

CITY OF FOUNTAIN INN, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

CITY OF FOUNTAIN INN, SOUTH CAROLINA

LISTING OF PRINCIPAL OFFICIALS

YEAR ENDED DECEMBER 31, 2005

Established

1911

MAYOR

Gary Long

CITY COUNCIL MEMBERS

Jay Thomason

T.C. Thackston

Wanza Bates

Leonard Henderson

Berry Woods Jr.

Louie Chambers

CITY ADMINISTRATOR

Eddie Case

CITY ATTORNEY

Andrew Goodson

MUNICIPAL JUDGE

Janis Hall

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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GREENE FINNEY & HORTON
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 opinion.

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, 2005, 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 21, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis on pages 2 – 9 and budgetary comparison information on pages 38 through 40 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not required parts 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.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
March 21, 2006

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

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, 2005. 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 \$17,022,000 (*net assets*). Of this amount, approximately \$7,385,000 (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 \$268,000 as revenues of approximately \$13,365,000 exceeded expenses of approximately \$13,097,000.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of approximately \$1,915,000, an increase of approximately \$748,000 in comparison with the prior year balance. The increase in the fund balance is primarily due to bond and capital lease proceeds of approximately \$355,000 and lower debt service expenditures of approximately \$558,000.
- At the end of the year, unreserved fund balance for the General Fund was approximately \$1,625,000, or approximately 40% of total General Fund expenditures for the year ended December 31, 2005.
- The City's capital assets decreased during 2005 by approximately \$73,000 (0.7%) to approximately \$10,499,000 at December 31, 2005. The decrease was due to depreciation expense of approximately \$781,000, offset by current year additions of approximately \$708,000.
- The City's long term obligations increased during 2005 by approximately \$228,000 (32.8%) to approximately \$922,000 at December 31, 2005. The key factors in this increase were the issuance of 2005 Series General Obligation Bonds ("GOB") in the amount of \$275,000 to help fund the renovation costs associated with the Civic Center and the consummation of the 2005 Master Equipment Lease for \$97,622 which is for the purchase of various equipment. This increase was partially offset by principal payments made during the year.
- The City has an outstanding Sewer Bond Anticipation Note of approximately \$1,014,000 at year end. This note matures in June 2006.
- The City's General Fund revenues were approximately \$4,322,000 for 2005, compared to approximately \$4,440,000 for the prior year. This decrease is primarily due to lower property taxes and grant revenues, partially offset by higher administrative fees charged to the Natural Gas Enterprise Fund.
- The City's General Fund expenditures were approximately \$4,043,000 for 2005, compared to approximately \$4,623,000 for the prior year. This decrease is primarily due to lower debt service charges as the City paid off a note payable and a line of credit during 2004.
- During the year, the City's revenues for governmental activities were approximately \$4,375,000 compared to approximately \$4,367,000 for the prior year. The City's expenses for governmental activities were approximately \$4,113,000 for 2005 compared to approximately \$4,149,000 for the prior year.
- Business-type activities revenues were approximately \$9,690,000 for 2005, compared to approximately \$7,877,000 for the prior year. This increase is primarily due to higher natural gas sales and higher sewer maintenance fees.
- Business-type activities expenses were approximately \$9,683,000 for 2005, compared to approximately \$7,952,000 for the prior year. This increase is primarily due to higher Natural Gas Purchases resulting from higher 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. The basic financial statements present two different views of the City through the use of government-wide statements and fund 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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.

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, learning academy and interest and other charges. The business-type activities of the City are natural gas and sewer.

The government-wide financial statements can be found on pages 11 – 12 of this report.

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 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 – Community Development 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. The basic governmental fund financial statements can be found on pages 13-16 of this report.

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. The basic proprietary funds financial statements can be found on pages 17-19 of this report.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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 fiduciary, for the Drug Fund and Fireman’s Fund. The basic financial statement of the fiduciary funds can be found on page 20 of this report.

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. The notes to the basic financial statements can be found beginning on page 21 of this report.

