

**TOWN OF FORT MILL
SOUTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

TOWN OF FORT MILL, SOUTH CAROLINA

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TOWN OF FORT MILL, SOUTH CAROLINA
LISTING OF PRINCIPAL OFFICIALS
YEAR ENDED SEPTEMBER 30, 2006

Established

1873

MAYOR

Charles E. Powers

TOWN COUNCIL MEMBERS

Mayor Pro-Tem – Danny Funderburk

Grady Ervin

Waddell Gibson

L.A. Graham

Guynn Savage

Ken Starnes

TOWN MANAGER

David E. Hudspeth

FINANCE DIRECTOR

Chantay F. Bouler



INDEPENDENT AUDITORS' REPORT

Members of the Town Council
Town of Fort Mill
Fort Mill, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Mill (the "Town"), as of and for the year ended September 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town'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 Town as of September 30, 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 March 23, 2007, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund schedules as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Town. The combining and individual fund schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section, other budgetary schedule, and other supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
March 23, 2007

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

As management of the Town of Fort Mill ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2006. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here but also the information provided in the basic financial statements and notes to the basic financial statements to enhance their understanding the Town's overall financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year by approximately \$18,558,000 (*net assets*). Of this amount, approximately \$2,164,000 (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 \$999,000 (a decrease of approximately \$293,000 from governmental activities and an increase of approximately \$1,292,000 from business type activities), as total revenues of approximately \$11,275,000 exceeded total expenses of approximately \$10,276,000.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$1,476,000, a decrease of approximately \$330,000 in comparison with the restated prior year. Of this total amount, 96%, or approximately \$1,413,000, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$1,176,000, or 24% of total General Fund expenditures for the year ended September 30, 2006.
- The Town's total capital assets decreased by approximately \$17,000 (less than 1%) during the current fiscal year, due to depreciation expense and net disposals of approximately \$1,053,000, offset by capital additions of approximately \$1,036,000.
- The Town's long-term obligations decreased by approximately \$329,000 (3%) during the current fiscal year, as the Town made a total of approximately \$672,000 in principal payments. Subsequent to year end, the Town entered into a capital lease for approximately \$635,000 for the purchase of equipment and vehicles.

OVERVIEW OF THE 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 the *Compliance Section*.

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide and fund 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 Town.

Government-Wide Basic Financial Statements

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

The *statement of net assets* presents information on all of the Town'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 Town is improving or deteriorating.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal 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 fiscal periods.

The government-wide basic financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as general government, judicial, public works, public safety, culture and recreation, and community development. Property taxes, business licenses and permits, and state and federal grant funds finance most of these activities. The business-type activities are water and sewer services that the Town charges customers to provide. The government-wide basic financial statements can be found as listed in the table of contents of this report.

Fund Basic Financial Statements

The fund basic financial statements provide a more detailed look at the Town's most significant activities. 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 Town, 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 Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between *government activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* is described in a reconciliation that is a part of the fund basic financial statements.

The Town maintains five individual 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 Capital Projects Fund. Data from the other three governmental funds are combined into aggregated presentations. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules elsewhere in this report. The governmental fund basic financial statements can be found as listed in the table of contents of this report.

Proprietary Funds – The Town maintains one type of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide basic financial statements. The Town uses an enterprise fund to account for its Water and Sewer system operations. The proprietary fund basic financial statements can be found as listed in the table of contents of this report.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund basic financial statements. The notes to the basic financial statements can be found as listed in the table of contents of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also includes supplementary information. Regarding the Town's major funds, the Town adopts an annual budget for its General Fund, Capital Projects Fund, and Gross Revenue Fund. A required budgetary comparison schedule has been provided for the General Fund as listed in the table of contents to demonstrate compliance with its budget. In addition, the Town has provided other budgetary and supplemental schedules for the remaining funds as listed in the table of contents of this report.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 - Major Features of the Town's Government-Wide and Fund Basic Financial Statements			
	Fund Basic Financial Statements		
	Government-Wide Basic Financial Statements	Governmental Funds	Proprietary Funds
Scope	Entire Town (except fiduciary funds) and the Component Unit.	The activities of the Town that are not proprietary.	Activities the Town operates similar to private businesses.
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.
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.
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.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table provides a summary of the Town's net assets for 2006 compared to 2005:

Town's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005*	2006	2005*	2006	2005*
Current and Other Assets	\$ 1,852,825	2,004,191	3,291,089	2,466,506	5,143,914	\$ 4,470,697
Capital Assets	6,046,050	6,296,782	20,693,860	20,460,232	26,739,910	26,757,014
Total Assets	<u>7,898,875</u>	<u>8,300,973</u>	<u>23,984,949</u>	<u>22,926,738</u>	<u>31,883,824</u>	<u>31,227,711</u>
Long-Term Liabilities	1,805,705	2,021,763	10,576,374	10,701,677	12,382,079	12,723,440
Other Liabilities	339,028	232,144	604,396	713,150	943,424	945,294
Total Liabilities	<u>2,144,733</u>	<u>2,253,907</u>	<u>11,180,770</u>	<u>11,414,827</u>	<u>13,325,503</u>	<u>13,668,734</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	4,418,236	4,412,380	10,398,520	9,785,569	14,816,756	14,197,949
Restricted Assets	103,031	63,512	1,474,966	1,274,876	1,577,997	1,338,388
Unrestricted	1,232,875	1,571,174	930,693	451,466	2,163,568	2,022,640
Total Net Assets	<u>\$ 5,754,142</u>	<u>6,047,066</u>	<u>12,804,179</u>	<u>11,511,911</u>	<u>18,558,321</u>	<u>\$ 17,558,977</u>

