

**CITY OF FOUNTAIN INN,
SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

LISTING OF PRINCIPAL OFFICIALS

YEAR ENDED DECEMBER 31, 2007

Established

1886

MAYOR

Gary Long

CITY COUNCIL MEMBERS

Jay Thomason

Celia Tuttle

Wanza Bates

Erick Chapman

Berry Woods Jr.

Matthew King

CITY ADMINISTRATOR

Eddie Case

CITY ATTORNEY

David Holmes

MUNICIPAL JUDGE

Janis Hall



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City"), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina, as of December 31, 2007, 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 April 25, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
April 25, 2008

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

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, 2007. The intent of this discussion and analysis is to present the City's financial performance as a whole; readers should also review the basic financial statements, the notes to the basic financial statements and the supplemental schedules to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by approximately \$19,196,000 (*net assets*). Of this amount, approximately \$7,695,000 (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 \$1,192,000 as revenues of approximately \$13,740,000 exceeded expenses of approximately \$12,548,000.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of approximately \$2,351,000, a decrease of approximately \$392,000 in comparison with the prior year balance. The decrease in the fund balance is primarily the result of capital outlay of approximately \$899,000, which includes approximately \$696,000 for the General Fund and approximately \$203,000 for the Hospitality Tax Fund.
- Unreserved fund balance for the General Fund was approximately \$1,889,000, or approximately 35% of total General Fund expenditures for the year ended December 31, 2007.
- The City's capital assets increased during 2007 by approximately \$1,298,000 (11%) to approximately \$11,976,000 at December 31, 2007. The increase was due to current year additions of approximately \$2,097,000, offset by depreciation expense of approximately \$785,000 and net disposals of \$14,000.
- The City's long term obligations decreased during 2007 by approximately \$333,000 (12%) to approximately \$2,504,000 at December 31, 2007. The key factor in this decrease was the principal payments made during the year.
- The City's General Fund revenues were approximately \$4,776,000 for 2007, compared to approximately \$4,391,000 for the prior year. This increase is primarily due to higher property tax collections and fire service area revenues received and recognized in 2007.
- The City's General Fund expenditures were approximately \$5,414,000 for 2007, compared to approximately \$4,317,000 for the prior year. This increase is primarily due to higher capital outlay and salaries and related fringes.
- Business-type activities revenues were approximately \$9,411,000 for 2007, compared to approximately \$9,406,000 for the prior year. The City experienced lower Natural Gas sales, which were offset by sewer infrastructure transferred by developers.
- Business-type activities expenses were approximately \$8,131,000 for 2007, compared to approximately \$8,570,000 for the prior year. This decrease is primarily due to lower Natural Gas purchases, partially offset by higher personnel costs and other operating expenses.

OVERVIEW OF FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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, and Economic Development. The business-type activities of the City are Natural Gas and Sewer.

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

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

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

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

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

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

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

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

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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1 Major Features of the City’s Government-Wide and Fund Basic Financial Statements				
	Government-Wide Basic Statements	Fund Basic Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else’s resources.
Required financial statements	<ul style="list-style-type: none"> ▪ 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 the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$19,196,000 at the close of the most recent year.

This table provides a summary of the City's net assets as of December 31, 2007 and 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current Assets	\$ 3,373,637	3,332,863	7,996,034	7,855,612	11,369,671	\$ 11,188,475
Capital Assets, Net	4,686,432	4,317,825	7,289,531	6,359,807	11,975,963	10,677,632
Total Assets	<u>8,060,069</u>	<u>7,650,688</u>	<u>15,285,565</u>	<u>14,215,419</u>	<u>23,345,634</u>	<u>21,866,107</u>
Liabilities						
Other Liabilities	583,326	157,063	1,063,128	867,678	1,646,454	1,024,741
Long-Term Liabilities	349,420	615,270	2,154,182	2,222,137	2,503,602	2,837,407
Total Liabilities	<u>932,746</u>	<u>772,333</u>	<u>3,217,310</u>	<u>3,089,815</u>	<u>4,150,056</u>	<u>3,862,148</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,410,386	3,797,838	6,625,508	5,686,580	11,035,894	9,484,418
Restricted	303,489	170,463	161,177	151,730	464,666	322,193
Unrestricted	2,413,448	2,910,054	5,281,570	5,287,294	7,695,018	8,197,348
Total Net Assets	<u>\$ 7,127,323</u>	<u>6,878,355</u>	<u>12,068,255</u>	<u>11,125,604</u>	<u>19,195,578</u>	<u>\$ 18,003,959</u>

The net assets of the City's governmental activities increased by approximately \$249,000 or 4% to approximately \$7,127,000 at December 31, 2007, compared to approximately \$6,878,000 at December 31, 2006. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from approximately \$2,910,000 at December 31, 2006 to approximately \$2,413,000 at December 31, 2007. The increase in net assets is primarily due to revenues and transfers exceeding expenses as discussed on the next page.

The net assets of the City's business-type activities increased by approximately \$943,000 or 8% to approximately \$12,068,000 at December 31, 2007, compared to approximately \$11,126,000 at December 31, 2006. The increase in net assets is due to revenues exceeding expenses and transfers as discussed on the next page.

The largest portion of the City's net assets (approximately \$11,036,000 or 58%) 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, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

This table shows the changes in net assets for the years ended 2007 and 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues:						
Charges for Services	\$ 208,948	214,019	8,747,617	9,117,895	8,956,565	\$ 9,331,914
Operating Grants	57,067	211,320	-	-	57,067	211,320
Capital Grants	125,141	165,871	328,034	-	453,175	165,871
General Revenues:						
Property Taxes	3,125,746	2,921,525	-	-	3,125,746	2,921,525
Administrative Fees	700,000	700,000	(700,000)	(700,000)	-	-
Other	811,341	603,217	335,502	288,136	1,146,843	891,353
Total Revenues	5,028,243	4,815,952	8,711,153	8,706,031	13,739,396	13,521,983
Program Expenses						
General Government	479,282	598,078	-	-	479,282	598,078
Judicial	264,715	186,302	-	-	264,715	186,302
Public Safety	2,280,535	2,030,653	-	-	2,280,535	2,030,653
Streets and Sanitation	1,158,161	1,043,945	-	-	1,158,161	1,043,945
Recreation	662,165	541,705	-	-	662,165	541,705
Civic Center	130,218	243,227	-	-	130,218	243,227
Economic Development	129,291	-	-	-	129,291	-
Learning Academy	-	2,472	-	-	-	2,472
Interest and Other Charges	12,149	23,314	-	-	6,997,094	23,314
Natural Gas	-	-	6,984,945	7,452,424	446,316	7,452,424
Sewer	-	-	446,316	417,539	-	417,539
Total Expenses	5,116,516	4,669,696	7,431,261	7,869,963	12,547,777	12,539,659
Change in Net Assets Before Transfers	(88,273)	146,256	1,279,892	836,068	1,191,619	982,324
Transfers In (Out)	337,241	633,074	(337,241)	(633,074)	-	-
Change in Net Assets	248,968	779,330	942,651	202,994	1,191,619	982,324
Net Assets, Beginning of Year	6,878,355	6,099,025	11,125,604	10,922,610	18,003,959	17,021,635
Net Assets, End of Year	\$ 7,127,323	6,878,355	12,068,255	11,125,604	19,195,578	\$ 18,003,959

Governmental Activities. The City's net assets increased from 2006 to 2007 by approximately \$249,000 or 4%, compared to an increase of approximately \$779,000 for 2006. In 2007, the Natural Gas Fund transferred approximately \$327,000 to the Governmental Activities for the purchase of 102 Depot Street. In the prior year, the Natural Gas Fund transferred approximately \$633,000 to the Governmental Activities. In addition, the City incurred \$129,000 in economic development costs (new department) in 2007, combined with higher public safety and streets and sanitation costs.

