

CITY OF FOUNTAIN INN, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

CITY OF FOUNTAIN INN, SOUTH CAROLINA

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2006

INTRODUCTORY SECTION

	<u>Page Number</u>
Listing of Principal Officials	i

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Management's Discussion and Analysis	3
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Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	12
Statement of Activities	13

Fund Financial Statements:

Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	17
Statement of Net Assets - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Fiduciary Net Assets - Fiduciary Funds	21

<i>Notes to the Basic Financial Statements</i>	22
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Required Supplementary Information:

Budgetary Comparison Information - General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgets and Actual	39
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Other Supplementary Information:

Other Governmental Funds

Combining Balance Sheet	42
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	43
Schedule of Fines, Assessments, and Surcharges	44

COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	45
Schedule of Findings and Responses	47

CITY OF FOUNTAIN INN, SOUTH CAROLINA

LISTING OF PRINCIPAL OFFICIALS

YEAR ENDED DECEMBER 31, 2006

Established

1886

MAYOR

Gary Long

CITY COUNCIL MEMBERS

Jay Thomason

T.C. Thackston

Wanza Bates

Leonard Henderson

Berry Woods Jr.

Louie Chambers

CITY ADMINISTRATOR

Eddie Case

CITY ATTORNEY

Brad Love

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 basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn, South Carolina (the "City"), as of and for the year ended December 31, 2006, 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, 2006, 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 11, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not required parts of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP

April 11, 2007

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2006

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, 2006. 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 \$18,004,000 (*net assets*). Of this amount, approximately \$8,197,000 (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 \$982,000 as revenues of approximately \$13,522,000 exceeded expenses of approximately \$12,540,000.
- As of the close of the year, the City's governmental funds reported combined ending fund balances of approximately \$2,743,000, an increase of approximately \$828,000 in comparison with the prior year balance. The increase in the fund balance is primarily due to transfers in from the Natural Gas Fund to forgive an interfund payable of approximately \$710,000 and Hospitality Tax revenues of approximately \$116,000.
- Unreserved fund balance for the General Fund was approximately \$2,305,000, or approximately 53% of total General Fund expenditures for the year ended December 31, 2006.
- The City's capital assets increased during 2006 by approximately \$178,000 (2%) to approximately \$10,678,000 at December 31, 2006. The increase was due to current year additions of approximately \$1,124,000, offset by depreciation expense of approximately \$881,000 and net disposals of \$65,000.
- The City's long term obligations increased during 2006 by approximately \$1,916,000 (208%) to approximately \$2,837,000 at December 31, 2006. The key factors in this increase were the issuance of 2006 Series Sewer Revenue Bonds in the amount of \$2,120,000 to help fund the upgrade of sewer line infrastructure, partially offset by principal payments made during the year.
- The City's General Fund revenues were approximately \$4,391,000 for 2006, compared to approximately \$4,322,000 for the prior year. This increase is primarily due to higher grant revenues and license and permit fees.
- The City's General Fund expenditures were approximately \$4,317,000 for 2006, compared to approximately \$4,043,000 for the prior year. This increase is primarily due to higher salaries and fringe benefits, grant expenditures, and debt service payments, partially offset by lower capital outlay.
- Business-type activities revenues were approximately \$9,406,000 for 2006, compared to approximately \$9,690,000 for the prior year. This decrease is primarily due to lower Natural Gas sales.
- Business-type activities expenses were approximately \$8,570,000 for 2006, compared to approximately \$9,683,000 for the prior year. This decrease is primarily due to lower Natural Gas purchases.

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, 2006

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 the Learning Academy. 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 fiduciary, 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, 2006

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				
		Fund Basic Financial Statements		
	Government-Wide Basic 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, 2006

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 \$18,004,000 at the close of the most recent year.

This table provides a summary of the City's net assets as of December 31, 2006 and 2005:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current Assets	\$ 3,332,863	2,401,106	7,855,612	7,665,661	11,188,475	\$ 10,066,767
Capital Assets, Net	4,317,825	4,664,739	6,359,807	5,834,402	10,677,632	10,499,141
Total Assets	<u>7,650,688</u>	<u>7,065,845</u>	<u>14,215,419</u>	<u>13,500,063</u>	<u>21,866,107</u>	<u>20,565,908</u>
Liabilities						
Other Liabilities	157,063	197,653	867,678	2,425,089	1,024,741	2,622,742
Long-Term Liabilities	615,270	769,167	2,222,137	152,364	2,837,407	921,531
Total Liabilities	<u>772,333</u>	<u>966,820</u>	<u>3,089,815</u>	<u>2,577,453</u>	<u>3,862,148</u>	<u>3,544,273</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	3,797,838	4,054,694	5,686,580	5,473,592	9,484,418	9,528,286
Restricted	170,463	108,126	151,730	-	322,193	108,126
Unrestricted	2,910,054	1,936,205	5,287,294	5,449,018	8,197,348	7,385,223
Total Net Assets	<u>\$ 6,878,355</u>	<u>6,099,025</u>	<u>11,125,604</u>	<u>10,922,610</u>	<u>18,003,959</u>	<u>\$ 17,021,635</u>

The net assets of the City's governmental activities increased by approximately \$779,000 or 13% to approximately \$6,878,000 at December 31, 2006, compared to approximately \$6,099,000 at December 31, 2005. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from approximately \$1,936,000 at December 31, 2005 to approximately \$2,910,000 at December 31, 2006. The increase in unrestricted net assets is primarily due to revenues exceeding expenses.

The net assets of the City's business-type activities increased by approximately \$203,000 or 2% to approximately \$11,126,000 at December 31, 2006, compared to approximately \$10,923,000 at December 31, 2005. This increase in net assets is due to revenues exceeding expenses.