* Certain amounts have been restated due to prior period adjustments. See Note IV in the Notes to the Basic Financial Statements for additional information.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The Town's assets increased by approximately \$656,000, or 2%, over the restated prior year. This increase was primarily due to an increase in cash and investments of approximately \$563,000 (which was attributable to the strong operating performance of the Town's water/sewer operations). In addition, the Town's capital assets at September 30, 2006 decreased by approximately \$17,000 from the prior year, due to depreciation expense of approximately \$1,018,000 and net disposal of capital assets of approximately \$35,000, which was partially offset by capital asset additions of approximately \$1,036,000.

Total liabilities at September 30, 2006 decreased by approximately \$343,000 from the prior year; this is primarily due to a net reduction in long-term debt (including capital leases) of approximately \$377,000 and the payment of retainage payable offset slightly by an increase in accounts payable and compensated absences.

The government's net assets increased by approximately \$999,000 during the current fiscal year, which is the result of current year revenues exceeding current year expenses, as discussed below.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by approximately \$18,558,000 at the close of the most recent fiscal year. By far the largest portion of the Town's net assets (approximately \$14,817,000 or 80%) 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 Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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 be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (approximately \$1,578,000 or 8%) represents resources that are subject to external restrictions on how they may be used. These net assets are restricted primarily for victims services and future debt service payments. The remaining balance is unrestricted net assets of approximately \$2,164,000 which may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in net assets for fiscal year 2006 compared to 2005.

	Town's Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005 *	2006	2005 *	2006	2005 *
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,449,958	1,983,992	4,896,116	3,676,474	7,346,074	\$ 5,660,466
Operating Grants and Contributions	482,554	66,883	-	-	482,554	66,883
Capital Grants and Contributions	-	681,000	616,403	1,190,027	616,403	1,871,027
General Revenues:						
Property Taxes	2,222,507	2,134,773	-	-	2,222,507	2,134,773
Intergovernmental Revenue	235,518	242,276	-	-	235,518	242,276
Other Revenue	309,798	64,725	62,278	30,678	372,076	95,403
Total Revenues	5,700,335	5,173,649	5,574,797	4,897,179	11,275,132	10,070,828
Expenses:						
General Government	630,475	662,379	-	-	630,475	662,379
Judicial	42,790	34,124	-	-	42,790	34,124
Public Works	2,260,273	1,723,809	-	-	2,260,273	1,723,809
Public Safety	2,307,008	2,013,928	-	-	2,307,008	2,013,928
Culture and Recreation	239,245	210,096	-	-	239,245	210,096
Community Development	444,075	-	-	-	444,075	-
Interest and Fiscal Charges	69,393	85,061	-	-	69,393	85,061
Water/Sewer	-	-	4,282,529	3,342,629	4,282,529	3,342,629
Total Expenses	5,993,259	4,729,397	4,282,529	3,342,629	10,275,788	8,072,026
Change in Net Assets	(292,924)	444,252	1,292,268	1,554,550	999,344	1,998,802
Net Assets, Beginning of Year, Restated	6,047,066	5,602,814	11,511,911	9,957,361	17,558,977	15,560,175
Net Assets, End of Year	\$ 5,754,142	6,047,066	12,804,179	11,511,911	18,558,321	\$ 17,558,977

* Certain amounts have been restated due to prior period adjustments. See Note IV in the Notes to the Basic Financial Statements for additional information.

Governmental Activities: Expenses exceeded revenues by approximately \$293,000 for 2006 for the governmental activities. Revenues increased by approximately \$986,000 (21%) to approximately \$5,700,000 from the restated prior year, due primarily to an increase in program revenue (primarily due to privilege licenses, permits, and operating grants), and a gain on the disposal of capital assets, partially offset by a decrease in capital grants. Property taxes increased slightly (approximately \$41,000) from the restated prior year due to an increase in current real tax revenue, partially offset by an increase in tax relief and decrease in delinquent taxes collected. Expenses increased by approximately \$1,362,000 (29%) to approximately \$5,993,000 from the restated prior year, due primarily to increases in public works expenses associated with parking lots and sidewalk improvements. In addition, public safety expenses were higher than the restated prior year, but inline with budgeted expectations. Overall, governmental activities decreased the Town's net assets by approximately \$293,000 in 2006.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities: Revenues exceeded expenses by approximately \$1,292,000 for 2006 for the business-type activities. Revenues increased by approximately \$1,205,000 (28%) to approximately \$5,575,000 from the restated prior year, as the Town experienced higher charges for services (as the Town increased its water and sewer fees as adopted by Town Council). In addition, the Town continues to see significant growth in revenues due to new construction. Expenses increased by approximately \$591,000 (16%) to approximately \$4,283,000, due primarily to increased cost associated with the additional revenues from new construction. Overall, business-type activities increased the Town's net assets by approximately \$1,292,000.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of approximately \$1,476,000, a decrease of approximately \$330,000 in comparison with the restated prior year. Approximately 96% of this total amount (approximately \$1,413,000) constitutes unreserved, undesignated fund balances, which is available for spending at the government's discretion. The remainder of the fund balances is designated or reserved for either Capital Projects or Victims Services.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance was approximately \$1,240,000. As a measure of the General Fund's liquidity, it may be useful to compare total unreserved fund balance to total General Fund expenditures. Total unreserved, undesignated fund balance of the General Fund represents approximately 24% of total General Fund expenditures. The net decrease in the fund balance of the General Fund was approximately \$114,000 during the current year. Highlights for the General Fund were as follows:

- The Town Council of Fort Mill knowingly obligated a portion of the accumulated fund balance from prior years (unreserved fund balance) of approximately \$77,000 to support its current year operations.
- General Fund revenues exceeded budgeted expectations by approximately \$204,000 or 4% primarily due to fines, fees, licenses and permits exceeding budgeted revenue by approximately \$226,000. Actual tax revenue was slightly lower than expected (approximately \$56,000 or 3%), but higher than restated prior year tax revenue by approximately \$46,000.
- General Fund expenditures exceeded budgeted expectations by approximately 2% or \$112,000. Primarily due to higher than budgeted expenditures for Public Works.
- Other financing sources (uses) for 2006 consisted of proceeds received from the disposal of capital assets of approximately \$181,000 and transfers to the Capital Projects Fund (to fund current and future construction projects) and the Narcotics Fund of approximately \$300,000 and \$20,000, respectively.

In addition, the fund balances of the remaining Special Revenue and Capital Project Funds decreased by approximately \$216,000. Highlights for all of the remaining Special Revenue and Capital Project Funds were as follows:

- The Town incurred capital outlay expenditures in the Capital Projects Fund of approximately \$685,000, primarily related to parking lots and sidewalk improvements of approximately \$574,000 and \$66,000, respectively.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

FINANCIAL ANALYSIS OF THE TOWN’S FUNDS (CONTINUED)

- The Town created a new Special Revenue fund called Avery Lakes to record the revenues and expenditures associated with federal grants received for construction of water and sewer lines, roads, and drainage to serve Avery Lake Infrastructure Phase IV, which is a low and moderate income residential development. The revenues and expenditures were \$437,000 for fiscal year 2006.

Proprietary Funds: The Town’s proprietary fund provides the same type of information found in the government-wide basic financial statements but in more detail. Net assets of the Town’s Gross Revenue Fund (an enterprise fund) at the end of the fiscal year amounted to approximately \$12,804,000. Factors concerning the operation of this fund have already been addressed in the discussion of the Town’s business-type activities.

Budgetary Highlights

The Town’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 most significant budgeted funds are the General Fund, Capital Projects Fund, and the Gross Revenue Fund (enterprise fund). During the course of fiscal year 2006, no amendments to the Town’s budgets were made.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: The Town’s investment in capital assets for its governmental and business–type activities as of September 30, 2006, was approximately \$6,046,000 and \$20,694,000, respectively (net of accumulated depreciation). These capital assets include land, infrastructure, buildings and improvements, equipment, and vehicles.

The capital assets (net of accumulated depreciation) as of September 30, 2006 and 2005, were as follows:

Town’s Capital Assets
(Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 *	2006	2005 *	2006	2005 *
Land	\$ 650,215	680,963	305,505	305,505	955,720	\$ 986,468
Construction in Progress	-	-	-	3,845,543	-	3,845,543
Infrastructure	544,001	558,232	19,943,991	15,858,628	20,487,992	16,416,860
Buildings & Improvements	3,105,850	3,203,938	301,864	311,128	3,407,714	3,515,066
Equipment	689,667	743,476	121,250	106,419	810,917	849,895
Vehicles	1,056,317	1,110,172	21,250	33,010	1,077,567	1,143,182
Total	\$ 6,046,050	6,296,781	20,693,860	20,460,233	26,739,910	\$ 26,757,014

* Certain amounts have been restated due to prior period adjustments. See Note IV in the Notes to the Basic Financial Statements for additional information.

Major capital asset events during the current year include:

- Continued construction costs of approximately \$208,000 for the completion of the waste water treatment upgrade (approximately \$4,053,000 was placed in service)
- Purchase of a new equipment and vehicles for approximately \$193,000.
- Purchased and donated infrastructure capital assets of approximately \$19,000 and \$616,000, respectively.
- Disposal of capital assets of approximately \$35,000
- Depreciation expense of approximately \$1,018,000.

Additional information on the Town’s capital assets can be found in Notes I and III of the Basic Financial Statements.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Obligations: As of September 30, 2006, the Town had total bonded indebtedness outstanding of approximately \$9,591,000, of which approximately \$1,025,000 in general obligation debt is backed by the full faith and credit of the Town. The Town had approximately \$2,577,000 in capital leases outstanding at year end. Additional information regarding the Town's long-term debt can be found in Note III in the Notes to the Basic Financial Statements.

Town's Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 *	2006	2005 *	2006	2005 *
General Obligation Bonds	\$ 1,024,868	1,150,867	-	-	1,024,868	\$ 1,150,867
Revenue Bonds/State Revolving Fund	-	-	8,566,036	8,596,966	8,566,036	8,596,966
Capital Leases	602,946	733,535	1,973,686	2,063,629	2,576,632	2,797,164
Compensated Absences	177,891	137,361	36,652	28,386	214,543	165,747
Total	\$ 1,805,705	2,021,763	10,576,374	10,688,981	12,382,079	\$ 12,710,744

* Certain amounts have been restated due to prior period adjustments. See Note IV in the Notes to the Basic Financial Statements for additional information.