Business-Type Activities. The City's net assets increased from 2006 to 2007 by approximately \$943,000 or 8%, compared to an increase of approximately \$203,000 for 2006. This increase is primarily due to a smaller transfer from the Natural Gas Fund to the Governmental Activities as mentioned above. In addition, the City recognized sewer infrastructure assets of approximately \$313,000 that were transferred from developers.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

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, 2007, the City's governmental funds reported a combined ending fund balance of approximately \$2,351,000. Of this amount, approximately \$1,675,000 is unreserved but designated for the City's fund balance policy, master plan, and other designations; approximately \$227,000 is unreserved, undesignated, which can be used at the City's discretion, and approximately \$449,000 of the remainder is reserved for capital projects, hospitality taxes, and prepaid expenditures.

General Fund Revenues

The General Fund is the principal fund that accounts for the daily operations of the City. Total revenue for 2007 was approximately \$4,776,000, compared to approximately \$4,391,000 in the prior year. Taxes, fire service area revenues, licenses and permits, and administrative fees charged to the Natural Gas Fund make up 83% of all General Fund revenues, or approximately \$3,943,000. The remaining General Fund revenue sources totaled approximately \$833,000 and consisted of shared revenue (with the state and county), grants, fines, and other miscellaneous sources. The increase in revenues over the prior year is primarily due to higher property tax collections and fire service area revenues received and recognized in 2007.

As with most municipalities in the State of South Carolina, the City is dependent on local property taxes to pay for many of the services provided to its citizens. The current millage rate for local property taxes for the City is 52.9 mills for Greenville County, 58.4 mills for Laurens County, and 23.2 mills for the Fire Service Area of Greenville County and a fixed fee of approximately \$189,000 from the Fire Service District of Laurens County. The difference in millage between Greenville County and Laurens County is due to Greenville County going through reassessment in 2007 and the City was statutorily mandated to rollback the millage rate. Laurens County did not go through reassessment. The assessed value is 4% of market value for residential property, 6% for commercial property, and 10.5% for industrial property. Local property taxes and fire service area revenues accounted for 63% (approximately \$3,014,000) of total General Fund revenue for the year ending December 31, 2007.

General Fund Expenditures

General Fund expenditures for the year ended December 31, 2007 totaled approximately \$5,414,000 compared to approximately \$4,317,000 for the prior year. The increase is primarily due to higher capital outlay and salaries and fringe benefits.

The Public Safety (Police and Fire) and Streets and Sanitation functions accounted for approximately 65% of all General Fund expenditures (excluding capital outlay). Actual expenditures for these functions, excluding capital outlay, were approximately \$2,093,000 for Public Safety and \$934,000 for Streets and Sanitation. The remaining 35% of General Fund expenditures (excluding capital outlay) came from the areas of Recreation of \$510,000, Judicial of \$265,000, Civic Center of \$72,000, and General Government of \$603,000. The City also had Capital Outlay in the General Fund of approximately \$696,000 and debt service expenditures of approximately \$180,000 for 2007.

General Fund Balance

The General Fund fund balance decreased approximately \$253,000 in 2007 to approximately \$2,261,000. This was primarily due to expenditures exceeding revenues by approximately \$638,000, partially offset by approximately \$385,000 in transfers from other funds. Unreserved fund balance, both designated and undesignated, for the General Fund was approximately \$1,889,000, or approximately 35% of total General Fund expenditures. Unreserved and undesignated fund balance was approximately \$214,000 at December 31, 2007.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net Assets of the Enterprise Funds at the end of the year amounted to approximately \$12,068,000. Factors concerning the operations of these two funds have already been addressed in the discussion of the City's business-type activities above.

General Fund Budgetary Highlights

The City's budget is prepared according to South Carolina law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The General Fund, Natural Gas, and Sewer Funds have legally adopted budgets. There was one amendment totaling approximately \$81,000 to the General Fund budget during 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2007, the City had invested a net amount of approximately \$11,976,000 in capital assets.

This table shows 2007 Capital Asset balances (net of depreciation) compared to 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,051,439	856,066	43,676	43,676	1,095,115	\$ 899,742
Buildings	2,537,096	2,505,488	20,243	27,607	2,557,339	2,533,095
Infrastructure / Utility Systems	465,356	385,191	6,987,300	6,063,498	7,452,656	6,448,689
Machinery & Equipment	252,850	128,893	135,431	158,525	388,281	287,418
Vehicles	379,691	442,187	102,881	66,501	482,572	508,688
Totals	<u>\$ 4,686,432</u>	<u>4,317,825</u>	<u>7,289,531</u>	<u>6,359,807</u>	<u>11,975,963</u>	<u>\$ 10,677,632</u>

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

- Depreciation expense of approximately \$785,000
- Natural Gas system infrastructure additions of approximately \$828,000.
- Contributed sewer infrastructure of approximately \$313,300.
- Purchase of property for approximately \$326,000.
- Purchase of vehicles of approximately \$154,000.

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2007

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Obligations

As of December 31, 2007, the City had total long-term obligations of approximately \$2,504,000, as detailed below.

This table presents a summary of the City's outstanding long-term obligations for 2007 compared to 2006:

Long-Term Obligations	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 230,000	255,000	-	-	230,000	\$ 255,000
Revenue Bonds	-	-	2,110,000	2,120,000	2,110,000	2,120,000
Capital Leases	73,483	319,519	34,847	96,427	108,330	415,946
Compensated Absences	45,937	40,751	9,335	5,710	55,272	46,461
Totals	\$ 349,420	615,270	2,154,182	2,222,137	2,503,602	\$ 2,837,407

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

- The City made approximately \$217,000 in principal payments and \$111,000 in interest payments.
- Schedule 1 of the City's Master Lease was fully paid off during 2007, which included approximately \$130,000 paid by Greenville County with a portion of the proceeds of the County's General Obligation Bonds issued in conjunction with a new Fire Service Area agreement.

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, 2007 was approximately \$1,614,000. The City had non-referendum bonded debt of \$230,000 which resulted in the City having an unused legal debt margin of approximately \$1,384,000.

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 08 budget were as follows:

- The unemployment rate in the City is 5.5% at December 31, 2007. The City's unemployment rate compares more favorably than that of the State of South Carolina at approximately 6.6%.
- The City had 20 new businesses to open during 2007.
- In 2007, the City annexed 63.5 acres. There are approximately 7,000 residents living in the City.

The adopted FY 08 operating budget for the General Fund is approximately \$5,275,000 in expenditures. Highlights of FY 08 operating budget were as follows:

- The City's tax millage rate will remain at 52.9 mills for Greenville County and 58.4 for Laurens County property taxes. General Fund tax revenues are expected to remain in line with revenues from prior years.
- The City Council hired an Economic Director to help boost growth in the City.
- The City will issue a 3% cost of living raise for all employees.
- The City is currently developing a capital improvement plan to address all needs of the City.