The largest portion of the City's net assets (approximately \$9,484,000 or 53%) 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, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

This table shows the changes in net assets for the years ended 2006 and 2005:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for Services	\$ 214,019	207,028	9,117,895	9,513,459	9,331,914	\$ 9,720,487
Operating Grants	211,320	111,668	-	-	211,320	111,668
Capital Grants	165,871	50,000	-	-	165,871	50,000
General Revenues:						
Property Taxes	2,921,525	2,754,396	-	-	2,921,525	2,754,396
Administrative Fees	700,000	700,000	(700,000)	(700,000)	-	-
Other	603,217	551,450	288,136	176,880	891,353	728,330
Total Revenues	4,815,952	4,374,542	8,706,031	8,990,339	13,521,983	13,364,881
Program Expenses						
General Government	598,078	421,220	-	-	598,078	421,220
Judicial	186,302	177,817	-	-	186,302	177,817
Public Safety	2,030,653	1,919,268	-	-	2,030,653	1,919,268
Streets and Sanitation	1,043,945	965,184	-	-	1,043,945	965,184
Recreation	541,705	493,380	-	-	541,705	493,380
Civic Center	243,227	50,785	-	-	243,227	50,785
Learning Academy	2,472	36,295	-	-	2,472	36,295
Interest and Other Charges	23,314	49,239	-	-	23,314	49,239
Natural Gas	-	-	7,452,424	8,720,444	7,452,424	8,720,444
Sewer	-	-	417,539	262,992	417,539	262,992
Total Expenses	4,669,696	4,113,188	7,869,963	8,983,436	12,539,659	13,096,624
Change in Net Assets Before Transfers	146,256	261,354	836,068	6,903	982,324	268,257
Transfers In (Out)	633,074	62,647	(633,074)	(62,647)	-	-
Change in Net Assets	779,330	324,001	202,994	(55,744)	982,324	268,257
Net Assets, Beginning of Year	6,099,025	5,775,024	10,922,610	10,978,354	17,021,635	16,753,378
Net Assets, End of Year	\$ 6,878,355	6,099,025	11,125,604	10,922,610	18,003,959	\$ 17,021,635

Governmental Activities. The City's net assets increased from 2005 to 2006 by approximately \$779,000 or 13%, compared to approximately \$324,000 for 2005. This increase is due to higher operating and capital grant revenues, property tax revenues, and net transfers in, partially offset by increases in total expenses.

Business-Type Activities. The City's net assets increased from 2005 to 2006 by approximately \$203,000 or 2%. The primary reasons for this increase were lower Natural Gas purchases and higher investment earnings.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2006

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, 2006, the City's governmental funds reported a combined ending fund balance of approximately \$2,743,000. Of this amount, approximately \$2,364,000 is unreserved fund balance, which is available for spending at the government's discretion.

General Fund Revenues

The General Fund is the principal fund that accounts for the daily operations of the City. Total revenue for 2006 was approximately \$4,391,000, compared to approximately \$4,322,000 in the prior year. Taxes, licenses and permits, and administrative fees charged to the Natural Gas Fund make up 82% of all General Fund revenues, or approximately \$3,594,000. The remaining General Fund revenue sources totaled approximately \$797,000 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 grant revenue.

As with most municipalities in the State of South Carolina, the City is dependent on local property taxes to pay for many of the services provided to its citizens. The current millage rate for local property taxes is 58.4 mills for the City and 23.2 mills for the Fire Service District of Greenville County and a fixed fee of approximately \$182,000 from the Fire Service District of Laurens County. The assessed value is 4% of market value for residential property, 6% for commercial property, and 10.5% for industrial property. Local property taxes accounted for 61% (approximately \$2,672,000) of total General Fund revenue for the year ending December 31, 2006.

General Fund Expenditures

General Fund expenditures for the year ended December 31, 2006 totaled approximately \$4,317,000 compared to approximately \$4,043,000 for the prior year. The increase is primarily due to higher salaries and fringe benefits, grant expenditures, and debt service payments, partially offset by lower capital outlay.

The Public Safety 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 \$1,943,000 for Public Safety and \$846,000 for Streets and Sanitation. The remaining 35% of General Fund expenditures (excluding capital outlay) came from the areas of Recreation of \$500,000, Judicial of \$186,000, Civic Center of \$91,000, Learning Academy of \$2,000 and General Government of \$437,000. The City also had Capital Outlay in the General Fund of approximately \$131,000 and debt service expenditures of approximately \$180,000 for 2006.

General Fund Balance

The General Fund fund balance increased a total of approximately \$707,000 in 2006 to approximately \$2,514,000. This was primarily due to revenues exceeding expenditures by approximately \$74,000, combined with approximately \$633,000 in net transfers. Unreserved fund balance for the General Fund was approximately \$2,305,000, or approximately 53% of total General Fund expenditures.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net Assets of the Enterprise Funds at the end of the year amounted to approximately \$11,126,000. Factors concerning the operations of these two funds have already been addressed in the discussion of the City's business-type activities.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2006

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

General Fund Budgetary Highlights

The City's budget is prepared according to South Carolina law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The General Fund, Natural Gas, and Sewer Funds have legally adopted budgets. There was one amendment to the General Fund budget during 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2006, the City had invested a net amount of approximately \$10,678,000 in capital assets.

This table shows 2006 Capital Asset balances (net of depreciation) compared to 2005:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 856,066	703,441	43,676	43,676	899,742	\$ 747,117
Construction in Progress	-	-	-	155,899	-	155,899
Buildings	2,505,488	2,595,758	27,607	35,474	2,533,095	2,631,232
Infrastructure / Utility Systems	385,191	550,550	6,063,498	5,288,321	6,448,689	5,838,871
Machinery & Equipment	128,893	280,383	158,525	203,687	287,418	484,070
Vehicles	442,187	534,607	66,501	106,233	508,688	640,840
Furniture & Fixtures	-	-	-	1,112	-	1,112
Totals	\$ 4,317,825	4,664,739	6,359,807	5,834,402	10,677,632	\$ 10,499,141

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

- Depreciation expense of approximately \$881,000
- Natural Gas system infrastructure additions of approximately \$620,000.
- Sewer infrastructure and equipment additions of approximately \$181,000 and \$100,000, respectively.
- Donated land of approximately \$158,000.
- Vehicles purchases of approximately \$56,000.

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

Long-Term Obligations

As of December 31, 2006, the City had total long-term obligations of approximately \$2,837,000, as detailed below.