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. Required supplementary information can be found on page 38 of this report.

Other supplemental schedules referred to in the table of contents are presented immediately following the required supplementary information. These schedules can be found beginning on page 41 of this report.

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"> ▪ Statement of net assets ▪ Statement of activities 	<ul style="list-style-type: none"> ▪ Balance sheet ▪ Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> ▪ Statement of net assets ▪ Statement of revenues, expenses, and changes in net assets ▪ Statement of cash flows 	<ul style="list-style-type: none"> ▪ Statement of fiduciary net assets ▪ Statement of changes in fiduciary net assets (if applicable)
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during 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, 2005

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 \$17,022,000 at the close of the most recent year.

This table provides a summary of the City's net assets as of December 31, 2005 and 2004:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 *	2005	2004 *	2005	2004
Assets						
Current Assets	\$ 2,401,106	1,687,604	7,665,661	7,558,720	10,066,767	\$ 9,246,324
Capital Assets, Net	4,664,739	4,768,977	5,834,402	5,803,433	10,499,141	10,572,410
Total Assets	7,065,845	6,456,581	13,500,063	13,362,153	20,565,908	19,818,734
Liabilities						
Other Liabilities	197,653	161,961	2,425,089	2,209,483	2,622,742	2,371,444
Long-Term Liabilities	769,167	519,596	152,364	174,316	921,531	693,912
Total Liabilities	966,820	681,557	2,577,453	2,383,799	3,544,273	3,065,356
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,054,694	4,292,746	5,473,592	5,591,072	9,528,286	9,883,818
Restricted	108,126	57,380	-	-	108,126	57,380
Unrestricted	1,936,205	1,424,898	5,449,018	5,387,282	7,385,223	6,812,180
Total Net Assets	\$ 6,099,025	5,775,024	10,922,610	10,978,354	17,021,635	\$ 16,753,378

* Certain amounts have been restated. See Note IV. D. of the basic financial statements for more information.

The net assets of the City's governmental activities increased by approximately \$324,000 or 5.6% to approximately \$6,099,000 at December 31, 2005, compared to approximately \$5,775,000 at December 31, 2004. 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, increased from approximately \$1,425,000 at December 31, 2004 to approximately \$1,936,000 at December 31, 2005. The increase in unrestricted net assets is primarily due to revenues exceeding expenses.

The net assets of the City's business-type activities decreased by approximately \$56,000 or 0.5% to approximately \$10,922,000 at December 31, 2005, compared to approximately \$10,978,000 at December 31, 2004. This decrease in net assets is due to expenses, including non-cash depreciation of approximately \$340,000, exceeding revenues.

The largest portion of the City's net assets (approximately \$9,528,000 or 56%) 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, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

This table shows the changes in net assets for the years ended 2005 and 2004:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 *	2005	2004 *	2005	2004 *
Revenues						
Program Revenues:						
Charges for Services	\$ 207,028	187,058	9,513,459	7,834,679	9,720,487	\$ 8,021,737
Operating Grants	111,668	170,243	-	-	111,668	170,243
Capital Grants	50,000	19,200	-	-	50,000	19,200
General Revenues:						
Property Taxes	2,754,396	2,804,052	-	-	2,754,396	2,804,052
Administrative Fees	700,000	600,000	(700,000)	(600,000)	-	-
Other	551,450	586,246	176,880	42,172	728,330	628,418
Total Revenues	4,374,542	4,366,799	8,990,339	7,276,851	13,364,881	11,643,650
Program Expenses						
General Government	421,220	410,188	-	-	421,220	410,188
Judicial	177,817	184,656	-	-	177,817	184,656
Public Safety	1,919,268	1,899,301	-	-	1,919,268	1,899,301
Streets and Sanitation	965,184	1,029,441	-	-	965,184	1,029,441
Recreation	493,380	456,169	-	-	493,380	456,169
Civic Center	50,785	68,974	-	-	50,785	68,974
Learning Academy	36,295	57,435	-	-	36,295	57,435
Interest and Other Charges	49,239	42,763	-	-	49,239	42,763
Natural Gas	-	-	8,720,444	7,004,973	8,720,444	7,004,973
Sewer	-	-	262,992	346,974	262,992	346,974
Total Expenses	4,113,188	4,148,927	8,983,436	7,351,947	13,096,624	11,500,874
Change in Net Assets Before Transfers	261,354	217,872	6,903	(75,096)	268,257	142,776
Transfers In (Out)	62,647	54,167	(62,647)	(54,167)	-	-
Change in Net Assets	324,001	272,039	(55,744)	(129,263)	268,257	142,776
Net Assets, Beginning of Year, Restated	5,775,024	5,502,985	10,978,354	11,107,617	16,753,378	16,610,602
Net Assets, End of Year	\$ 6,099,025	5,775,024	10,922,610	10,978,354	17,021,635	\$ 16,753,378