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.

Basic Financial Statements

CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,447,905	5,368,291	\$ 6,816,196
Restricted Cash and Cash Equivalents	142,315	1,427,807	1,570,122
Due from County Treasurer	391,215	-	391,215
Investments	-	242,473	242,473
Property Taxes Receivable, Net	1,165,320	-	1,165,320
Accounts Receivable, Net	62,337	918,093	980,430
Due from Other Governments	42,968	-	42,968
Internal Balances	3,661	(3,661)	-
Inventory	-	32,706	32,706
Prepays	117,916	10,325	128,241
Capital Assets:			
Non-Depreciable	1,051,439	43,676	1,095,115
Depreciable, Net	3,634,993	7,245,855	10,880,848
TOTAL ASSETS	8,060,069	15,285,565	23,345,634
LIABILITIES			
Accounts Payable	167,036	921,394	1,088,430
Accrued Salaries and Fringe Benefits	98,893	18,005	116,898
Accrued Interest Payable	3,460	19,369	22,829
Customer Deposits	16,937	104,360	121,297
Deferred Revenues	297,000	-	297,000
Non-Current Liabilities:			
Due Within One Year	71,316	39,170	110,486
Due in More Than One Year	278,104	2,115,012	2,393,116
TOTAL LIABILITIES	932,746	3,217,310	4,150,056
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,410,386	6,625,508	11,035,894
Restricted For:			
Hospitality Tax	76,664	-	76,664
Fire Operations	111,947	-	111,947
Museum	114,878	-	114,878
Debt Service	-	161,177	161,177
Unrestricted	2,413,448	5,281,570	7,695,018
TOTAL NET ASSETS	\$ 7,127,323	12,068,255	\$ 19,195,578

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, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 482,813	45,550	-	-	(437,263)	-	\$ (437,263)
Judicial	264,715	-	-	-	(264,715)	-	(264,715)
Public Safety	2,278,652	-	1,500	111,249	(2,165,903)	-	(2,165,903)
Streets and Sanitation	1,158,161	10,552	40,123	-	(1,107,486)	-	(1,107,486)
Recreation	670,997	88,233	15,444	13,892	(553,428)	-	(553,428)
Civic Center	126,687	64,613	-	-	(62,074)	-	(62,074)
Economic Development	120,459	-	-	-	(120,459)	-	(120,459)
Interest and Other Charges	12,149	-	-	-	(12,149)	-	(12,149)
Total Governmental Activities	5,114,633	208,948	57,067	125,141	(4,723,477)	-	(4,723,477)
Business-Type Activities:							
Natural Gas	6,984,945	8,423,757	-	-	-	1,438,812	1,438,812
Sewer	446,316	323,860	-	313,300	-	190,844	190,844
Total Business-Type Activities	7,431,261	8,747,617	-	313,300	-	1,629,656	1,629,656
TOTAL - PRIMARY GOVERNMENT	\$ 12,545,894	8,956,565	57,067	438,441	(4,723,477)	1,629,656	(3,093,821)
General Revenues:							
Taxes:							
Property Taxes					2,154,199	-	2,154,199
Hospitality Taxes					112,421	-	112,421
Fire Service Area Revenues					859,126	-	859,126
Business Licenses					228,661	-	228,661
Administrative Fees					700,000	(700,000)	-
Intergovernmental Revenue					183,550	-	183,550
Fines and Forfeits					258,187	-	258,187
Miscellaneous Revenue					50,677	14,734	65,411
Investment Earnings					88,383	335,502	423,885
Transfers					337,241	(337,241)	-
Total General Revenues and Transfers					4,972,445	(687,005)	4,285,440
CHANGE IN NET ASSETS					248,968	942,651	1,191,619
NET ASSETS, Beginning of Year					6,878,355	11,125,604	18,003,959
NET ASSETS, End of Year					7,127,323	12,068,255	\$ 19,195,578

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, 2007

	GENERAL	HOSPITALITY TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 1,357,779	76,664	13,462	\$ 1,447,905
Restricted Cash and Cash Equivalents	142,315	-	-	142,315
Due from County Treasurer	391,215	-	-	391,215
Property Taxes Receivable, Net	1,165,320	-	-	1,165,320
Accounts Receivables	62,337	-	-	62,337
Due from Other Governments	42,968	-	-	42,968
Due from Other Funds	3,661	-	-	3,661
Prepays	117,916	-	-	117,916
TOTAL ASSETS	3,283,511	76,664	13,462	3,373,637
LIABILITIES				
Accounts Payable	167,036	-	-	167,036
Accrued Salaries and Fringe Benefits	98,893	-	-	98,893
Customer Deposits	16,937	-	-	16,937
Deferred Revenue	739,829	-	-	739,829
TOTAL LIABILITIES	1,022,695	-	-	1,022,695
FUND BALANCES				
Reserved for:				
Prepays	117,916	-	-	117,916
Capital Projects	142,315	-	-	142,315
Fire Operations	111,947	-	-	111,947
Hospitality Taxes	-	76,664	-	76,664
Unreserved:				
Designated for:				
Master Plan	122,809	-	-	122,809
Equipment Replacement	100,000	-	-	100,000
Contingency	90,769	-	-	90,769
Fund Balance Policy	1,361,532	-	-	1,361,532
Undesignated, Reported in:				
General Fund	213,528	-	-	213,528
Other Governmental Funds	-	-	13,462	13,462
TOTAL FUND BALANCES	2,260,816	76,664	13,462	2,350,942
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,283,511	76,664	13,462	\$ 3,373,637

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, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,350,942
Amounts reported for the governmental activities in the Statement of Net Assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$10,478,935 and the accumulated depreciation was \$5,792,503.	4,686,432
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.	442,829
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.	(3,460)
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)	(303,483)
Compensated Absences (Sick Pay and Vacations)	(45,937)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 7,127,323</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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2007

	GENERAL	HOSPITALITY TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 2,155,283	112,421	-	\$ 2,267,704
Fire Service Area Revenues	859,126	-	-	859,126
Licenses and Permits	228,661	-	-	228,661
Intergovernmental	183,550	-	-	183,550
Fines and Forfeits	241,526	-	16,661	258,187
Charges for Services	118,169	-	-	118,169
Administrative Fees	700,000	-	-	700,000
Rent - Civic Center	62,093	-	-	62,093
Interest	78,495	8,472	1,416	88,383
Donations	13,892	-	-	13,892
Grants	55,567	-	1,500	57,067
Other	79,363	-	-	79,363
TOTAL REVENUES ALL SOURCES	4,775,725	120,893	19,577	4,916,195
EXPENDITURES				
Current:				
General Government	603,413	12,109	-	615,522
Judicial	264,715	-	-	264,715
Public Safety:				
Police	1,433,549	-	16,576	1,450,125
Fire	659,415	-	-	659,415
Streets and Sanitation	933,809	-	-	933,809
Recreation	509,937	-	-	509,937
Civic Center	71,958	-	-	71,958
Economic Development	61,645	-	-	61,645
Capital Outlay	696,196	202,583	-	898,779
Debt Service:				
Principal	170,204	-	-	170,204
Interest and Fiscal Charges	9,167	-	-	9,167
TOTAL EXPENDITURES	5,414,008	214,692	16,576	5,645,276
EXCESS OF REVENUES OVER EXPENDITURES	(638,283)	(93,799)	3,001	(729,081)
OTHER FINANCING SOURCES				
Transfers In	385,349	-	-	385,349
Transfers Out	-	-	(48,108)	(48,108)
TOTAL OTHER FINANCING SOURCES	385,349	-	(48,108)	337,241
NET CHANGE IN FUND BALANCES	(252,934)	(93,799)	(45,107)	(391,840)
FUND BALANCES, Beginning of Year	2,513,750	170,463	58,569	2,742,782
FUND BALANCES, End of Year	\$ 2,260,816	76,664	13,462	\$ 2,350,942