This table presents a summary of the City's outstanding long-term debt for 2006 compared to 2005:

Long-Term Obligations	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 255,000	275,000	-	-	255,000	\$ 275,000
Revenue Bonds	-	-	2,120,000	-	2,120,000	-
Capital Leases	319,519	449,915	96,427	141,745	415,946	591,660
Compensated Absences	40,751	44,252	5,710	10,619	46,461	54,871
Totals	\$ 615,270	769,167	2,222,137	152,364	2,837,407	\$ 921,531

CITY OF FOUNTAIN INN, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Obligations (Continued)

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

- The City issued a 2006 Series Sewer Revenue Bond in the amount of \$2,120,000 during the current year. 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 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, 2006 was approximately \$1,614,000. The City had non-referendum bonded debt of \$255,000 which resulted in the City having an unused legal debt margin of approximately \$1,359,000.

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 07 budget were as follows:

- The unemployment rate in the City is in the 4.5% range. The City's unemployment rate compares more favorably than that of Greenville County's at approximately 5.5% and that of the State of South Carolina at approximately 6.4%.
- Inflation in the region averages 3.7% and is comparable to the national index of 3.4%.
- The City had several Plant Announcements in 2006. Anderson Hardwood Floors will locate in the old Sodetal Plant on Highway 418. The company plans to invest \$6 million dollars and hire 150 new employees. K & S Bearings is moving from its previous location in Southchase to the former Vermont American building near Woodside Park. This will make way for Pierburg to expand its 20 million investment and the addition of 100 new jobs.
- In 2006, the City annexed 84 acres. The population has grown by 59% since 2000. There are approximately 7,000 residents living in the City.

The adopted FY 07 operating budget for the General Fund is comprised of approximately \$4,414,064 in revenues and approximately \$4,380,670 in expenditures. Highlights of FY 07 operating budget were as follows:

- The City's tax millage rate will remain at 58.4 mills for property taxes. General Fund tax revenues are expected to remain in line with revenues from prior years.
- City Council adopted an Accommodations Tax Ordinance during 2006. Currently, there is not any activity on those funds.
- City Council adopted several new policies during 2006: Financial Policy, Investment Policy, Requisition and Purchase Order Policy, and an Employee Budget Incentive Program
- The Civic Center will see an increase in revenue due to long term leases with Palmetto Hills Presbyterian Church and the Fountain Inn Christian School.
- The City will issue a 3% cost of living raise for all employees.
- Capital items were requested by departments, but were not included in the FY 07 budget.

REQUESTS FOR INFORMATION

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

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CITY OF FOUNTAIN INN, SOUTH CAROLINA

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,612,664	4,627,445	\$ 6,240,109
Restricted Cash and Cash Equivalents	141,646	1,480,738	1,622,384
Due from County Treasurer	480,840	-	480,840
Investments	-	936,418	936,418
Property Taxes Receivable, Net	927,958	-	927,958
Accounts Receivable, Net	62,337	765,537	827,874
Due from Other Governments	42,968	-	42,968
Internal Balances	(2,446)	2,446	-
Inventory	-	32,704	32,704
Prepays	66,896	10,324	77,220
Capital Assets:			
Non-Depreciable	856,066	43,676	899,742
Depreciable, Net	3,461,759	6,316,131	9,777,890
TOTAL ASSETS	7,650,688	14,215,419	21,866,107
LIABILITIES			
Accounts Payable	45,488	805,211	850,699
Accrued Salaries and Fringe Benefits	83,743	11,645	95,388
Accrued Interest Payable	10,895	19,369	30,264
Customer Deposits	16,937	31,453	48,390
Non-Current Liabilities:			
Due Within One Year	169,975	58,274	228,249
Due in More Than One Year	445,295	2,163,863	2,609,158
TOTAL LIABILITIES	772,333	3,089,815	3,862,148
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,797,838	5,686,580	9,484,418
Restricted For:			
Hospitality Tax	170,463	-	170,463
Debt Service	-	151,730	151,730
Unrestricted	2,910,054	5,287,294	8,197,348
TOTAL NET ASSETS	\$ 6,878,355	11,125,604	\$ 18,003,959

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, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 598,078	46,396	-	158,125	(393,557)	-	\$ (393,557)
Judicial	186,302	-	-	-	(186,302)	-	(186,302)
Public Safety	2,030,653	-	191,473	-	(1,839,180)	-	(1,839,180)
Streets and Sanitation	1,043,945	16,299	4,959	-	(1,022,687)	-	(1,022,687)
Recreation	541,705	89,735	14,888	7,746	(429,336)	-	(429,336)
Civic Center	243,227	60,155	-	-	(183,072)	-	(183,072)
Learning Academy	2,472	1,434	-	-	(1,038)	-	(1,038)
Interest and Other Charges	23,314	-	-	-	(23,314)	-	(23,314)
Total Governmental Activities	4,669,696	214,019	211,320	165,871	(4,078,486)	-	(4,078,486)
Business-Type Activities:							
Natural Gas	7,452,424	8,800,533	-	-	-	1,348,109	1,348,109
Sewer	417,539	317,362	-	-	-	(100,177)	(100,177)
Total Business-Type Activities	7,869,963	9,117,895	-	-	-	1,247,932	1,247,932
TOTAL - PRIMARY GOVERNMENT	\$ 12,539,659	9,331,914	211,320	165,871	(4,078,486)	1,247,932	(2,830,554)
General Revenues:							
Taxes:							
Property Taxes					2,810,401	-	2,810,401
Hospitality Taxes					111,124	-	111,124
Business Licenses					221,553	-	221,553
Administrative Fees					700,000	(700,000)	-
Intergovernmental Revenue					164,085	-	164,085
Fines and Forfeits					138,758	-	138,758
Miscellaneous Revenue					1,811	-	1,811
Investment Earnings					77,010	288,136	365,146
Transfers					633,074	(633,074)	-
Total General Revenues and Transfers					4,857,816	(1,044,938)	3,812,878
CHANGE IN NET ASSETS					779,330	202,994	982,324
NET ASSETS, Beginning of Year					6,099,025	10,922,610	17,021,635
NET ASSETS, End of Year					6,878,355	11,125,604	\$ 18,003,959