* Certain amounts have been restated. See Note IV.D. in the notes to the basic financial statements for more information.

Governmental Activities. The City's net assets increased from 2004 to 2005 by approximately \$324,000 or 5.6%, compared to approximately \$272,000 for 2004. The City increased the administration fee it charges to the Natural Gas Fund from \$600,000 to \$700,000, accounting for this increase. Other revenues and expenses were comparable from year to year.

Business-Type Activities. The City's net assets decreased from 2004 to 2005 by approximately \$56,000 or 0.5%. The primary reasons for this decrease were higher administrative fees (increased \$100,000 over the prior year) and higher natural gas purchases that were partially offset by higher natural gas sales and higher sewer revenues.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2005

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, 2005, the City's governmental funds reported a combined ending fund balance of approximately \$1,915,000. Of this amount, approximately \$1,733,000 is unreserved fund balance, which is available for spending at the government's discretion.

General Fund Revenues

The General Fund is the principal fund that accounts for the daily operations of the City. Total revenue for 2005 was approximately \$4,322,000 compared to approximately \$4,440,000 in the prior year. Taxes, licenses and permits, and administrative fees charged to the Natural Gas Fund make up 83.4% of all General Fund revenues, or approximately \$3,607,000. The remaining General Fund revenue sources totaled approximately \$715,000 and consisted of shared revenue (with the state and county), grants, fines and other miscellaneous sources. The decrease in revenues over the prior year is primarily due to lower taxes, grant revenue and fines, partially offset by the increase in administrative fees as mentioned earlier.

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 is 58.4 mills for the City and 23.2 mills for the Fire Services for both Greenville and 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 accounted for 62.7% (approximately \$2,711,000) of total General Fund revenue for the year ending December 31, 2005.

General Fund Expenditures

General Fund expenditures for the year ended December 31, 2005 totaled approximately \$4,043,000 compared to approximately \$4,623,000 for the prior year. The decrease is primarily due to lower debt service expenditures. The City paid off a note payable and a line of credit in the prior year.

The Public Safety and Streets and Sanitation functions accounted for approximately 62% of all General Fund expenditures (excluding capital outlay). Actual expenditures for these functions, excluding capital outlay, were approximately \$1,743,000 for Public Safety and \$756,000 for Streets and Sanitation. The remaining 38% of General Fund expenditures (excluding capital outlay) came from the areas of Recreation of \$440,000, Judicial of \$177,000, Civic Center of \$79,000, Learning Academy of \$36,000 and General Government of \$304,000. The City also had Capital Outlay in the General Fund of approximately \$369,000 and debt service expenditures of approximately \$139,000 for 2005.

General Fund Balance

The General Fund fund balance increased a total of approximately \$697,000 in 2005 to approximately \$1,807,000. This was primarily due to revenues exceeding expenditures by approximately \$280,000, combined with approximately \$355,000 in issuance of capital lease and general obligation bonds. Unreserved fund balance for the General Fund was approximately \$1,625,000, or approximately 40% of total General Fund expenditures.

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 \$10,922,000. Factors concerning the operations of these two funds have already been addressed in the discussion of the City's business-type activities.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

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. Only the General Fund has a legally adopted budget. There were no amendments to the budget during 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005, the City had invested a net amount of approximately \$10,499,000 in capital assets.

