>348,737</b>	<b>(30,134)</b>
Mayor and City Council:				
Salaries and Related Expenses	67,450	67,450	76,455	(9,005)
Supplies	1,500	1,500	2,372	(872)
Other Services and Charges	13,867	13,867	13,531	336
<b>Total Mayor and City Council</b>	<b>82,817</b>	<b>82,817</b>	<b>92,358</b>	<b>(9,541)</b>
Miscellaneous:				
Other Services and Charges	-	-	38,824	(38,824)
<b>Total Miscellaneous</b>	<b>-</b>	<b>-</b>	<b>38,824</b>	<b>(38,824)</b>
<b>Total General Government</b>	<b>531,102</b>	<b>531,102</b>	<b>634,026</b>	<b>(102,924)</b>
Judicial:				
Salaries and Related Expenses	72,993	72,993	88,932	(15,939)
Supplies	3,000	3,000	2,470	530
Other Services and Charges	128,098	128,098	173,842	(45,744)
<b>Total Judicial</b>	<b>\$ 204,091</b>	<b>204,091</b>	<b>265,244</b>	<b>\$ (61,153)</b>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

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

YEAR ENDED DECEMBER 31, 2008

	<b>GENERAL FUND</b>			
	<b>ORIGINAL BUDGET</b>	<b>REVISED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
Public Safety:				
Police:				
Salaries and Related Expenses	\$ 1,270,116	1,270,116	1,276,735	\$ (6,619)
Supplies	74,400	74,400	15,562	58,838
Other Services and Charges	187,577	269,047	269,418	(371)
Total Police	<u>1,532,093</u>	<u>1,613,563</u>	<u>1,561,715</u>	<u>51,848</u>
Fire:				
Salaries and Related Expenses	597,002	597,002	614,564	(17,562)
Supplies	10,000	10,000	5,295	4,705
Other Services and Charges	284,656	284,656	111,784	172,872
Total Fire	<u>891,658</u>	<u>891,658</u>	<u>731,643</u>	<u>160,015</u>
Total Public Safety	<u>2,423,751</u>	<u>2,505,221</u>	<u>2,293,358</u>	<u>211,863</u>
Streets and Sanitation:				
Public Works:				
Salaries and Related Expenses	132,643	132,643	136,686	(4,043)
Supplies	4,200	4,200	7,184	(2,984)
Other Services and Charges	55,716	55,716	41,094	14,622
Total Public Works	<u>192,559</u>	<u>192,559</u>	<u>184,964</u>	<u>7,595</u>
Streets:				
Salaries and Related Expenses	210,400	210,400	197,846	12,554
Supplies	2,000	2,000	3,288	(1,288)
Other Services and Charges	197,111	197,111	246,483	(49,372)
Total Streets	<u>409,511</u>	<u>409,511</u>	<u>447,617</u>	<u>(38,106)</u>
Sanitation:				
Salaries and Related Expenses	-	-	539	(539)
Supplies	500	500	300	200
Other Services and Charges	298,000	298,000	266,965	31,035
Total Sanitation	<u>298,500</u>	<u>298,500</u>	<u>267,804</u>	<u>30,696</u>
Recycling:				
Salaries and Related Expenses	77,200	77,200	44,050	33,150
Supplies	750	750	657	93
Other Services and Charges	8,562	8,562	8,960	(398)
Total Recycling	<u>86,512</u>	<u>86,512</u>	<u>53,667</u>	<u>32,845</u>
Total Streets and Sanitation	<u>987,082</u>	<u>987,082</u>	<u>954,052</u>	<u>33,030</u>
Recreation:				
Salaries and Related Expenses	286,365	282,365	285,703	(3,338)
Supplies	11,000	11,000	12,666	(1,666)
Other Services and Charges	192,489	195,989	241,526	(45,537)
Total Recreation	<u>\$ 489,854</u>	<u>489,354</u>	<u>539,895</u>	<u>\$ (50,541)</u>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