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, 2006

	<u>GENERAL</u>	<u>HOSPITALITY TAX</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,383,632	170,463	58,569	\$ 1,612,664
Restricted Cash and Cash Equivalents	141,646	-	-	141,646
Due from County Treasurer	480,840	-	-	480,840
Property Taxes Receivable, Net	927,958	-	-	927,958
Accounts Receivables	62,337	-	-	62,337
Due from Other Governments	42,968	-	-	42,968
Prepays	66,896	-	-	66,896
TOTAL ASSETS	<u>3,106,277</u>	<u>170,463</u>	<u>58,569</u>	<u>3,335,309</u>
LIABILITIES				
Accounts Payable	45,488	-	-	45,488
Accrued Salaries and Fringe Benefits	83,743	-	-	83,743
Customer Deposits	16,937	-	-	16,937
Due to Other Funds	2,446	-	-	2,446
Deferred Revenue	443,913	-	-	443,913
TOTAL LIABILITIES	<u>592,527</u>	<u>-</u>	<u>-</u>	<u>592,527</u>
FUND BALANCES				
Reserved for:				
Prepays	66,896	-	-	66,896
Hospitality Taxes	-	170,463	-	170,463
Capital Projects	141,646	-	-	141,646
Unreserved:				
Designated for:				
Master Plan	108,137	-	46,554	154,691
Equipment Replacement	100,000	-	-	100,000
Undesignated, Reported in:				
General Fund	2,097,071	-	-	2,097,071
Other Governmental Funds	-	-	12,015	12,015
TOTAL FUND BALANCES	<u>2,513,750</u>	<u>170,463</u>	<u>58,569</u>	<u>2,742,782</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,106,277</u>	<u>170,463</u>	<u>58,569</u>	<u>\$ 3,335,309</u>

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

DECEMBER 31, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,742,782
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 \$9,756,459 and the accumulated depreciation was \$5,438,634.	4,317,825
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.	443,913
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.	(10,895)
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)	(574,519)
Compensated Absences (Sick Pay and Vacations)	(40,751)
	<hr/>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ 6,878,355

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, 2006

	GENERAL	HOSPITALITY TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 2,672,217	111,124	-	\$ 2,783,341
Licenses and Permits	221,553	-	-	221,553
Intergovernmental	164,085	-	-	164,085
Fines and Forfeits	128,152	-	10,606	138,758
Charges for Services	130,317	-	-	130,317
Administrative Fees	700,000	-	-	700,000
Rent - Civic Center	57,275	-	-	57,275
Interest	70,130	5,153	1,727	77,010
Donations	7,746	-	-	7,746
Grants	211,320	-	-	211,320
Other	28,238	-	-	28,238
TOTAL REVENUES ALL SOURCES	4,391,033	116,277	12,333	4,519,643
EXPENDITURES				
Current:				
General Government	437,326	-	-	437,326
Judicial	186,302	-	-	186,302
Public Safety	1,942,741	-	7,704	1,950,445
Streets and Sanitation	846,112	-	-	846,112
Recreation	499,806	-	-	499,806
Civic Center	91,157	-	-	91,157
Learning Academy	2,472	-	-	2,472
Capital Outlay	131,224	-	-	131,224
Debt Service:				
Principal	150,395	-	-	150,395
Interest and Fiscal Charges	29,404	-	-	29,404
TOTAL EXPENDITURES	4,316,939	-	7,704	4,324,643
EXCESS OF REVENUES OVER EXPENDITURES	74,094	116,277	4,629	195,000
OTHER FINANCING SOURCES				
Transfers In	710,327	-	-	710,327
Transfers Out	(77,253)	-	-	(77,253)
TOTAL OTHER FINANCING SOURCES	633,074	-	-	633,074
NET CHANGE IN FUND BALANCES	707,168	116,277	4,629	828,074
FUND BALANCES, Beginning of Year	1,806,582	54,186	53,940	1,914,708
FUND BALANCES, End of Year	\$ 2,513,750	170,463	58,569	\$ 2,742,782

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, 2006

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 828,074
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.	138,184
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	150,395
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.	6,090
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	3,501
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.	(56,312)
Governmental funds report capital asset additions as expenditures (\$222,938). However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense (\$513,540). This is the amount by which depreciation exceeded capital asset additions in the current period.	(290,602)
TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 779,330

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, 2006

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 4,504,305	123,140	\$ 4,627,445
Restricted Cash and Cash Equivalents	-	1,480,738	1,480,738
Investments	936,418	-	936,418
Receivables, Net of Allowance for Doubtful Accounts			
Utility Services	688,639	74,865	763,504
Interest	2,033	-	2,033
Due From Other Funds	-	2,446	2,446
Inventory	32,704	-	32,704
Prepays	9,597	727	10,324
Total Current Assets	<u>6,173,696</u>	<u>1,681,916</u>	<u>7,855,612</u>
Noncurrent Assets			
Nondepreciable Capital Assets	43,676	-	43,676
Depreciable Capital Assets, Net	3,179,203	3,136,928	6,316,131
Total Noncurrent Assets	<u>3,222,879</u>	<u>3,136,928</u>	<u>6,359,807</u>
TOTAL ASSETS	<u>9,396,575</u>	<u>4,818,844</u>	<u>14,215,419</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	805,211	-	805,211
Accrued Salaries and Fringe Benefits	8,969	2,676	11,645
Compensated Absences - Current Portion	1,428	-	1,428
Accrued Interest Payable	4,767	14,602	19,369
Customer Deposits	31,453	-	31,453
Sewer Revenue Bond Payable - Current Portion	-	10,000	10,000
Capital Lease Payable - Current Portion	46,846	-	46,846
Total Current Liabilities	<u>898,674</u>	<u>27,278</u>	<u>925,952</u>
Noncurrent Liabilities			
Compensated Absences - Noncurrent Portion	4,282	-	4,282
Sewer Revenue Bond Payable - Noncurrent Portion	-	2,110,000	2,110,000
Capital Lease Payable - Noncurrent Portion	49,581	-	49,581
Total Non-Current Liabilities	<u>53,863</u>	<u>2,110,000</u>	<u>2,163,863</u>
TOTAL LIABILITIES	<u>952,537</u>	<u>2,137,278</u>	<u>3,089,815</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,126,452	2,560,128	5,686,580
Restricted for Debt Service	-	151,730	151,730
Unrestricted	5,317,586	(30,292)	5,287,294
TOTAL NET ASSETS	<u>\$ 8,444,038</u>	<u>2,681,566</u>	<u>\$ 11,125,604</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, 2006