This table shows 2005 Capital Asset balances (net of depreciation) compared to 2004:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 *	2005	2004 *	2005	2004 *
Land	\$ 703,441	690,941	243,676	206,500	947,117	\$ 897,441
Construction in Progress	-	-	155,899	-	155,899	-
Buildings	2,595,758	2,378,671	35,474	42,971	2,631,232	2,421,642
Infrastructure / Utility Systems	550,550	715,910	5,088,321	5,262,924	5,638,871	5,978,834
Machinery & Equipment	280,383	322,958	203,687	249,091	484,070	572,049
Vehicles	534,607	660,497	106,233	40,545	640,840	701,042
Furniture & Fixtures	-	-	1,112	1,402	1,112	1,402
Totals	\$ 4,664,739	4,768,977	5,834,402	5,803,433	10,499,141	\$ 10,572,410

* Certain amounts have been restated. See Note IV.D. in the notes to the basic financial statements for more information.

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

- Depreciation expense of approximately \$781,000
- Renovations to the Civic Center of approximately \$201,000.
- Construction in Progress on sewer lines of approximately \$156,000.
- Equipment purchased under capital lease of approximately \$135,000.
- Vehicles purchases of approximately \$95,000.

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

Long-Term Obligations

As of December 31, 2005, the City had total long-term obligations of approximately \$922,000, as detailed below.

This table presents a summary of the City's outstanding long-term debt for 2005 compared to 2004:

Long-Term Obligations	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 275,000	-	-	-	275,000	\$ -
Capital Leases	449,915	476,231	141,745	163,697	591,660	639,928
Compensated Absences	44,252	43,365	10,619	10,619	54,871	53,984
Totals	\$ 769,167	519,596	152,364	174,316	921,531	\$ 693,912

CITY OF FOUNTAIN INN, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Obligations (Continued)

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

- The City issued a 2005 Series general obligation bond in the amount of \$275,000 during the current year.
- The City entered into Schedule 3 of the existing Master Equipment Lease ("MEL") in April 2005 in the amount of \$97,622 for the purchase of various equipment. As of December 31, 2005, approximately \$52,600 of the proceeds had been used for the purchase of the designated equipment.

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, 2005 was approximately \$1,604,000. The City had non-referendum bonded debt of \$275,000 which resulted in the City having an unused legal debt margin of approximately \$1,329,000.

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 06 budget were as follows:

- The unemployment rate in the City is in the 5.0% range. The City's unemployment rate compares more favorably than that of Greenville County's at approximately 5.5% and that of the State of South Carolina at approximately 6.4%.
- Inflation in the region averages 3.7% and is comparable to the national index of 3.4%.
- The City had several Plant Announcements in 2005. The 308-acre Owings Industrial Park one mile east of the I-385/SC 14 Interchange is closer to development. Funding was approved in late 2005 for the widening of Old Laurens Road and the sewer line expansion is close to completion. The park will help create jobs and encourage growth to the area, particularly on the Laurens County side of Fountain Inn. Maillis Strapping Systems USA will locate its North America headquarters to Fountain Inn with the creation of 60 new jobs. Automotive supplier Faurecia plans to expand its plant, adding a new unit to make vehicle seats.
- In 2005, the City annexed 102.5 acres, most of this being commercial and industrial zoned property. The population has grown by 59% since 2000. There are approximately 7,000 residents living in the City.

The adopted FY 06 operating budget for the General Fund is comprised of approximately \$4,326,000 in revenues and approximately \$4,301,000 in expenditures. Highlights of FY 06 operating budget were as follows:

- The City's tax millage rate will remain at 58.4 mills for property taxes and 23.2 mills for fire services. General Fund tax revenues are expected to remain in line with revenues from prior years.
- Greenville County Recreation Commission revenue is changing from a flat fee of \$38,000 to 80% of tax collections resulting in an approximate \$9,000 increase.
- The Civic Center will see an increase in revenue due to long term leases with Palmetto Hills Presbyterian Church and the Fountain Inn Christian School.
- The City will issue a 3% cost of living raise for all employees.
- Capital items were requested by departments, but were not included in the FY 06 budget.