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, 2007

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (391,840)**

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. (1,084)

Repayment of bond and capital lease principal is recognized in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This amount is the total reduction in outstanding principal in the current year. 271,036

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. 7,435

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. (5,186)

In the Statement of Activities the loss on the disposal of capital assets is reported, whereas in the governmental funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets disposed. (14,355)

Governmental funds report capital asset additions as expenditures (\$742,728). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$359,766). This is the amount by which capital asset additions exceeded depreciation expense in the current period. 382,962

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 248,968**

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, 2007

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 5,197,417	170,874	\$ 5,368,291
Restricted Cash and Cash Equivalents	-	1,427,807	1,427,807
Investments	242,473	-	242,473
Receivables, Net of Allowance for Doubtful Accounts			
Utility Services	841,195	74,865	916,060
Interest	2,033	-	2,033
Inventory	32,706	-	32,706
Prepays	9,597	728	10,325
Total Current Assets	<u>6,325,421</u>	<u>1,674,274</u>	<u>7,999,695</u>
Noncurrent Assets			
Nondepreciable Capital Assets	43,676	-	43,676
Depreciable Capital Assets, Net	3,851,158	3,394,697	7,245,855
Total Noncurrent Assets	<u>3,894,834</u>	<u>3,394,697</u>	<u>7,289,531</u>
TOTAL ASSETS	<u>10,220,255</u>	<u>5,068,971</u>	<u>15,289,226</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	918,653	2,741	921,394
Accrued Salaries and Fringe Benefits	16,203	1,802	18,005
Compensated Absences - Current Portion	2,217	117	2,334
Accrued Interest Payable	4,767	14,602	19,369
Customer Deposits	104,360	-	104,360
Due to Other Funds	2,753	908	3,661
Sewer Revenue Bond Payable - Current Portion	-	20,000	20,000
Capital Lease Payable - Current Portion	16,836	-	16,836
Total Current Liabilities	<u>1,065,789</u>	<u>40,170</u>	<u>1,105,959</u>
Noncurrent Liabilities			
Compensated Absences - Noncurrent Portion	6,651	350	7,001
Sewer Revenue Bond Payable - Noncurrent Portion	-	2,090,000	2,090,000
Capital Lease Payable - Noncurrent Portion	18,011	-	18,011
Total Non-Current Liabilities	<u>24,662</u>	<u>2,090,350</u>	<u>2,115,012</u>
TOTAL LIABILITIES	<u>1,090,451</u>	<u>2,130,520</u>	<u>3,220,971</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,859,987	2,765,521	6,625,508
Restricted for Debt Service	-	161,177	161,177
Unrestricted	5,269,817	11,753	5,281,570
TOTAL NET ASSETS	<u>\$ 9,129,804</u>	<u>2,938,451</u>	<u>\$ 12,068,255</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 REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
OPERATING REVENUES			
Charges for Service			
Natural Gas Sales	\$ 8,256,766	-	\$ 8,256,766
Sewer Fees	-	323,860	323,860
Other Charges for Service	166,991	-	166,991
TOTAL OPERATING REVENUES	8,423,757	323,860	8,747,617
OPERATING EXPENSES			
Natural Gas Purchases	5,731,092	-	5,731,092
Administrative Fees	700,000	-	700,000
Personnel Services	526,484	144,260	670,744
Contractual Services	49,467	-	49,467
Materials and Supplies	9,952	4,041	13,993
Other Operating Expenses	415,067	33,995	449,062
Depreciation	249,858	175,401	425,259
TOTAL OPERATING EXPENSES	7,681,920	357,697	8,039,617
OPERATING INCOME (LOSS)	741,837	(33,837)	708,000
NONOPERATING REVENUES (EXPENSES)			
Investment Income	269,461	66,041	335,502
Interest Expense	(3,025)	(88,619)	(91,644)
Other Revenues	14,734	-	14,734
TOTAL NONOPERATING REVENUES (EXPENSES)	281,170	(22,578)	258,592
Capital Contributions	-	313,300	313,300
Transfers Out	(337,241)	-	(337,241)
CHANGE IN NET ASSETS	685,766	256,885	942,651
NET ASSETS, Beginning of Year	8,444,038	2,681,566	11,125,604
NET ASSETS, End of Year	\$ 9,129,804	2,938,451	\$ 12,068,255

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, 2007

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 8,344,108	323,860	\$ 8,667,968
Cash Payments for Goods and Services	(6,792,136)	(35,296)	(6,827,432)
Cash Payments to Employees	(516,092)	(144,667)	(660,759)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,035,880	143,897	1,179,777
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advances and Transfers (to) from Other Funds	(334,488)	3,354	(331,134)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(334,488)	3,354	(331,134)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net Acquisition of Capital Assets	(921,815)	(119,870)	(1,041,685)
Principal Payments on Revenue Bond Payable	-	(10,000)	(10,000)
Principal Payments on Capital Lease	(46,846)	-	(46,846)
Interest Payments	(3,025)	(88,619)	(91,644)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(971,686)	(218,489)	(1,190,175)
CASH FLOWS FROM INVESTING ACTIVITIES			
Income on Investments	269,461	66,041	335,502
NET CASH PROVIDED BY INVESTING ACTIVITIES	269,461	66,041	335,502
NET DECREASE IN RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS	(833)	(5,197)	(6,030)
RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, Beginning of Year	5,440,723	1,603,878	7,044,601
RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS, End of Year	\$ 5,439,890	1,598,681	\$ 7,038,571
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 741,837	(33,837)	\$ 708,000
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation Expense	249,858	175,401	425,259
Change in:			
Accounts Receivable	(152,557)	-	(152,557)
Accounts Payable	113,443	2,741	116,184
Accrued Salaries and Fringe Benefits	7,234	(874)	6,360
Compensated Absences	3,158	466	3,624
Customer Deposits	72,907	-	72,907
Net Cash Provided by Operating Activities	\$ 1,035,880	143,897	\$ 1,179,777
Noncash Investing, Capital and Financing Activities:			
Acquisition of Capital Assets through Developer Contributions	\$ -	313,300	\$ 313,300

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, 2007

	<u>DRUG FUND</u>	<u>FIREMAN'S FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 15,508	54,378	\$ 69,886
TOTAL ASSETS	<u>15,508</u>	<u>54,378</u>	<u>69,886</u>
LIABILITIES			
Held in Custody for Others	15,508	54,378	69,886
TOTAL LIABILITIES	<u>\$ 15,508</u>	<u>54,378</u>	<u>\$ 69,886</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, 2007

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City’s basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide basic financial statements to emphasize they are legally separate from the City. Based on the criteria above, the 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, 2007

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, fire service area fees, licenses and permits, state and county shared revenues and charges for administrative services from other funds. Primary expenditures are for general government, police and fire protection, culture and recreation, judicial, and streets and sanitation.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

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

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

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

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

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, 2007

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, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

1. 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, 2007, balances of interfund amounts or payables have been recorded.