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
OPERATING REVENUES			
Charges for Service			
Natural Gas Sales	\$ 8,677,351	-	\$ 8,677,351
Sewer Fees	-	314,767	314,767
Other Charges for Service	123,182	-	123,182
Miscellaneous	-	2,595	2,595
TOTAL OPERATING REVENUES	8,800,533	317,362	9,117,895
OPERATING EXPENSES			
Natural Gas Purchases	6,397,601	-	6,397,601
Administrative Fees	700,000	-	700,000
Personnel Services	416,255	119,135	535,390
Contractual Services	33,193	9,712	42,905
Materials and Supplies	61,530	9,004	70,534
Other Operating Expenses	318,468	23,590	342,058
Depreciation	220,700	146,554	367,254
TOTAL OPERATING EXPENSES	8,147,747	307,995	8,455,742
OPERATING INCOME	652,786	9,367	662,153
NONOPERATING REVENUES (EXPENSES)			
Bond Issuance Costs	-	(43,000)	(43,000)
Investment Income	235,613	52,523	288,136
Interest Expense	(4,677)	(66,544)	(71,221)
TOTAL NONOPERATING REVENUES (EXPENSES)	230,936	(57,021)	173,915
Transfers In	-	77,253	77,253
Transfers Out	(710,327)	-	(710,327)
CHANGE IN NET ASSETS	173,395	29,599	202,994
NET ASSETS, Beginning of Year	8,270,643	2,651,967	10,922,610
NET ASSETS, End of Year	\$ 8,444,038	2,681,566	\$ 11,125,604

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, 2006

	Business-Type Activities - Enterprise Funds		
	Natural Gas	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 9,281,965	317,362	\$ 9,599,327
Cash Payments for Goods and Services	(8,053,724)	(45,904)	(8,099,628)
Cash Payments to Employees	(418,417)	(117,748)	(536,165)
NET CASH PROVIDED BY OPERATING ACTIVITIES	809,824	153,710	963,534
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers from Other Funds	(39,291)	(2,446)	(41,737)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	(39,291)	(2,446)	(41,737)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net Acquisition of Capital Assets	(607,424)	(285,234)	(892,658)
Proceeds from Revenue Bond Payable	-	2,120,000	2,120,000
Bond Issuance Costs	-	(43,000)	(43,000)
Repayment of Bond Anticipation Note	-	(1,014,170)	(1,014,170)
Principal Payments on Capital Lease	(45,318)	-	(45,318)
Interest Payments	(4,677)	(63,618)	(68,295)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(657,419)	713,978	56,559
CASH FLOWS FROM INVESTING ACTIVITIES			
Income on Investments	213,982	52,523	266,505
NET CASH PROVIDED BY INVESTING ACTIVITIES	213,982	52,523	266,505
NET INCREASE IN RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS	327,096	917,765	1,244,861
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, Beginning of Year	4,177,209	686,113	4,863,322
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS, End of Year	\$ 4,504,305	1,603,878	\$ 6,108,183
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	\$ 652,786	9,367	\$ 662,153
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	220,700	146,554	367,254
Change in:			
Accounts Receivable	485,204	-	485,204
Accounts Payable	(542,932)	(3,598)	(546,530)
Accrued Salaries and Fringe Benefits	2,129	2,005	4,134
Compensated Absences	(4,291)	(618)	(4,909)
Customer Deposits	(3,772)	-	(3,772)
Net Cash Provided by Operating Activities	\$ 809,824	153,710	\$ 963,534

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, 2006

	<u>DRUG FUND</u>	<u>FIREMAN'S FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 16,443	76,082	\$ 92,525
TOTAL ASSETS	<u>16,443</u>	<u>76,082</u>	<u>92,525</u>
LIABILITIES			
Held in Custody for Others	16,443	76,082	92,525
TOTAL LIABILITIES	<u>\$ 16,443</u>	<u>76,082</u>	<u>\$ 92,525</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, 2006

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

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

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

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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 revenue.

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, and K-9 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, 2006

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, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

Investments (Continued)

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

2. Receivables and Payables

During the course of its operations, the City has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers in (out). In addition, the Natural Gas Fund pays an administrative fee to the General Fund as directed by City Council. To the extent that certain transactions between funds had not been paid or received as of December 31, 2006, 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, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

2. *Receivables and Payables (Continued)*

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

3. *Inventories and Prepaid Assets*

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

4. *Capital Assets*

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

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

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

Description	Governmental Activities Estimated Lives
Buildings	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, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

5. *Compensated Absences*

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

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

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

Years of Service	Number of Hours Earned Per Year
1 Year	40
2-5 Years	80
6 Years	88
7 Years	96
8 Years	104
9 Years	112
10-20 Years	120
21 Years or More	160

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

Years of Service	Earned Per Month
1 Year	72
2-5 Years	120
6 Years	126
7 Years	132
8 Years	138
9 Years	144
10 - 20 Years	168
21 Years or More	240

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

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

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. *Accrued Liabilities and Long-Term Obligations*

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

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

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

7. *Deferred Revenue*

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

8. *Fund Balance*

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

In the governmental fund financial statements, the City's use of the term "*reserve*" relative to the fund balance of its governmental funds is limited to indicating that portion of fund balance that is not appropriable for expenditure or is legally segregated for some specific future use. Fund balance reserves can be established for, but not limited to the following: prepaids, inventory, 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.

9. *Net Assets*

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

III. DETAILED NOTES ON ALL FUNDS 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 \$4,117,259 as of December 31, 2006 (which had a carrying value of \$4,069,463), were exposed to custodial credit risk.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

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

A. Deposits and Investments (Continued)

Investments

As of December 31, 2006, the City had the following investments:

Investment Type	Credit Rating	Fair Value	Weighted Average Maturity (Years)
Repurchase Agreements	Unrated	\$ 2,947,086	Less than 1 year
Money Market Mutual Funds	AAAm, Aaa	1,255,557	Less than 1 year
SC Pooled Investment Funds	Unrated	619,330	Less than 1 year
Total		\$ 4,821,973	

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 statues of the State of South Carolina. As of December 31, 2006, \$2,947,086 of the City’s security investments were exposed to custodial credit risk as they were held by the counterparties’ trust departments but not in the name of the City.

Concentration of Credit Risk for Investments: The City’s investment policy states that with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution. More than 5% of the City’s investments are in the following issuers: Repurchase Agreement with Suntrust (46%), Repurchase Agreement with Palmetto Bank (15%), and Money Market Mutual Fund with US Bank (26%). Investments in external investment pools are excluded from this disclosure requirement.