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.

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

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

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, 2005

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

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

DECEMBER 31, 2005

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

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, 2005

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

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, 2005

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

DECEMBER 31, 2005

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

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

See accompanying independent auditors' report.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2005

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

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, 2005

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

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 FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

DECEMBER 31, 2005

	<u>DRUG FUND</u>	<u>FIREMAN'S FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 15,599	55,620	\$ 71,219
TOTAL ASSETS	<u>15,599</u>	<u>55,620</u>	<u>71,219</u>
LIABILITIES			
Held in Custody for Others	15,599	55,620	71,219
TOTAL LIABILITIES	<u>\$ 15,599</u>	<u>55,620</u>	<u>\$ 71,219</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, 2005

The City of Fountain Inn (“City”) is an incorporated municipality located in Greenville County, South Carolina that was established on May 3, 1911. Section 47-26 of the 1962 Code of Laws, as amended (“Home Rule Act”), requires that municipalities adopt a specific form of government. Accordingly, the City operates under a Mayor-Council form of government. The six city council members serve 4 year staggered terms and the mayor is elected for a 4 year term; they are collectively referred to as “Council.”

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America, (“GAAP”), as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

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

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

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City’s basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide basic financial statements to emphasize they are legally separate from the City. Based on the criteria above, the City does not have any blended or discrete component units.

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, grants and donations. Property taxes are recognized as revenues in the year they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balance is considered a resource available for use.

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

The *Other Governmental Funds, nonmajor funds*, are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds include the following: Hospitality Tax Fund, Victims Fund, K-9 Fund, and EUDL Police Fund.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all applicable GASB pronouncements, as well as the requirements of Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARBs”), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The City has elected not to follow the aforementioned guidance issued after November 30, 1989, as allowed by GAAP.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary Fund types include the following funds:

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

The City has two major Enterprise Funds:

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

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Pooled Investment Fund ("Pool") to be cash equivalents. Securities with an initial maturity of more than three months when initially purchased are reported as investments.

Investments

The City's investment policy is designed to operate within existing statutes (which are identical for all funds, fund types and component units within the State of South Carolina) that authorize the City to invest in the following:

- (a) Obligations of the United States and agencies thereof;
- (b) General obligations of the State of South Carolina or any of its political units;
- (c) Savings and Loan Associations to the extent that the same are insured by an agency of the Federal Government;
- (d) Certificates of Deposit and funds in deposit accounts with banking institutions provided that such certificates and funds in deposit accounts are collaterally secured by securities of the type described in (a) and (b) above, held by a third party as escrow agent, or custodian of a market value, not less than the amount of the certificates or funds in deposit accounts so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government;
- (e) Collateralized repurchase agreements when collateralized by securities as set forth in (a) and (b) above and held by the governmental entity or a third party as escrow agent or custodian; and
- (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (e) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

Investments (Continued)

- Repurchase agreements are a type of transaction in which a money market participant acquires immediately available funds by selling securities and simultaneously agreeing to repurchase the same or similar securities after a specified time at a given price, which typically includes interest at an agreed-upon rate. The City's repurchase agreements are considered cash and cash equivalents as they are purchased with maturities of less than three months.
- South Carolina Pooled Investment Fund (the "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.

2. Receivables and Payables

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers in (out). In addition, the Natural Gas Fund pays an administrative fee to the General Fund as directed by City Council. To the extent that certain transactions between funds had not been paid or received as of December 31, 2005, balances of interfund amounts or payables have been recorded.

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

The City received property taxes on real and personal property located in Greenville County and Laurens County, South Carolina. Property taxes are assessed and collected by these Counties under joint billing and collection agreements. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16th. Taxes are levied and billed on October 1st on all property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates:

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

2. Receivables and Payables (Continued)

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

3. Inventories and Prepaid Assets

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

4. Capital Assets

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets, but are not reported in the fund financial statements. Capital assets utilized by the Proprietary Funds are reported both in the business-type activities column of the government-wide Statement of Net Assets and in the respective fund financial statements.