The Town's total bonded debt decreased by approximately \$157,000 during the past fiscal year as principal payments of approximately \$452,000 offset new borrowings of approximately \$295,000, as the Town finished its last draw down on the 2004 revolving fund bonds.

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 Town's statutory debt limit at September 30, 2006 was approximately \$1,651,000. The legal debt margin was approximately \$626,000.

In December 2006, the Town entered into a capital lease for approximately \$635,000 for the purchase of equipment and vehicles.

ECONOMIC FACTORS

The Southeast region of the United States has experienced tremendous growth and prosperity over the past decade, particularly the Charlotte Metropolitan Area. Located within this area, Fort Mill has also experienced significant growth within the period. The growth rate is expected to accelerate over the next decade.

Fort Mill has been home to the corporate headquarters one of the nation's largest textile manufacturers for over a century. Recently, the town began attracting many other corporate headquarters and commercial offices. Fort Mill now enjoys a diverse employment base that has grown with our residential population.

The Town's climate, natural assets, and economic diversity have combined to reinforce its role within this region for both the state of South Carolina and the Southeastern region of the United States. The Town is recognized as one of the Southeast's most progressive local governments and has amassed a notable record of success. It is characterized by active involvement in support of economic development, provision of high quality services, and a pro-business attitude.

TOWN OF FORT MILL, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2006

NEXT YEAR'S BUDGETS AND RATES FOR THE TOWN

The adopted FY 2006-07 general fund operating budget is \$5,522,775. The General Fund budget is balanced without an increase in the Town's millage rate or the rates associated with the Town's franchise fees or business licenses. The budget does call for a nominal increase in building permits to more accurately reflect the costs associated with providing these services. The budget does not increase the Solid Waste fee.

REQUESTS FOR TOWN INFORMATION

This report is designed to provide an overview of the Town'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 Finance Director, 112 Confederate Street, Fort Mill, South Carolina 29715.

TOWN OF FORT MILL, SOUTH CAROLINA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments	\$ 1,303,356	906,286	\$ 2,209,642
Cash and Investments, Restricted	103,618	1,611,560	1,715,178
Receivables, Net:			
Property Taxes	71,953	-	71,953
Accounts	48,807	488,219	537,026
Other	102,694	-	102,694
Internal Balances	149,118	(149,118)	-
Due From:			
Federal Government	-	186,984	186,984
State Government	58,786	-	58,786
Prepaid Expenses	14,493	2,776	17,269
Bond Issuance Costs, Net	-	244,382	244,382
Capital Assets:			
Non-Depreciable	650,215	305,505	955,720
Depreciable, Net	5,395,835	20,388,355	25,784,190
TOTAL ASSETS	7,898,875	23,984,949	31,883,824
LIABILITIES			
Accounts Payable	128,623	188,952	317,575
Accrued Interest Payable	28,571	136,594	165,165
Accrued Salaries and Fringe Benefits	95,425	20,760	116,185
Other Liabilities	9,899	-	9,899
Unearned Revenues	76,510	258,090	334,600
Non-Current Liabilities:			
Due Within One Year	398,715	453,134	851,849
Due in More Than One Year	1,406,990	10,123,240	11,530,230
TOTAL LIABILITIES	2,144,733	11,180,770	13,325,503
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,418,236	10,398,520	14,816,756
Restricted For:			
Debt Service	-	1,474,966	1,474,966
Victims Services	63,500	-	63,500
Narcotics	39,531	-	39,531
Unrestricted	1,232,875	930,693	2,163,568
TOTAL NET ASSETS	\$ 5,754,142	12,804,179	\$ 18,558,321

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

TOWN OF FORT MILL, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 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	Governmental Activities	Primary Government Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities:							
General Government	\$ 630,475	1,768,783	-	-	1,138,308		\$ 1,138,308
Judicial	42,790	83,146	-	-	40,356		40,356
Public Works	2,260,273	375,583	-	-	(1,884,690)		(1,884,690)
Public Safety	2,307,008	162,894	27,086	-	(2,117,028)		(2,117,028)
Culture and Recreation	239,245	59,552	-	-	(179,693)		(179,693)
Community Development	444,075	-	455,468	-	11,393		11,393
Interest and Fiscal Charges	69,393	-	-	-	(69,393)		(69,393)
Total Governmental Activities	5,993,259	2,449,958	482,554	-	(3,060,747)		(3,060,747)
Business-Type Activities:							
Water/Sewer	4,282,529	4,896,116	-	616,403		1,229,990	1,229,990
Total Business-Type Activities	4,282,529	4,896,116	-	616,403		1,229,990	1,229,990
TOTAL - PRIMARY GOVERNMENT	\$ 10,275,788	7,346,074	482,554	616,403	(3,060,747)	1,229,990	(1,830,757)
General Revenues:							
Property Taxes					2,222,507	-	2,222,507
Intergovernmental Revenue not Restricted to Specific Programs					235,518	-	235,518
Investment Earnings					18,392	50,278	68,670
Other Revenues					145,267	12,000	157,267
Gain on Disposal of Capital Assets					146,139	-	146,139
Total General Revenues					2,767,823	62,278	2,830,101
CHANGE IN NET ASSETS					(292,924)	1,292,268	999,344
NET ASSETS, Beginning of Year					6,895,755	11,638,287	18,534,042
Prior Period Adjustments					(848,689)	(126,376)	(975,065)
NET ASSETS, Beginning of Year, Restated					6,047,066	11,511,911	17,558,977
NET ASSETS, End of Year					5,754,142	12,804,179	\$ 18,558,321