The City had cash and cash equivalents of \$1,622,384 at December 31, 2006 that were restricted for (1) debt service of related to the 2006 Sewer Revenue Bond and (2) sewer line upgrades and for the purchase of various capital equipment related to the 2006 Sewer Revenue Bond, 2005 Series GO Bond, and capital lease agreements.

Reconciliation to the Financial Statements

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

Description	Amount
Carrying Value of Deposits	\$ 4,069,463
Fair Value of Investments	4,821,973
Total Deposits and Investments	8,891,436
Statement of Net Assets:	
Cash and Cash Equivalents	6,240,109
Restricted Cash and Cash Equivalents	1,622,384
Investments	936,418
Statement of Fiduciary Net Assets:	
Cash and Cash Equivalents	92,525
Total Cash and Investments	\$ 8,891,436

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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

B. Receivables and Deferred Revenue

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

Property taxes were levied and billed by the Counties on real and personal properties on October 1st based on an assessed value of approximately \$20.2 million at the rate of 58.4 mills for the City and 23.2 mills for the Fire Service District of Greenville County. Property taxes receivable includes an allowance for uncollectibles of \$19,928 at December 31, 2006. Natural gas accounts receivable include an allowance for uncollectible of \$347,578 at December 31, 2006.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2006, the governmental funds reported \$443,913 in deferred revenues, all attributable to delinquent property taxes receivable.

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at December 31, 2006 (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	\$ -	\$ 2,446
Sewer Enterprise Fund	2,446	-
Totals	\$ 2,446	\$ 2,446

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

Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Fund	Transfers In	Transfers Out
General Fund	\$ 710,327	\$ 77,253
Natural Gas Enterprise Fund	-	710,327
Sewer Enterprise Fund	77,253	-
Totals	\$ 787,580	\$ 787,580

During the course of normal operations and in order to support the numerous functions of the City, transactions between funds may occur. Natural Gas transfers to the General Fund and General Fund transfers to the Sewer Fund were made to forgive an interfund payable and an interfund receivable between the funds, as authorized by Council.

CITY OF FOUNTAIN INN, SOUTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

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, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 703,441	158,125	5,500	-	\$ 856,066
Total Capital Assets, Non-Depreciable	<u>703,441</u>	<u>158,125</u>	<u>5,500</u>	<u>-</u>	<u>856,066</u>
Capital Assets, Depreciable:					
Buildings and Improvements	3,567,751	-	32,890	102,497	3,637,358
Infrastructure	3,307,188	-	-	-	3,307,188
Machinery and Equipment	1,300,770	8,468	613,165	(102,497)	593,576
Vehicles	2,061,449	56,345	755,523	-	1,362,271
Total Capital Assets, Depreciable	<u>10,237,158</u>	<u>64,813</u>	<u>1,401,578</u>	<u>-</u>	<u>8,900,393</u>
Less: Accumulated Depreciation for:					
Buildings	971,993	165,002	20,500	15,375	1,131,870
Infrastructure	2,756,638	165,359	-	-	2,921,997
Machinery and Equipment	1,020,387	39,228	579,557	(15,375)	464,683
Vehicles	1,526,842	143,951	750,709	-	920,084
Total Accumulated Depreciation	<u>6,275,860</u>	<u>513,540</u>	<u>1,350,766</u>	<u>-</u>	<u>5,438,634</u>
Total Capital Assets, Depreciable, Net	<u>3,961,298</u>	<u>(448,727)</u>	<u>50,812</u>	<u>-</u>	<u>3,461,759</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 4,664,739</u>	<u>(290,602)</u>	<u>56,312</u>	<u>-</u>	<u>\$ 4,317,825</u>

Depreciation expense for the year ended December 31, 2006 for governmental activities was charged to functions as follows:

	Depreciation Expense
Governmental Activities:	
General Government	\$ 25,095
Public Safety	145,022
Streets and Sanitation	197,833
Recreation	41,899
Civic Center	103,691
Total Depreciation Expense - Governmental Activities	<u>\$ 513,540</u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 43,676	-	-	-	\$ 43,676
Construction in Progress	155,899	-	-	(155,899)	-
Total Capital Assets, Non-Depreciable	199,575	-	-	(155,899)	43,676
Capital Assets, Depreciable:					
Buildings	130,128	-	2,423	-	127,705
Utility Systems	9,378,217	801,516	-	273,995	10,453,728
Machinery and Equipment	836,965	100,035	365,392	(89,813)	481,795
Vehicles	471,314	-	266,920	-	204,394
Furniture and Fixtures	53,785	-	53,785	-	-
Total Capital Assets, Depreciable	10,870,409	901,551	688,520	184,182	11,267,622
Less: Accumulated Depreciation for:					
Buildings	94,654	7,365	1,921	-	100,098
Utility Systems	4,089,896	275,910	-	24,424	4,390,230
Machinery and Equipment	633,278	44,247	358,114	3,859	323,270
Vehicles	365,081	39,732	266,920	-	137,893
Furniture and Fixtures	52,673	-	52,673	-	-
Total Accumulated Depreciation	5,235,582	367,254	679,628	28,283	4,951,491
Total Capital Assets, Depreciable, Net	5,634,827	534,297	8,892	155,899	6,316,131
Total Business-Type Activities Capital Assets, Net	\$ 5,834,402	534,297	8,892	-	\$ 6,359,807

The beginning balances have been restated to reflect a decrease in land and an off-setting increase in utility systems of \$200,000, with no net impact to total capital assets.

Capital Lease

The cost and accumulated amortization of equipment recorded under capital lease was approximately \$706,000 and \$279,000, respectively, at December 31, 2006. Amortization of assets recorded under capital lease obligations has been included with depreciation expense.

E. Short-Term Obligations

The City issued a Sewer System Bond Anticipation Note, Series 2005 in June 2005, with a maturity in June 2006. This note was repaid with the proceeds of a Sewer System Revenue Bond, Series 2006, which was issued in June 2006, combined with using the remaining unspent BAN proceeds.