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

YEAR ENDED DECEMBER 31, 2008

	<b>GENERAL FUND</b>			
	<b>ORIGINAL BUDGET</b>	<b>REVISED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
Civic Center/Performing Arts:				
Salaries and Related Expenses	\$ 3,754	3,754	1,280	\$ 2,474
Supplies	1,500	1,500	18,004	(16,504)
Other Services and Charges	141,754	141,754	186,767	(45,013)
Total Civic Center	<u>147,008</u>	<u>147,008</u>	<u>206,051</u>	<u>(59,043)</u>
Economic Development:				
Salaries and Related Expenses	62,987	62,987	64,193	(1,206)
Supplies	-	-	4,347	(4,347)
Other Services and Charges	27,800	27,800	34,894	(7,094)
Total Economic Development	<u>90,787</u>	<u>90,787</u>	<u>103,434</u>	<u>(12,647)</u>
Capital Outlay	<u>420,071</u>	<u>1,990,904</u>	<u>1,092,057</u>	<u>898,847</u>
Debt Service:				
Principal	195,289	195,289	59,832	135,457
Interest	10,000	10,000	10,628	(628)
Bond Issuance Costs	-	-	46,817	(46,817)
Total Debt Service	<u>205,289</u>	<u>205,289</u>	<u>117,277</u>	<u>88,012</u>
<b>TOTAL EXPENDITURES</b>	<u>5,499,035</u>	<u>7,150,838</u>	<u>6,205,394</u>	<u>945,444</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(465,594)</u>	<u>(2,117,397)</u>	<u>(665,706)</u>	<u>1,451,691</u>
<b>OTHER FINANCING SOURCES</b>				
Notes Payable - Master Lease	-	275,000	275,000	-
General Obligation Bonds	-	1,060,000	1,060,000	-
Transfers In	342,786	459,589	462,750	3,161
Usage of Prior Accumulated Fund Balance	122,808	322,808	-	(322,808)
TOTAL OTHER FINANCING SOURCES	<u>465,594</u>	<u>2,117,397</u>	<u>1,797,750</u>	<u>(319,647)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>	<u>1,132,044</u>	<u>1,132,044</u>
FUND BALANCE, Beginning of Year	<u>2,260,816</u>	<u>2,260,816</u>	<u>2,260,816</u>	<u>-</u>
<b>FUND BALANCE, End of Year</b>	<u><u>\$ 2,260,816</u></u>	<u><u>2,260,816</u></u>	<u><u>3,392,860</u></u>	<u><u>\$ 1,132,044</u></u>

Note: The above budgetary information has been prepared on the City's budgetary basis (cash basis), which is not consistent with accounting principles generally accepted in the United States of America ("GAAP"). The original budget reflected the usage of the unspent fund balance reserves for the master plan of \$122,808; the revised budget reflected an additional \$200,000 from the City's fund balance reserves. Usage of prior accumulated fund balance is not reflected as an other financing source under GAAP.

Actual expenditures were lower than revised budget in total by approximately \$945,000 due to less than budgeted capital outlay as the proceeds from the 2008 General Obligation Bond were not expended during 2008. Management expects to expend these funds during 2009.

## Other Supplementary Information

CITY OF FOUNTAIN INN, SOUTH CAROLINA

OTHER SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2008

	<u>FUND 525 VICTIMS FUND</u>	<u>FUND 541 EUDL POLICE FUND</u>	<u>TOTAL OTHER GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 15,043	970	\$ 16,013
<b>TOTAL ASSETS</b>	<u>15,043</u>	<u>970</u>	<u>16,013</u>
<b>FUND BALANCES</b>			
Unreserved:			
Undesignated	15,043	970	16,013
<b>TOTAL FUND BALANCES</b>	<u>15,043</u>	<u>970</u>	<u>16,013</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 15,043</u>	<u>970</u>	<u>\$ 16,013</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

OTHER SUPPLEMENTARY INFORMATION

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

YEAR ENDED DECEMBER 31, 2008

	<b>FUND 525 VICTIMS FUND</b>	<b>FUND 541 EUDL POLICE FUND</b>	<b>TOTAL OTHER GOVERNMENTAL FUNDS</b>
<b>REVENUES</b>			
Fines and Forfeits	\$ 12,968	-	\$ 12,968
Grant Revenue	-	1,800	1,800
<b>TOTAL REVENUES ALL SOURCES</b>	<b>12,968</b>	<b>1,800</b>	<b>14,768</b>
<b>EXPENDITURES</b>			
Current:			
Public Safety	10,447	1,770	12,217
<b>TOTAL EXPENDITURES</b>	<b>10,447</b>	<b>1,770</b>	<b>12,217</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,521</b>	<b>30</b>	<b>2,551</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>2,521</b>	<b>30</b>	<b>2,551</b>
FUND BALANCES, Beginning of Year	12,522	940	13,462
<b>FUND BALANCES, End of Year</b>	<b>\$ 15,043</b>	<b>970</b>	<b>\$ 16,013</b>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF REVENUES AND DIRECT EXPENDITURES - FIRE OPERATIONS