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

TOWN OF FORT MILL, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and Investments	\$ 1,087,368	147,923	68,065	\$ 1,303,356
Cash and Investments, Restricted	63,500	-	40,118	103,618
Receivables, Net:				
Property Taxes	71,953	-	-	71,953
Accounts	48,807	-	-	48,807
Other	100,381	-	2,313	102,694
Due From:				
Other Funds	228,672	-	16,200	244,872
State Government	58,786	-	-	58,786
Prepaid Expenses	14,493	-	-	14,493
TOTAL ASSETS	<u>1,673,960</u>	<u>147,923</u>	<u>126,696</u>	<u>1,948,579</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	114,345	14,278	-	128,623
Accrued Salaries and Fringe Benefits	95,425	-	-	95,425
Due to Other Funds	79,554	-	16,200	95,754
Deferred and Unearned Revenues	135,120	-	7,313	142,433
Other Liabilities	9,899	-	-	9,899
TOTAL LIABILITIES	<u>434,343</u>	<u>14,278</u>	<u>23,513</u>	<u>472,134</u>
FUND BALANCES				
Reserved For:				
Victims Services	63,500	-	-	63,500
Unreserved:				
Designated for Capital Projects	-	133,645	-	133,645
Undesignated, Reported In:				
General Fund	1,176,117	-	-	1,176,117
Special Revenue Funds	-	-	103,183	103,183
TOTAL FUND BALANCES	<u>1,239,617</u>	<u>133,645</u>	<u>103,183</u>	<u>1,476,445</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,673,960</u>	<u>147,923</u>	<u>126,696</u>	<u>\$ 1,948,579</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

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

SEPTEMBER 30, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,476,445
Amounts reported for the governmental activities in the Statement of Net Assets are different because of the following:	
Property taxes in the Statement of Net Assets will be collected in the future, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	65,923
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 \$8,188,368, and the accumulated depreciation was \$2,142,318.	6,046,050
Accrued interest on bonds in governmental accounting was not due and payable in the current period and therefore has not been reported as a liability in the funds.	(28,571)
Long-term liabilities, including debt premiums, are not due or payable in the current period, and therefore are not reported as liabilities in the funds. Governmental fund long-term liabilities at year-end consisted of the following:	
Long-Term Debt (Including Capital Leases)	(1,627,814)
Compensated Absences	(177,891)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 5,754,142</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED SEPTEMBER 30, 2006

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Taxes	\$ 2,156,584	-	-	\$ 2,156,584
Fines, Fees, Licenses and Permits	1,794,506	-	-	1,794,506
Charges for Service	387,098	-	-	387,098
Grants	11,311	18,468	437,000	466,779
Intergovernmental	295,070	-	-	295,070
Miscellaneous	235,504	123,742	10,597	369,843
Investment Earnings	14,764	3,213	416	18,393
TOTAL REVENUES ALL SOURCES	<u>4,894,837</u>	<u>145,423</u>	<u>448,013</u>	<u>5,488,273</u>
EXPENDITURES				
Current:				
General Government	520,026	-	-	520,026
Judicial	40,640	-	-	40,640
Public Works	1,511,487	-	-	1,511,487
Public Safety	2,148,390	-	335	2,148,725
Culture and Recreation	162,680	-	-	162,680
Community Development	-	-	444,075	444,075
Capital Outlay	154,957	684,805	-	839,762
Debt Service:				
Principal Retirement	256,588	-	-	256,588
Interest and Fiscal Charges	74,957	-	-	74,957
TOTAL EXPENDITURES	<u>4,869,725</u>	<u>684,805</u>	<u>444,410</u>	<u>5,998,940</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,112</u>	<u>(539,382)</u>	<u>3,603</u>	<u>(510,667)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the Disposal of Capital Assets	180,930	-	-	180,930
Transfers In	-	300,000	20,070	320,070
Transfers Out	(320,070)	-	-	(320,070)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(139,140)</u>	<u>300,000</u>	<u>20,070</u>	<u>180,930</u>
NET CHANGE IN FUND BALANCES	<u>(114,028)</u>	<u>(239,382)</u>	<u>23,673</u>	<u>(329,737)</u>
FUND BALANCES, Beginning of Year	1,733,240	373,027	105,693	2,211,960
Prior Period Adjustments	(379,595)	-	(26,183)	(405,778)
FUND BALANCES, Beginning of Year, Restated	<u>1,353,645</u>	<u>373,027</u>	<u>79,510</u>	<u>1,806,182</u>
FUND BALANCES, End of Year	<u>\$ 1,239,617</u>	<u>133,645</u>	<u>103,183</u>	<u>\$ 1,476,445</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

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

YEAR ENDED SEPTEMBER 30, 2006

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (329,737)**

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. This amount represents the change in deferred revenues for the year.	65,923
Repayment of bond principal is an expenditure or other financing use in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	256,588
Interest on long-term debt 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 payable 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 and payable. The interest reported in the Statement of Activities is the change in the interest accrued.	5,564
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.	(40,530)
Governmental funds report only proceeds received from the sale of capital assets, without any consideration for the net book value of the asset(s) that were sold. The Statement of Activities reports gains or losses based on the proceeds and the net book value of the asset(s) sold.	(34,791)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets that are considered capital asset additions is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciation expense in the current period.	(215,941)

TOTAL CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (292,924)**

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

TOWN OF FORT MILL, SOUTH CAROLINA
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2006