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

The City receives property taxes on real and personal property located in Greenville County and Laurens County, South Carolina. Property taxes are assessed and collected by these Counties under joint billing and collection agreements. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 16th. Taxes are levied and billed on October 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, 2007

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

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

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

6. *Accrued Liabilities and Long-Term Obligations*

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

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

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

7. *Deferred Revenue*

The government-wide financial statements and the governmental funds defer revenue recognition in connection with revenues that have been received but not yet earned. In addition, governmental funds report deferred revenue in the fund financial statements in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

8. Fund Balance

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

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

In the governmental fund financial statements, the City can establish "designations" of fund balance which are to reflect plans for financial resource utilization in future periods. Designations of fund balance represent tentative management plans that are subject to change and ultimately may not be legally authorized or result in an expenditure. Currently, designations of fund balance include amounts designated for fund balance policy, which represents funds set aside by resolution of the Council to maintain and improve upon the City's credit rating and meet seasonal cash flow shortfalls. The policy sets aside a minimum of 30% of the General Fund operating expenditures; accordingly, approximately \$1,362,000 has been designated for the fund balance policy at December 31, 2007. The City's policy states that if the Fund Balance falls below 30%, then the City shall rebuild the balance within one year. In addition, the City has designated \$100,000 for Equipment Replacement Reserves, approximately \$123,000 for the Master Plan, and approximately \$91,000 for contingencies.

9. Net Assets

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

10. Accounting Estimates

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

11. Reclassifications

Certain amounts in the 2006 statements have been reclassified to conform to the 2007 presentation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. During the month of November, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

During the year ended December 31, 2007, supplementary appropriations of \$81,245 for the General Fund were approved by the City Council.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. None of the City's bank balances of \$3,941,044 as of December 31, 2007 (which had a carrying value of \$3,826,621), were exposed to custodial credit risk.

Investments

As of December 31, 2007, the City had the following investments:

Investment Type	Credit Rating	Fair Value	Weighted Average Maturity
Repurchase Agreements	Unrated	\$ 3,027,803	Less than 1 year
Money Market Mutual Funds	AAAm, Aaa	1,191,557	Less than 3 days
SC Pooled Investment Funds	Unrated	652,696	Less than 1 year
Total		\$ 4,872,056	

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

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of December 31, 2007, \$3,027,803 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

A. Deposits and Investments (Continued)

Concentration of Credit Risk for Investments: The City’s investment policy states that with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution. More than 5% of the City’s investments are in the following issuers: Repurchase Agreement with Suntrust (47%), Repurchase Agreement with Palmetto Bank (15%), and Money Market Mutual Fund with US Bank (25%). Investments in external investment pools are excluded from this disclosure requirement.

The City had cash and cash equivalents of \$1,570,122 at December 31, 2007 that were restricted for (1) debt service related to the 2006 Sewer Revenue Bond; (2) sewer line upgrades and the purchase of various capital equipment related to the 2006 Sewer Revenue Bond and 2005 Series GO Bond; and (3) funds to be used for other capital projects.

Reconciliation to the Financial Statements

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

Description	Amount
Carrying Value of Deposits	\$ 3,826,621
Fair Value of Investments	4,872,056
Total Deposits and Investments	<u>8,698,677</u>
Statement of Net Assets:	
Cash and Cash Equivalents	6,816,196
Restricted Cash and Cash Equivalents	1,570,122
Investments	242,473
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	<u>69,886</u>
Total Cash and Investments	<u>\$ 8,698,677</u>

B. Receivables and Deferred Revenue

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

Property taxes were levied and billed by the Counties on real and personal properties on October 1st based on an assessed value of approximately \$20.2 million at the rate of 52.9 mills (Greenville County), 58.4 mills (Laurens County) for the City and 23.2 mills for the Fountain Inn Fire Service Area of Greenville County. Property taxes receivable includes an allowance for uncollectible amounts of \$19,928 at December 31, 2007. Natural gas accounts receivable include an allowance for uncollectible amounts of \$380,244 at December 31, 2007.

At December 31, 2007, the governmental funds reported \$739,829 in deferred revenues, of which \$442,829 is attributable to delinquent property taxes receivable and \$297,000 is attributable to proceeds from grants that were received in 2007 but no expenditures were incurred during the year.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

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

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at December 31, 2007 (which are expected to be paid or received within one year), consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund	\$ 3,661	\$ -
Natural Gas Enterprise Fund	-	2,753
Sewer Enterprise Fund	-	908
Totals	<u>\$ 3,661</u>	<u>\$ 3,661</u>

The Natural Gas and Sewer Fund Payables at year end to the General Fund was for the payment of operating costs. These amounts will be repaid from future Natural Gas and Sewer Fund revenues.

Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Fund	Transfers In	Transfers Out
General Fund	\$ 385,349	\$ -
Fund 310 Community Development	-	47,970
Fund 540 K-9 Fund	-	138
Natural Gas Enterprise Fund	-	337,241
Totals	<u>\$ 385,349</u>	<u>\$ 385,349</u>

During the course of normal operations and in order to support the numerous functions of the City, transactions between funds may occur. Transfers from Fund 310 Community Development to the General Fund were budgeted; the funds were used for capital projects. Transfers from the Natural Gas Fund to the General Fund were for debt service payments on capital leases and for a land purchase.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

D. Capital Assets

Capital asset activity for the City for governmental activities for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 856,066	195,373	-	-	\$ 1,051,439
Total Capital Assets, Non-Depreciable	<u>856,066</u>	<u>195,373</u>	<u>-</u>	<u>-</u>	<u>1,051,439</u>
Capital Assets, Depreciable:					
Buildings and Improvements	3,637,358	164,242	15,400	-	3,786,200
Infrastructure	3,307,188	129,436	-	-	3,436,624
Machinery and Equipment	593,576	168,716	26,724	-	735,568
Vehicles	1,362,271	84,961	17,792	39,664	1,469,104
Total Capital Assets, Depreciable	<u>8,900,393</u>	<u>547,355</u>	<u>59,916</u>	<u>39,664</u>	<u>9,427,496</u>
Less: Accumulated Depreciation for:					
Buildings	1,131,870	121,277	4,043	-	1,249,104
Infrastructure	2,921,997	49,271	-	-	2,971,268
Machinery and Equipment	464,683	44,007	25,972	-	482,718
Vehicles	920,084	145,211	15,546	39,664	1,089,413
Total Accumulated Depreciation	<u>5,438,634</u>	<u>359,766</u>	<u>45,561</u>	<u>39,664</u>	<u>5,792,508</u>
Total Capital Assets, Depreciable, Net	<u>3,461,759</u>	<u>187,589</u>	<u>14,355</u>	<u>-</u>	<u>3,634,993</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 4,317,825</u>	<u>382,962</u>	<u>14,355</u>	<u>-</u>	<u>\$ 4,686,432</u>

Depreciation expense for the year ended December 31, 2007 for governmental activities was charged to functions as follows:

	Depreciation Expense
Governmental Activities:	
General Government	\$ 30,940
Public Safety	145,579
Streets and Sanitation	74,352
Recreation	54,185
Civic Center	54,710
Total Depreciation Expense - Governmental Activities	<u>\$ 359,766</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

D. Capital Assets (Continued)

Capital asset activity for the City for business-type activities for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 43,676	-	-	-	\$ 43,676
Total Capital Assets, Non-Depreciable	43,676	-	-	-	43,676
Capital Assets, Depreciable:					
Buildings	127,705	-	-	-	127,705
Utility Systems	10,453,728	1,260,787	-	-	11,714,515
Machinery and Equipment	481,795	24,971	15,510	-	491,256
Vehicles	204,394	69,225	-	(39,664)	233,955
Total Capital Assets, Depreciable	11,267,622	1,354,983	15,510	(39,664)	12,567,431
Less: Accumulated Depreciation for:					
Buildings	100,098	7,364	-	-	107,462
Utility Systems	4,390,230	336,985	-	-	4,727,215
Machinery and Equipment	323,270	48,065	15,510	-	355,825
Vehicles	137,893	32,845	-	(39,664)	131,074
Total Accumulated Depreciation	4,951,491	425,259	15,510	(39,664)	5,321,576
Total Capital Assets, Depreciable, Net	6,316,131	929,724	-	-	7,245,855
Total Business-Type Activities Capital Assets, Net	\$ 6,359,807	929,724	-	-	\$ 7,289,531

Capital Lease

The cost and accumulated amortization of equipment recorded under capital lease was approximately \$706,000 and \$353,200, respectively, at December 31, 2007. Amortization of assets recorded under capital lease obligations has been included with depreciation expense.

E. Long-Term Obligations

Presented below is a summary of changes in long-term obligations for the year ended December 31, 2007:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bond, Series 2005	\$ 255,000	-	25,000	230,000	\$ 25,000
Capital Leases	319,519	-	246,036	73,483	34,832
Compensated Absences	40,751	5,186	-	45,937	11,484
Total Governmental Activities	615,270	5,186	271,036	349,420	71,316
Business-Type Activities:					
Sewer Revenue Bond, Series 2006	2,120,000	-	10,000	2,110,000	20,000
Capital Leases	96,427	-	61,580	34,847	16,836
Compensated Absences	5,710	3,625	-	9,335	2,334
Total Business-Type Activities	\$ 2,222,137	3,625	71,580	2,154,182	\$ 39,170

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

E. Long-Term Obligations (Continued)

The City issued its Series 2006 Sewer Revenue Bond in the amount of \$2,120,000 in June 2006. Bonds are due in annual installments ranging from \$10,000 to \$245,000 through May 2021, with interest at 4.19%. The proceeds were used to repay the remaining balance due on the 2005 BAN, to pay issuance costs related to this issue, and to establish a debt service reserve fund as required by the bond agreement; the balance is to be used to upgrade the City's sewer line infrastructure.

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, 2007:

- A lease purchase agreement was executed on January 20, 2004 in the amount of \$355,527 to finance the purchase of various equipment. This obligation was fully repaid in 2007, which included approximately \$130,000 paid by Greenville County with a portion of the proceeds of the County's General Obligation Bonds issued in conjunction with a new Fire Service Area agreement (see Note IV. F below).
- A lease purchase agreement was executed on May 26, 2004 in the amount of \$284,401 to finance the purchase of various equipment. This agreement requires ten semi-annual payments ranging from \$16,101 to \$41,445, including interest calculated at 3.45%, beginning January 3, 2005. Approximately 57% was for governmental activities and 43% was for business-type activities.
- A lease purchase agreement was executed on April 21, 2005 in the amount of \$97,622 to finance the purchase of various equipment. This agreement requires 9 annual payments ranging from \$8,752 to \$14,839, including interest calculated at 3.64%, 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>					
2008	\$ 25,000	8,222	34,832	2,327	\$ 70,381
2009	25,000	7,277	31,604	1,127	65,008
2010	25,000	6,332	7,047	129	38,508
2011	30,000	5,292	-	-	35,292
2012	30,000	4,158	-	-	34,158
2013-2015	95,000	5,576	-	-	100,576
Totals	<u>\$ 230,000</u>	<u>36,857</u>	<u>73,483</u>	<u>3,583</u>	<u>\$ 343,923</u>
<u>Business-Type Activities</u>					
2008	\$ 20,000	87,990	16,836	1,109	\$ 125,935
2009	45,000	86,628	16,467	509	148,604
2010	65,000	84,324	1,544	28	150,896
2011	85,000	81,181	-	-	166,181
2012	110,000	77,096	-	-	187,096
2013-2017	875,000	289,424	-	-	1,164,424
2018-2021	910,000	78,773	-	-	988,773
Totals	<u>\$ 2,110,000</u>	<u>785,416</u>	<u>34,847</u>	<u>1,646</u>	<u>\$ 2,931,909</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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

E. Long-Term Obligations (Continued)

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

There are numerous limitations, restrictions, and covenants contained in the bond indentures and ordinances. At December 31, 2007, the City is in compliance with all significant restrictions and covenants.

Interest paid on the debt issued by the City is exempt from federal income tax. The City sometimes temporarily reinvests the proceeds of such tax-exempt debt in higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. Excess earnings (the difference between the interest on the debt and the investment earnings received) resulting from arbitrage must be rebated to the federal government. The City had no arbitrage liability at December 31, 2007.

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, 2007, the City had \$230,000 of bonded debt subject to the 8% limit of approximately \$1,614,000, resulting in an unused legal debt margin of approximately \$1,384,000.

IV. OTHER INFORMATION

A. Retirement Plans

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

Funding Policy – Both employees and employers are required to contribute to the Plans under authority of Title 9 of the SC Code of Laws. Employees covered under PORS were required to contribute 6.50% of their salary. Employees covered under SCRS were required to contribute 6.25% of their salary through June 30, 2006 and 6.5% thereafter. The City was required to contribute 10.30% of gross earnings under PORS. The City was required to contribute 7.55% through June 30, 2006 and 8.05% thereafter under SCRS. 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 \$121,675, PORS of \$135,765; SCRS of \$89,700, PORS of \$112,897; and SCRS of \$84,076, PORS of \$105,593, for the years ended December 31, 2007, 2006, and 2005 respectively. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

IV. OTHER INFORMATION (CONTINUED)

B. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City is insured with State of South Carolina Insurance Reserve Fund. It pays an annual premium for this coverage. For the year ended December 31, 2007, the City made premium payments totaling approximately \$91,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

The City has also joined together with other municipalities in the state to form the South Carolina Municipal Insurance Trust ("SCMIT"), a public entity risk pool operating as a common risk management and insurance program for worker's compensation. The City pays an annual premium to SCMIT. In the year ended December 31, 2007, the City made premium payments totaling approximately \$168,000. The Trust uses reinsurance agreements to reduce its exposure to large workers' compensation losses. SCMIT's net assets from its most recently issued audited financial statements at December 31, 2006, totaled approximately \$6,049,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

C. Grants

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

D. Litigation

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

E. Post-Retirement Health Care Benefits

Employees retiring from the City with a minimum of 20 years service, or who have a total of ten years of medical coverage under the City's group health insurance program, are eligible to participate in the Retiree Insurance Plan, at the retiree's expense, until age 65 or Medicare eligible, whichever comes first. The City retains the right to terminate or modify these benefits at any time subject to applicable law. Currently, the City has does not have any retired employees that participate in the Retiree Insurance Plan.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of Other Post Employment Benefits ("OPEB") expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The City is required to adopt Statement No. 45 in fiscal 2009 and is in the process of engaging an actuary to determine the impact of adopting this Statement will have on the City. Management is not able at the present to quantify the City's OPEB liability under Statement No. 45.