YEAR ENDED DECEMBER 31, 2007

<u>DESCRIPTION</u>	<u>ACTUAL</u>
REVENUES	
Fees Received from Greenville County	\$ 759,100
Fees Received from Laurens County	192,780
TOTAL REVENUES	<u>951,880</u>
DIRECT EXPENDITURES	
Salaries	421,341
Volunteers	19,206
Overtime	4,028
Christmas Bonus	1,000
Employee Insurance	61,708
FICA	27,465
Retirement	47,087
Workers Compensation	32,728
Portable Radio Maintenance	3,020
Vehicle Maintenance	14,967
Operating Equipment	21,955
Fire Station Maintenance	1,269
Computer Support	1,230
Property, Vehicle and Tort Insurance	14,298
Telephone	1,370
Nextel Communications	5,201
Conferences	3,511
Health Screenings	1,927
Training	3,279
General Supplies	3,741
Office Supplies, Printing	1,554
Utilities	8,042
Vehicle Gas	18,366
Publications	65
Professional Membership	300
Inspection and Prevention	585
Uniforms	11,728
Miscellaneous	672
Total Direct Expenditures	<u>731,643</u>
EXCESS OF REVENUES OVER DIRECT EXPENDITURES	220,237
EXCESS OF REVENUES OVER DIRECT EXPENDITURES, Prior Year	<u>111,947</u>
EXCESS OF REVENUES OVER DIRECT EXPENDITURES, Cumulative	<u>\$ 332,184 (1)</u>

(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 also does not recognize future capital, employee fringes, and operational expenses that the City will incur pursuant to the City's Fire Services contract with Greenville County. In the prior year, there was a \$111,947 excess of revenues over direct expenditures, which when added with the current year amount of \$220,237, totals \$332,184 cumulatively. This excess is the result of the City not yet hiring six firemen to man the new substation, which was in the planning stages at December 31, 2008.

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES**

**YEAR ENDED DECEMBER 31, 2008**

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**Court Fines and Assessments**

Court Fines and Assessments Collected	\$ 164,893
Court Fines and Assessments Retained by the City	(85,955)
<b>Total Court Fines and Assessments Remitted to the State Treasurer</b>	<b><u>78,938</u></b>

**Court Surcharges**

Court Surcharges Collected	34,088
Court Surcharges Retained by the City	(4,059)
<b>Total Court Surcharges Remitted to State Treasurer</b>	<b><u>30,029</u></b>

**Victims Fund**

<b>Funds Available for Carry Forward, Beginning of Year</b>	12,522
Court Assessments Allocated to Victim Fund - January 2008 through December 2008	12,938
Court Assessments Allocated to Victim Fund - December 2007	30
Victim Fund Expenditures	(10,447)
<b>Funds Available for Carry Forward, End of Year</b>	<b><u>\$ 15,043</u></b>

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**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 (the "City") as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's basic financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiency 2008-1 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2008-1 to be a material weakness.

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 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*.

We noted certain matters that we reported to management of the City in a separate letter dated March 31, 2009.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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

*Greene, Finney & Horton LLP*

Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
March 31, 2009

**CITY OF FOUNTAIN INN, SOUTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED DECEMBER 31, 2008**

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**2008-1: INTERNAL CONTROLS OVER ANNUAL FINANCIAL REPORTING PROCESS**

- Condition:** The City does not have adequate internal controls over its annual financial reporting process that would allow for the City to prevent or detect material misstatements in the basic financial statements. Instead, the City has chosen to use its external independent auditors as its internal control for the annual financial reporting process, from the recording of various receivables and payables on the modified accrual basis to the conversion to the full accrual basis that is used for the government-wide financial statements.
- Criteria:** The City should have adequate internal controls (other than its external independent auditors) in place that would prevent or detect material misstatements from the day-to-day transactions all the way to the reporting of those transactions in the annual financial statements.
- Effect:** There is a higher risk that material misstatements in the basic financial statements will go undetected.
- Cause:** The limited resources available at the City.
- Recommendation:** The City should consider the cost/benefit factors related to providing adequate internal controls over its annual financial reporting process.
- Response:** The City will continue to evaluate the cost/benefit factors of providing adequate internal controls over its annual financial reporting process. Currently, the City believes it is most cost beneficial to use its external auditors to perform these functions related to its annual financial reporting process and to prepare the annual financial statements.