	<u>GROSS REVENUE</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 906,286
Investments	
Cash and Cash Equivalents, Restricted	1,611,560
Receivables, Net:	
Accounts	488,219
Due From:	
Other Funds	79,554
Due from Federal Government	186,984
Prepaid Expenses	2,776
Total Current Assets	<u>3,275,379</u>
Non-Current Assets:	
Bond Issuance Costs, Net	244,382
Capital Assets:	
Non-Depreciable	305,505
Depreciable, Net	20,388,355
Total Non-Current Assets	<u>20,938,242</u>
TOTAL ASSETS	<u>24,213,621</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	188,952
Accrued Interest Payable	136,594
Accrued Salaries and Fringe Benefits	20,760
Due to Other Funds	228,672
Unearned Revenues	258,090
Compensated Absences	30,000
Debt and Capital Leases	423,134
Total Current Liabilities	<u>1,286,202</u>
Non-Current Liabilities:	
Compensated Absences	6,652
Debt and Capital Leases	10,116,588
Total Non-Current Liabilities	<u>10,123,240</u>
TOTAL LIABILITIES	<u>11,409,442</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	10,398,520
Restricted For:	
Debt Service	1,474,966
Unrestricted	930,693
TOTAL NET ASSETS	<u>\$ 12,804,179</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

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

YEAR ENDED SEPTEMBER 30, 2006

	<u>GROSS REVENUE</u>
OPERATING REVENUES	
Water Revenue and Penalties	\$ 1,284,855
Sewer Revenues	1,561,527
York County Water Sales	762,210
Riverview Water Sales	128,725
Tega Cay Water Sales	188,171
Water Taps	388,758
Sewer Taps	579,850
Other Revenues	2,020
TOTAL OPERATING REVENUES	<u>4,896,116</u>
OPERATING EXPENSES	
Water	2,226,041
Sewer	863,707
Other Operating Expenses	5,256
Depreciation	646,941
TOTAL OPERATING EXPENSES	<u>3,741,945</u>
OPERATING INCOME (LOSS)	<u>1,154,171</u>
NON-OPERATING REVENUES (EXPENSES)	
Donated Capital Assets	616,403
Investment Earnings	50,278
Interest Expense and Fiscal Charges	(540,584)
Tega Cay Water Line Payment	12,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>138,097</u>
CHANGE IN NET ASSETS	<u>1,292,268</u>
NET ASSETS, Beginning of Year	11,638,287
Prior Period Adjustments	(126,376)
NET ASSETS, Beginning of Year, Restated	<u>11,511,911</u>
NET ASSETS, End of Year	<u>\$ 12,804,179</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED SEPTEMBER 30, 2006

	GROSS REVENUE
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Charges for Fees and Services	\$ 4,987,888
Receipts from Other Revenues	2,020
Payments for Personal Services	(993,663)
Payments for Goods and Services	(2,370,771)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,625,474</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers To Other Funds	(326,802)
Other Non-Operating Receipts (Payments)	12,000
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	<u>(314,802)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(264,165)
Bond and Note Payments	(415,647)
Borrowing/Proceeds from State Revolving Fund Bonds	294,774
Interest Paid on Bonds	(526,923)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(911,961)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Income Received on Investments	50,278
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>50,278</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	448,989
CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED), Beginning of Year	<u>2,068,857</u>
CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED), End of Year	<u>\$ 2,517,846</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income	\$ 1,154,171
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	646,941
(Increase) Decrease in Current Assets:	
Receivables	(61,293)
Prepaid Expenses	(2,776)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(133,128)
Accrued Salaries & Fringe Benefits	(141,792)
Deferred and Unearned Revenues	155,085
Compensated Absences	8,266
Net Cash Provided by Operating Activities	<u>\$ 1,625,474</u>
Non-Cash Investing, Capital and Financing Activities: Donated Capital Assets	<u>\$ 616,403</u>

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

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

The Town of Fort Mill, South Carolina (the “Town”) was initially incorporated on February 12, 1873 under the general law for government of municipalities of the State of South Carolina. The original charter was surrendered on October 11, 1907 and the Town accepted incorporation under the provisions of Article II, Chapter XLIX, Code of 1902 and amendments thereto. The Town operates under the Council-Manager form of government pursuant to the Home Rule Statute, Act No. 283 of 1975.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The basic financial statements of the Town 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 Town’s accounting policies are described below.

All activities, including component units, for which the Town is considered financially accountable have been incorporated into the basic financial statements to form the reporting entity. The Town’s basic financial statements include the accounts of all operations, including, but not limited to, general operations and support services, capital projects, and special revenue.

The primary criterion for determining inclusion or exclusion of a legally separate entity is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity’s governing body, and either 1) the Town 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 Town. In order to be considered fiscally independent, an entity must have the authority to do all three of the following:

1. Determine its budget without the Town having the authority to approve or modify that budget;
2. Levy taxes or set rates or charges without approval by the Town; and
3. Issue bond debt without approval by the Town.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Town’s basic financial statements to be misleading or incomplete. There were no component units required to be included in the Town’s basic financial statements.

Related Organizations

Fort Mill Housing Authority

The Fort Mill Housing Authority (the “Authority”) is administered by a five member Board of Directors (the “Board”). Members of the Board which are appointed by the Mayor for a five year fixed term are made up of community leaders (who are not Town officials). The Town’s responsibility does not extend beyond the Mayor making these appointments. The Authority does not have a significant operational or financial relationship with the Town.