F. Fountain Inn Fire Service Area Agreement

In January 2008 but effective October 2007, the City entered into a new agreement with Greenville County whereby the City will provide fire protection services to the unincorporated area of Greenville County known as the Fountain Inn Fire Service Area. The County will pay the City operating fees based on millage (presently 23.2 mills). This agreement expires in June 2011 but is automatically renewed each year thereafter for one year terms; however, either party may terminate the agreement subject to a 90 day written notice to the other party prior to the annual June 30 expiration date.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

IV. OTHER INFORMATION (CONTINUED)

F. Fountain Inn Fire Service Area Agreement (Continued)

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

Required Supplementary Information

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND BUDGETARY COMPARISON SCHEDULE

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

YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes	\$ 2,002,000	2,002,000	2,155,283	\$ 153,283
Fire Service Area Revenues	829,000	829,000	859,126	30,126
Licenses and Permits	207,500	207,500	228,661	21,161
Intergovernmental	168,900	168,900	183,550	14,650
Fines and Forfeits	140,000	140,000	241,526	101,526
Charges for Services	120,949	120,949	118,169	(2,780)
Administrative Fees	700,000	700,000	700,000	-
Rent - Civic Center	57,400	57,400	62,093	4,693
Donations	-	-	13,892	13,892
Interest Earnings	70,000	70,000	78,495	8,495
Grants	176,518	176,518	55,567	(120,951)
Other	2,000	2,000	79,363	77,363
TOTAL REVENUE ALL SOURCES	4,474,267	4,474,267	4,775,725	301,458
EXPENDITURES				
General Government:				
City:				
Other Services and Charges	112,642	106,526	199,076	(92,550)
Total City	112,642	106,526	199,076	(92,550)
Administration:				
Salaries and Related Expenses	257,577	243,375	243,341	34
Supplies	12,000	12,000	14,800	(2,800)
Other Services and Charges	37,553	37,553	42,381	(4,828)
Total Administration	307,130	292,928	300,522	(7,594)
Mayor and City Council:				
Salaries and Related Expenses	66,404	66,404	57,691	8,713
Supplies	600	600	3,190	(2,590)
Other Services and Charges	10,258	10,258	10,749	(491)
Total Mayor and City Council	77,262	77,262	71,630	5,632
Miscellaneous:				
Other Services and Charges	-	-	32,185	(32,185)
Total Miscellaneous	-	-	32,185	(32,185)
Total General Government	497,034	476,716	603,413	(126,697)
Judicial:				
Salaries and Related Expenses	70,099	70,099	77,532	(7,433)
Supplies	4,000	4,000	3,204	796
Other Services and Charges	117,598	117,598	183,979	(66,381)
Total Judicial	\$ 191,697	191,697	264,715	\$ (73,018)

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND BUDGETARY COMPARISON SCHEDULE

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

YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Public Safety:				
Police:				
Salaries and Related Expenses	\$ 1,184,260	1,184,260	1,226,851	\$ (42,591)
Supplies	13,400	13,400	21,590	(8,190)
Other Services and Charges	152,069	152,069	185,108	(33,039)
Total Police	<u>1,349,729</u>	<u>1,349,729</u>	<u>1,433,549</u>	<u>(83,820)</u>
Fire:				
Salaries and Related Expenses	534,949	534,949	546,075	(11,126)
Supplies	2,500	2,500	1,667	833
Other Services and Charges	97,160	97,160	111,673	(14,513)
Total Fire	<u>634,609</u>	<u>634,609</u>	<u>659,415</u>	<u>(24,806)</u>
Total Public Safety	<u>1,984,338</u>	<u>1,984,338</u>	<u>2,092,964</u>	<u>(108,626)</u>
Streets and Sanitation:				
Public Works:				
Salaries and Related Expenses	108,797	108,797	110,110	(1,313)
Supplies	4,900	4,900	7,656	(2,756)
Other Services and Charges	56,042	56,042	66,240	(10,198)
Total Public Works	<u>169,739</u>	<u>169,739</u>	<u>184,006</u>	<u>(14,267)</u>
Streets:				
Salaries and Related Expenses	172,136	172,136	175,659	(3,523)
Supplies	2,000	2,000	3,657	(1,657)
Other Services and Charges	303,824	303,824	219,830	83,994
Total Streets	<u>477,960</u>	<u>477,960</u>	<u>399,146</u>	<u>78,814</u>
Sanitation:				
Supplies	500	500	-	500
Other Services and Charges	272,000	272,000	275,150	(3,150)
Total Sanitation	<u>272,500</u>	<u>272,500</u>	<u>275,150</u>	<u>(2,650)</u>
Recycling:				
Salaries and Related Expenses	73,001	73,001	64,409	8,592
Supplies	750	750	185	565
Other Services and Charges	8,352	8,352	10,913	(2,561)
Total Recycling	<u>82,103</u>	<u>82,103</u>	<u>75,507</u>	<u>6,596</u>
Total Streets and Sanitation	<u>1,002,302</u>	<u>1,002,302</u>	<u>933,809</u>	<u>68,493</u>
Recreation:				
Salaries and Related Expenses	273,598	273,598	266,781	6,817
Supplies	11,000	11,000	13,140	(2,140)
Other Services and Charges	192,738	192,738	230,016	(37,278)
Total Recreation	<u>\$ 477,336</u>	<u>477,336</u>	<u>509,937</u>	<u>\$ (32,601)</u>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND BUDGETARY COMPARISON SCHEDULE

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

YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Civic Center:				
Salaries and Related Expenses	\$ 3,987	3,987	6,722	\$ (2,735)
Supplies	1,500	1,500	2,960	(1,460)
Other Services and Charges	94,593	94,593	62,276	32,317
Total Civic Center	<u>100,080</u>	<u>100,080</u>	<u>71,958</u>	<u>28,122</u>
Economic Development:				
Salaries and Related Expenses	30,000	44,202	61,645	(17,443)
Other Services and Charges	10,000	10,000	-	10,000
Total Economic Development	<u>40,000</u>	<u>54,202</u>	<u>61,645</u>	<u>(7,443)</u>
Capital Outlays	<u>345,920</u>	<u>377,191</u>	<u>696,196</u>	<u>(319,005)</u>
Debt Service:				
Principal	158,462	158,462	170,204	(11,742)
Interest and Fiscal Changes	10,418	10,418	9,167	1,251
Total Debt Service	<u>168,880</u>	<u>168,880</u>	<u>179,371</u>	<u>(10,491)</u>
TOTAL EXPENDITURES	<u>4,807,587</u>	<u>4,832,742</u>	<u>5,414,008</u>	<u>(581,266)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(333,320)</u>	<u>(358,475)</u>	<u>(638,283)</u>	<u>(279,808)</u>
OTHER FINANCING SOURCES				
Transfers In	141,663	248,063	385,349	137,286
TOTAL OTHER FINANCING SOURCES	<u>141,663</u>	<u>248,063</u>	<u>385,349</u>	<u>137,286</u>
NET CHANGE IN FUND BALANCE	<u>(191,657)</u>	<u>(110,412)</u>	<u>(252,934)</u>	<u>(142,522)</u>
FUND BALANCE, Beginning of Year	<u>2,513,750</u>	<u>2,513,750</u>	<u>2,513,750</u>	<u>-</u>
FUND BALANCE, End of Year	<u>\$ 2,322,093</u>	<u>2,403,338</u>	<u>2,260,816</u>	<u>\$ (142,522)</u>