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

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are complete, at which time the complete costs of the project are transferred to the appropriate capital asset category. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

5. *Compensated Absences*

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

Employees eligible for leave include (1) regular full-time employees and (2) part-time employees who work one-half of the regular workweek.

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

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

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

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

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

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

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

6. *Accrued Liabilities and Long-Term Obligations*

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

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

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

7. *Deferred Revenue*

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

8. *Fund Balance*

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

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

In the governmental fund financial statements, the City can establish "designations" of fund balance which are to reflect tentative plans for financial resource utilization in future periods. Designations of fund balance represent tentative management plans that are subject to change and ultimately may not be legally authorized or result in an expenditure.

9. *Net Assets*

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

10. Encumbrances

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

11. Accounting Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. During the month of November, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through Council approval.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Proprietary Funds. The legal level of control for each budget is maintained at the departmental level.
5. All budgets are adopted on an accounting basis that is consistent with generally accepted accounting principals.
6. The City Council adopts a budget ordinance at the outset of each calendar year establishing revenue anticipated on a line item basis and appropriations on a departmental basis. The City Council has authority to amend the approved budget during the calendar year as necessary as recommended by management.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

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

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

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments

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

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

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

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

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

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

Reconciliation to the Financial Statements

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables and Deferred Revenue

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

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

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

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

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

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

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

Interfund Transfers

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

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

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

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

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital Assets

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

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

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital Assets (Continued)

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

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

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

Capital Lease

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

Construction Commitments

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Short-Term Obligations

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

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

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

F. Long-Term Obligations

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

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

The City issued a General Obligation Bond in the amount of \$275,000 in May 2005. The proceeds are to be used for renovations and improvements to the Civic Center and other capital projects. Bonds are due in annual installments ranging from \$20,000 to \$35,000 through April 2015, with interest at 3.78%

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Obligations (Continued)

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

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

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

The General Obligation Bond is a direct obligation of the City, which pledged its full faith and credit upon issuance. The Capital Lease obligations are special obligations of the City payable from the general revenues of the City. The full faith, credit and taxing powers of the City are not pledged for the payment of the capital lease obligations. Resources from the General Fund and the Enterprise Funds have been used to liquidate the City's long-term obligations.

Interest paid on the debt issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City had no arbitrage liability at December 31, 2005.

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

IV. OTHER INFORMATION

A. Retirement Plans

Plan Description – Substantially all City employees are members of the South Carolina Retirement System (“SCRS”) or the Police Officers Retirement System (“PORS”). The South Carolina Retirement System and the Police Officers Retirement System are cost-sharing multi-employer defined benefit pension plans administered by the South Carolina Retirement Systems; a division of the South Carolina State Budget and Control Board. Both systems offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plans’ provisions are established under Title 9 of the SC Code of Laws. Only the South Carolina State Budget and Control Board has the authority to establish and amend benefits. Comprehensive Annual Financial Reports containing financial statements and required supplementary information for the Systems are issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

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

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees’ and natural disasters. The City purchases commercial insurance to cover these liabilities. Additionally, the City purchases commercial insurance to cover employee health insurance benefits. There were no significant reductions in coverage in the past year and there were no settlements exceeding insurance coverage in the past three years.

C. Grants

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

D. Prior Period Adjustments

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

IV. OTHER INFORMATION (CONTINUED)

D. Prior Period Adjustments (Continued)

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2005

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

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2005

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

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2005

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2005

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2005

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED DECEMBER 31, 2005

Court Assessments

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

Court Surcharges

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

Victim Fund

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City") as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

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

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

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


Greene, Finney & Horton, LLP
March 21, 2006

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2005

Findings - 2005 Financial Statements Audit

2005-1: NONCOMPLIANCE WITH LAWS AND REGULATIONS

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