Major Operations

The Town’s major governmental operations include general government, judicial, public works, public safety (police and fire protection), culture and recreation, and community development. In addition, the Town provides water and sewer services through its enterprise fund (business-type activity).

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Town (the "Primary Government"). The effect of interfund activity has been removed from these 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 or segment 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 Town.

The **government-wide basic financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the Proprietary Fund's basic 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 Town 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 for which 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 basic financial statements are prepared using a different measurement focus from the manner in which governmental fund basic financial statements are prepared (see further detail below). Governmental fund basic 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 basic 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 fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the government considers property taxes to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund basic financial statements report detailed information about the Town. The focus of governmental and enterprise fund basic 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.

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

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 maintained is consistent with legal and managerial requirements. The following major funds and fund types are used by the Town.

Governmental fund types are those through which most governmental functions of the Town are financed. The Town's expendable financial resources and related assets and liabilities (except for those accounted for in the Proprietary Funds) are accounted for through governmental funds. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting.

The Town's major and non-major governmental fund types are as follows:

The *General Fund, a major fund*, is the general operating fund of the Town and accounts for all revenues and expenditures of the Town, except those required to be accounted for in another fund. 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 unreserved fund balance is generally considered a resource available for use.

The *Capital Projects Fund, a major fund*, is used to account for financial resources expended for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). These funds are also used to carry on specified ongoing major improvement projects or major equipment acquisitions usually spanning more than one fiscal year. This is a budgeted fund.

The *Special Revenue Funds, non-major funds*, are used to account for the proceeds of designated specific revenue sources (other than major capital projects) that are restricted by law or administrative actions to expenditures for specified purposes. These funds do not have a legally adopted budget and any remaining fund balance is generally reserved for the purpose of the specific revenue source.

Narcotics Fund	Avery Lakes
Community Development	

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 Town 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 Town 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:

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 Town has one major Enterprise Fund:

The **Gross Revenue Fund, a budgeted fund**, is used to account for the Town's water and sewer operations.

C. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased to be cash equivalents.

Investments

The Town'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 Town 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

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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

Investments (Continued)

- (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (e) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The Town's cash investment objectives are preservation of capital, liquidity, and yield. The Town reports its cash and investments at fair value which is normally determined by quoted market prices.

The Town currently or in the past year has used the following investments:

- Open ended mutual funds which are primarily invested in money market funds which invest in short term obligations of the United States and related agencies.

Certain cash, cash equivalents, and investments of the Town may be legally restricted from time to time. The major type of restrictions were (a) those imposed by the revenue source (victims services, narcotics, etc.) and (b) bond indenture requirements which require the establishment of accounts/funds for (a) maximum annual principal and interest payments (unless a surety bond was provided) and (b) the next succeeding principal and accrued interest payment.

2. Receivables and Payables

During the course of its operations, the Town 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. Subsidies are also recorded as transfers. Town management determines the classification of amounts recorded as subsidies or advances. To the extent that certain transactions between funds had not been paid or received as of September 30, 2006, balances of interfund amounts or payables have been recorded. Internal service funds are used to record charges to all Town departments as operating revenue. All Town funds record these payments to the internal service funds as operating expenditures or expenses.

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 franchise fees, hospitality taxes, sanitation, sewer, parking, and other fees and charges.

3. Inventories and Prepaids

Inventories and prepaid items in the governmental funds are accounted for using the purchase method (expensed when paid). If significant amounts of inventories or prepaid items exist in the governmental funds, the Town records these amounts in the balance sheet.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

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 basic 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 basic financial statements.

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Because the Town was a phase 3 entity (governments with total annual revenue of less than \$10 million based on a government's total annual revenues in the first fiscal year ending after June 15, 1999) it was not required to report infrastructure retroactively by GASB #34. In accordance with GASB #34, the Town has recorded all infrastructure assets since implementing GASB #34 in fiscal year 2004. These assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend capital assets' lives are not capitalized. The Town maintains a minimum capitalization threshold of \$5,000 for all capital assets.

Interest costs during construction are not capitalized in the Town's governmental funds but are capitalized for qualified property in the Town's proprietary fund (if material). Interest costs on tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Interest costs are not capitalized on assets acquired or constructed with gifts and grants that are restricted by the donor or grantor to acquisition of those capital assets. Interest costs are not capitalized for small projects or those for which the construction period is less than six months.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Governmental Activities/ Business-Type Activities
Infrastructure	10-50 years
Buildings and Improvements	10-50 years
Equipment	5-10 years
Vehicles	5-20 years

5. Compensated Absences

The Town's vacation policy allows the accumulation of leave between 10 and 25 days annually, based upon length of service. Employees terminating or retiring are paid for accumulated vacation up to a maximum of 30 days based on their hourly rate of pay earned at the time of termination or retirement as well as accumulated compensatory time. The Town does not have a policy limiting the amount of compensatory time an employee can accumulate and be paid out.

The Town 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 basic financial statements. The portion applicable to the Proprietary Funds is also recorded in the Proprietary Fund basic financial statements. Governmental funds will only recognize compensated absences liability if they have matured, for example, as a result of employee resignations or terminations.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

6. *Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities and long-term obligations are reported in the government-wide basic financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the Proprietary Fund basic financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund basic financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, non-current portion of capital leases, compensated absences, contractually required pension contributions, special termination benefits and other miscellaneous long-term obligations that will be paid from governmental funds are reported as a liability in the fund basic financial statements only to the extent that they are due and payable.