The following is a summary of the changes in the City's short-term obligations for 2006:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Sewer System Bond Anticipation Notes	\$ 1,014,170	-	1,014,170	\$ -
Total Business-Type Activities	\$ 1,014,170	-	1,014,170	\$ -

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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

F. Long-Term Obligations

Presented below is a summary of changes in long-term obligations for the year ended December 31, 2006:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bond, Series 2005	\$ 275,000	-	20,000	255,000	\$ 25,000
Capital Leases	449,915	-	130,396	319,519	134,787
Compensated Absences	44,252	-	3,501	40,751	10,188
Total Governmental Activities	769,167	-	153,897	615,270	169,975
Business-Type Activities:					
Sewer Revenue Bond, Series 2006	-	2,120,000	-	2,120,000	10,000
Capital Leases	141,745	-	45,318	96,427	46,846
Compensated Absences	10,619	-	4,909	5,710	1,428
Total Business-Type Activities	\$ 152,364	2,120,000	50,227	2,222,137	\$ 58,274

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 incurred approximately \$43,000 in costs related to the issuance of this bond; this charge was expensed when incurred due to its immaterial amount.

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, 2006:

- A lease purchase agreement was executed on January 20, 2004 in the amount of \$355,527 to finance the purchase of various equipment. This agreement requires five annual payments ranging from \$66,213 to \$85,872, including interest calculated at 3.34%, beginning January 20, 2005. Approximately 88% was for governmental activities and 12% was for business-type activities.
- A lease purchase agreement was executed on May 26, 2004 in the amount of \$284,401 to finance the purchase of various equipment. This agreement requires ten semi-annual payments ranging from \$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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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

F. Long-Term Obligations (Continued)

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

Year Ending December 31,	Bonds		Capital Lease Obligations		Totals
	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>					
2007	\$ 25,000	9,167	134,787	10,419	\$ 179,373
2008	25,000	8,222	89,528	6,099	128,849
2009	25,000	7,277	88,156	3,044	123,477
2010	25,000	6,332	7,048	129	38,509
2011	30,000	5,292	-	-	35,292
2012-2015	125,000	9,734	-	-	134,734
Totals	\$ 255,000	46,024	319,519	19,691	\$ 640,234
<u>Business-Type Activities</u>					
2007	\$ 10,000	88,619	46,846	3,025	\$ 148,490
2008	20,000	87,990	24,080	1,609	133,679
2009	45,000	86,628	23,956	762	156,346
2010	65,000	84,324	1,545	28	150,897
2011	85,000	81,181	-	-	166,181
2012-2016	780,000	324,097	-	-	1,104,097
2017-2021	1,115,000	121,196	-	-	1,236,196
Totals	\$ 2,120,000	874,035	96,427	5,424	\$ 3,095,886

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, 2006, 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, 2006.

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, 2006, the City had \$255,000 of bonded debt subject to the 8% limit of approximately \$1,614,000, resulting in an unused legal debt margin of approximately \$1,359,000.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

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 \$89,700, PORS of \$112,897; SCRS of \$84,076, PORS of \$105,593; and SCRS of \$78,163, PORS of \$110,198, for the years ended December 31, 2006, 2005, and 2004 respectively. Only the South Carolina State Budget and Control Board has authority to establish and amend the funding policy.

B. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The City is insured with State of South Carolina Insurance Reserve Fund. It pays an annual premium for this coverage. For the year ended December 31, 2006, 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, 2006, the City made premium payments totaling approximately \$103,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net deficit from its most recently issued audited financial statements at December 31, 2005, totaled approximately \$803,000. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three fiscal years.

C. Grants

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

IV. OTHER INFORMATION (CONTINUED)

D. Litigation

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

E. 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, shall be 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 one employee that meets the eligibility requirements.

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 2010 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.

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes	\$ 2,737,478	2,737,478	2,672,217	\$ (65,261)
Licenses and Permits	161,900	161,900	221,553	59,653
Intergovernmental	164,000	164,000	164,085	85
Fines and Forfeits	140,000	140,000	128,152	(11,848)
Charges for Services	171,624	131,058	130,317	(741)
Administrative Fees	700,000	700,000	700,000	-
Rent - Civic Center	53,000	56,000	57,275	1,275
Donations	-	-	7,746	7,746
Interest Earnings	20,000	20,000	70,130	50,130
Grants	176,137	301,429	211,320	(90,109)
Other	2,200	2,200	28,238	26,038
TOTAL REVENUE ALL SOURCES	4,326,339	4,414,065	4,391,033	(23,032)
EXPENDITURES				
General Government:				
City:				
Other Services and Charges	105,267	139,876	122,576	17,300
Total City	105,267	139,876	122,576	17,300
Administration:				
Salaries and Related Expenses	147,311	159,083	162,554	(3,471)
Supplies	14,500	14,500	15,201	(701)
Other Services and Charges	38,175	44,643	42,956	1,687
Total Administration	199,986	218,226	220,711	(2,485)
Mayor and City Council:				
Salaries and Related Expenses	61,446	64,579	58,051	6,528
Supplies	600	600	580	20
Other Services and Charges	15,584	15,584	11,567	4,017
Total Mayor and City Council	77,630	80,763	70,198	10,565
Miscellaneous:				
Other Services and Charges	-	-	23,841	(23,841)
Total Miscellaneous	-	-	23,841	(23,841)
Total General Government	382,883	438,865	437,326	1,539
Judicial:				
Salaries and Related Expenses	62,807	62,807	65,136	(2,329)
Supplies	4,000	4,000	2,443	1,557
Other Services and Charges	131,050	131,050	118,723	12,327
Total Judicial	\$ 197,857	197,857	186,302	\$ 11,555