Actual expenditures exceeded budget in total by \$581,266. Actual capital outlays of \$696,196 exceeded budget of \$377,191 by \$319,005. This was due to the purchase of the Depot Street property for \$326,570, which was not budgeted. Actual general government expenditures of \$603,413 exceeded budget of \$476,716 by \$126,697. This was due to unbudgeted attorney fees of \$77,841 and employee health claims paid of \$28,653, along with other unbudgeted repairs and maintenance costs. Actual judicial expenditures of \$264,715 exceeded budget of \$191,697 by \$73,018. This was due to unbudgeted court and judge expenses of \$21,557 and court fines assessed and remitted to the State of \$48,881, along with other unbudgeted salary and fringe costs. Actual public safety expenditures of \$2,092,964 exceeded budget of \$1,984,338 by \$108,626. This was due to unbudgeted salaries and wages of \$73,711 and vehicle maintenance of \$23,523, along with other unbudgeted fuel and supply costs.

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.

Other Supplementary Information

CITY OF FOUNTAIN INN, SOUTH CAROLINA

OTHER SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2007

	FUND 310 COMMUNITY DEVELOPMENT	FUND 525 VICTIMS FUND	FUND 540 K-9 FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ -	12,522	-	940	\$ 13,462
TOTAL ASSETS	-	12,522	-	940	13,462
FUND BALANCES					
Unreserved:					
Undesignated	-	12,522	-	940	13,462
TOTAL FUND BALANCES	-	12,522	-	940	13,462
TOTAL LIABILITIES AND FUND BALANCES	\$ -	12,522	-	940	\$ 13,462

CITY OF FOUNTAIN INN, SOUTH CAROLINA

OTHER SUPPLEMENTARY INFORMATION

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

YEAR ENDED DECEMBER 31, 2007

	FUND 310 COMMUNITY DEVELOPMENT	FUND 525 VICTIMS FUND	FUND 540 K-9 FUND	FUND 541 EUDL POLICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES					
Fines and Forfeits	\$ -	16,661	-	-	\$ 16,661
Interest	1,416	-	-	-	1,416
Grant Revenue	-	-	-	1,500	1,500
TOTAL REVENUES ALL SOURCES	1,416	16,661	-	1,500	19,577
EXPENDITURES					
Current:					
Public Safety	-	16,016	-	560	16,576
TOTAL EXPENDITURES	-	16,016	-	560	16,576
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,416	645	-	940	3,001
OTHER FINANCING SOURCES (USES)					
Transfers (To) From Other Funds	(47,970)	-	(138)	-	(48,108)
TOTAL OTHER FINANCING SOURCES (USES)	(47,970)	-	(138)	-	(48,108)
NET CHANGES IN FUND BALANCES	(46,554)	645	(138)	940	(45,107)
FUND BALANCES, Beginning of Year	46,554	11,877	138	-	58,569
FUND BALANCES, End of Year	\$ -	12,522	-	940	\$ 13,462

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF REVENUES AND DIRECT EXPENDITURES - FIRE OPERATIONS

YEAR ENDED DECEMBER 31, 2007

<u>DESCRIPTION</u>	<u>ACTUAL</u>	
REVENUES		
Fees Received from Greenville County	\$ 670,126	(1)
Fees Received from Laurens County	189,000	
TOTAL REVENUES	<u>859,126</u>	
DIRECT EXPENDITURES		
Salaries	383,276	
Volunteers	19,881	
Overtime	3,703	
Christmas Bonus	1,000	
Employee Insurance	46,072	
FICA	25,111	
Retirement	41,664	
Workers Compensation	25,370	
Portable Radio Maintenance	4,231	
Vehicle Maintenance	15,338	
Operating Equipment	17,935	
Fire Station Maintenance	6,485	
Computer Support	4,121	
Property, Vehicle and Tort Insurance	14,297	
Telephone	3,465	
Nextel Communications	2,889	
Conferences	3,345	
Health Screenings	3,226	
Training	4,705	
General Supplies	511	
Office Supples, Printing	1,155	
Utilities	9,909	
Vehicle Gas	12,784	
Publications	148	
Professional Membership	165	
Inspection and Prevention	1,022	
Uniforms	7,310	
Miscellaneous	299	
Capital Outlay - Concrete Pad	10,750	
Debt Service - Master Leases	77,014	
Total Direct Expenditures	<u>747,179</u>	
EXCESS OF REVENUES OVER DIRECT EXPENDITURES	<u>\$ 111,947</u>	(2)

(1) Revenues were approximately \$77,000 more than estimated due to the timing of the payment of fees received from Greenville County (via property taxes) in January and February 2008 (recognized in fiscal 2007 on the modified accrual basis) compared to the similar periods in the prior fiscal year.

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED DECEMBER 31, 2007

Court Fines and Assessments

Court Fines and Assessments Collected	\$ 198,024
Court Fines and Assessments Retained by the City	(110,165)
Total Court Fines and Assessments Remitted to the State Treasurer	<u>87,859</u>

Court Surcharges

Court Surcharges Collected	43,502
Court Surcharges Retained by the City	(6,023)
Total Court Surcharges Remitted to State Treasurer	<u>37,479</u>

Victims Fund

Funds Available for Carryforward, Beginning of Year	11,877
Court Assessments Allocated to Victim Fund - January 2007 through December 2007	16,197
Court Assessments Allocated to Victim Fund - December 2006	464
Victim Fund Expenditures	(16,016)
Funds Available for Carryforward, End of Year	<u>\$ 12,522</u>

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn (the "City") as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's basic financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiency 2007-1 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated April 25, 2008.

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

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
April 25, 2008

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2007

2007-1: INTERNAL CONTROLS OVER ANNUAL FINANCIAL REPORTING PROCESS

Condition: The City does not have adequate internal controls over its annual financial reporting process that would allow for the City to prevent or detect material misstatements in the basic financial statements. Instead, the City has chosen to use its external independent auditors as its internal control for the annual financial reporting process, from the recording of various receivables and payables on the modified accrual basis to the conversion to the full accrual basis that is used for the government-wide financial statements.

Criteria: The City should have adequate internal controls (other than its external independent auditors) in place that would prevent or detect material misstatements from the day-to-day transactions all the way to the reporting of those transactions in the annual financial statements.

Effect: There is a higher risk that material misstatements in the basic financial statements will go undetected.

Cause: The limited resources available at the City.

Recommendation: The City should consider the cost/benefit factors related to providing adequate internal controls over its annual financial reporting process.

Response: The City will continue to evaluate the cost/benefit factors of providing adequate internal controls over its annual financial reporting process. Currently, the City believes it is most cost beneficial to use its external auditors to prepare the annual financial statements.