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Public Safety:				
Police:				
Salaries and Related Expenses	\$ 1,084,800	1,095,830	1,081,966	\$ 13,864
Supplies	12,500	13,350	14,315	(965)
Other Services and Charges	155,900	165,392	152,825	12,567
Total Police	<u>1,253,200</u>	<u>1,274,572</u>	<u>1,249,106</u>	<u>25,466</u>
Fire:				
Salaries and Related Expenses	531,030	531,030	520,466	10,564
Supplies	4,000	4,000	2,158	1,842
Other Services and Charges	207,076	207,076	171,011	36,065
Total Fire	<u>742,106</u>	<u>742,106</u>	<u>693,635</u>	<u>48,471</u>
Total Public Safety	<u>1,995,306</u>	<u>2,016,678</u>	<u>1,942,741</u>	<u>73,937</u>
Streets and Sanitation:				
Public Works:				
Salaries and Related Expenses	95,760	99,558	95,318	4,240
Supplies	4,200	4,200	7,051	(2,851)
Other Services and Charges	41,184	41,959	73,517	(31,558)
Total Public Works	<u>141,144</u>	<u>145,717</u>	<u>175,886</u>	<u>(30,169)</u>
Streets:				
Salaries and Related Expenses	202,721	202,721	177,355	25,366
Supplies	2,000	2,000	2,280	(280)
Other Services and Charges	285,908	285,908	174,465	111,443
Total Streets	<u>490,629</u>	<u>490,629</u>	<u>354,100</u>	<u>136,529</u>
Sanitation:				
Supplies	1,000	1,000	404	596
Other Services and Charges	255,525	255,525	268,325	(12,800)
Total Sanitation	<u>256,525</u>	<u>256,525</u>	<u>268,729</u>	<u>(12,204)</u>
Recycling:				
Salaries and Related Expenses	42,473	42,473	38,889	3,584
Supplies	1,710	1,710	172	1,538
Other Services and Charges	9,285	9,285	8,336	949
Total Recycling	<u>53,468</u>	<u>53,468</u>	<u>47,397</u>	<u>6,071</u>
Total Streets and Sanitation	<u>941,766</u>	<u>946,339</u>	<u>846,112</u>	<u>100,227</u>
Recreation:				
Salaries and Related Expenses	252,963	254,559	255,772	(1,213)
Supplies	9,250	9,750	10,580	(830)
Other Services and Charges	208,123	209,123	233,454	(24,331)
Total Recreation	<u>\$ 470,336</u>	<u>473,432</u>	<u>499,806</u>	<u>\$ (26,374)</u>

(Continued)

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
Civic Center:				
Salaries and Related Expenses	\$ 3,000	3,000	1,645	\$ 1,355
Supplies	1,400	1,400	1,633	(233)
Other Services and Charges	97,029	102,839	87,879	14,960
Total Civic Center	<u>101,429</u>	<u>107,239</u>	<u>91,157</u>	<u>16,082</u>
Learning Academy:				
Salaries and Related Expenses	10,398	787	787	-
Other Services and Charges	31,427	1,685	1,685	-
Total Learning Academy	<u>41,825</u>	<u>2,472</u>	<u>2,472</u>	<u>-</u>
Capital Outlays	-	28,000	131,224	(103,224)
Debt Service:				
Principal	147,304	147,304	150,395	(3,091)
Interest and Fiscal Changes	22,484	22,484	29,404	(6,920)
Total Debt Service	<u>169,788</u>	<u>169,788</u>	<u>179,799</u>	<u>(10,011)</u>
TOTAL EXPENDITURES	<u>4,301,190</u>	<u>4,380,670</u>	<u>4,316,939</u>	<u>63,731</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,149</u>	<u>33,395</u>	<u>74,094</u>	<u>40,699</u>
OTHER FINANCING SOURCES				
Transfers In	-	-	710,327	710,327
Transfers Out	-	-	(77,253)	(77,253)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>633,074</u>	<u>633,074</u>
NET CHANGE IN FUND BALANCE	<u>25,149</u>	<u>33,395</u>	<u>707,168</u>	<u>673,773</u>
FUND BALANCE, Beginning of Year	<u>1,806,582</u>	<u>1,806,582</u>	<u>1,806,582</u>	<u>-</u>
FUND BALANCE, End of Year	<u>\$ 1,831,731</u>	<u>1,839,977</u>	<u>2,513,750</u>	<u>\$ 673,773</u>

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

CITY OF FOUNTAIN INN, SOUTH CAROLINA

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2006

	<u>FUND 310 COMMUNITY DEVELOPMENT</u>	<u>FUND 525 VICTIMS FUND</u>	<u>FUND 540 K-9 FUND</u>	<u>TOTAL OTHER GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and Cash Equivalents	\$ 46,554	11,877	138	\$ 58,569
TOTAL ASSETS	<u><u>46,554</u></u>	<u><u>11,877</u></u>	<u><u>138</u></u>	<u><u>58,569</u></u>
FUND BALANCES				
Unreserved:				
Designated for Master Plan	46,554	-	-	46,554
Undesignated	-	11,877	138	12,015
TOTAL FUND BALANCES	<u>46,554</u>	<u>11,877</u>	<u>138</u>	<u>58,569</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 46,554</u></u>	<u><u>11,877</u></u>	<u><u>138</u></u>	<u><u>\$ 58,569</u></u>

CITY OF FOUNTAIN INN, SOUTH CAROLINA

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

YEAR ENDED DECEMBER 31, 2006

	FUND 310 COMMUNITY DEVELOPMENT	FUND 525 VICTIMS FUND	FUND 540 K-9 FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
Fines and Forfeits	\$ -	10,606	-	\$ 10,606
Interest	1,727	-	-	1,727
TOTAL REVENUES ALL SOURCES	1,727	10,606	-	12,333
EXPENDITURES				
Current:				
Public Safety	-	7,704	-	7,704
TOTAL EXPENDITURES	-	7,704	-	7,704
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,727	2,902	-	4,629
NET CHANGES IN FUND BALANCES	1,727	2,902	-	4,629
FUND BALANCES, Beginning of Year	44,827	8,975	138	53,940
FUND BALANCES, End of Year	\$ 46,554	11,877	138	\$ 58,569

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED DECEMBER 31, 2006

Court Assessments

Court Assessments Collected	\$	137,146
Court Assessments Retained by the City		72,200
Total Court Assessments Remitted to the State Treasurer		64,946

Court Surcharges

Court Surcharges Collected		3,903
Court Surcharges Retained by the City		3,903
Total Court Surcharges Remitted to State Treasurer		-

Victim Fund

Court Assessments Allocated to Victim Fund		14,088
Victim Fund Expenditures		8,093
Funds Available for Carryforward	\$	5,995

**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 basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Inn (the "City") as of and for the year ended December 31, 2006, and have issued our reports thereon dated April 11, 2007. 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 City'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 City's basic financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider deficiency 2006-1 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 City'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 2006-1 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 11, 2007.

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, others within the City, and other government entities with oversight responsibility and is not intended to be and should not be used by anyone other than these specified parties.



Greene, Finney & Horton, LLP

April 11, 2007

CITY OF FOUNTAIN INN, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2006

2006-1: 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.