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

In the fund basic 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 premiums.

7. *Fund Balance*

In the fund basic financial statements, the Town 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. 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. Fund balance reserves can be established for, but not limited to the following: prepaids, inventory, non-current receivables, prior year appropriations, grant projects, debt service, capital projects and special revenue programs. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

8. *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/capital leases 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.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

9. Encumbrances

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

10. Accounting Estimates

The preparation of basic 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 basic financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

11. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In early August, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings and Council meetings are conducted to inform and obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance by October 1. Any supplemental budgetary appropriations made are subject to the same procedures as the original budget ordinance.
4. The Town Manager is authorized to administer the budget and may transfer appropriated funds between accounts within and between each department without Town Council's prior approval provided the transfer does not alter the total appropriations for either fund. Town Council must approve any revisions that alter the total appropriations of a fund. Department heads are responsible for managing their respective budgets. Department heads are not allowed to make transfers of appropriated funds. The legal level of budgetary authority is at the departmental level.
5. Legally adopted budgets are employed as a management control device during the year for the General Fund, Gross Revenue Fund, and Capital Projects Fund. Expenditures may not legally exceed appropriations on the fund level. The remaining Special Revenue Funds are not formally budgeted but effective budgetary control is achieved through the various grant documents and appropriate state law.
6. The budgets for the budgeted funds are legally adopted on a basis not consistent with GAAP.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

- 7. The budgets at the end of the year for these funds represent the budgets adopted and amended by the Town Council plus encumbrances and funds designated for continuing projects carried over from the preceding year.
- 8. Encumbrances do not lapse but are brought forward to the new year and added to the budget adopted by Town Council for that year. It is Town policy to close out all encumbrances possible before year-end. The Town had no encumbrances at September 30, 2006.
- 9. All unencumbered appropriations, except those designated as continuing projects by the Town Manager, lapse at year-end.

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 Town's deposits might not be recovered. The Town does not have a deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of September 30, 2006, approximately \$2,725,000 of the Town's bank balances of approximately \$2,925,000 (which had a carrying value of \$2,832,876) were uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Town.

Investments

As of September 30, 2006, the Town had the following investments and maturities:

Investment Type	Credit Rating ^	Fair Value	Weighted Average Maturity (Years)
Treasury Money Market Fund - Open Ended	AAAm, Aaa	\$ 1,091,944	less than 90 days

^ If available, credit ratings are for Standard & Poor's, Moody's Investors Service and Fitch Ratings.

Interest Rate Risk: The Town does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

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 Town does not have an investment policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of September 30, 2006, none of the Town's investments were exposed to custodial credit risk.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have an investment policy for credit risk but follows the investment policy statutes of the State of South Carolina.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

A. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk for Investments: The Town places no limit on the amount the Town may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash, cash equivalents and investments of the Town are legally restricted for specified purposes. The major types of restrictions at September 30, 2006 were related to (a) those imposed by bond agreements (\$1,611,560), (b) victim's services (\$63,500), (c) narcotics (\$35,118), and (d) Avery Lake (\$5,000).

B. Property Taxes and Other Receivables

Property Taxes

Real Property taxes are levied on October 1 on the assessed valuations of property located in York County as of the preceding January 1, and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 15 of the following year, and property taxes attach as an enforceable lien if not paid by March 16 of the following year. Penalties are added to taxes depending on the date paid as follows:

January 16-February 1	3% of tax
February 2-March 16	10% of tax
March 17 and thereafter	15 % of tax plus collection costs

Motor vehicle taxes are levied on the first day of the month in which the motor vehicle license expires and is due by the end of the month. Property taxes are billed and collected by York County. Property tax revenue is recognized when collected by the County Treasurer's Office. Assessed values for real estate are established annually by the York County Tax Assessor at 4% of market value for legal residence and 6% of market value for rental and other real property.

For the year ended September 30, 2006, millage was set at 90.0 mills to cover general Town services and uses.

Based on information provided by the York County Treasurer's Office, the Town has recorded uncollected, delinquent property taxes at September 30, 2006 of \$71,953 (net of allowance for uncollectible portion of \$2,998) for the General Fund. Delinquent property taxes of \$6,030 have been recognized as revenue at December 31, 2006 because it is expected to be collected within 60 days of year end. The remaining amount of \$65,923 has been recorded as deferred revenue on the governmental fund basic financial statements because it is not expected to be collected within 60 days of year end.

Other Receivables

The Town has other receivables primarily related to its garbage services and water/sewer operations of \$48,807 and \$488,219, respectively. Allowances for uncollectibles were not significant for these receivables and thus were not considered necessary for these accounts. The services that generate the garbage and water/sewer receivables are provided and billed each month and are considered due as of September 30, 2006 (garbage service receivables are considered available as they are expected to be collected within 60 days of year end).

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

The interfund balances at September 30, 2006, consisted of the following net individual fund receivables and payables (all of which are expected to be paid within one year):

Fund	Net Receivables	Net Payables
General Fund	\$ 149,118	\$ -
Gross Revenue Fund	-	149,118
Totals	\$ 149,118	\$ 149,118

The interfund receivables and payables are primarily the result of the General Fund financing operating expenses for the Gross Revenue Fund.

Interfund Transfers

Interfund transfers for the year ended September 30, 2006, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Major Funds:</u>		
General Fund	\$ -	\$ 320,070
Capital Projects Fund	300,000	-
<u>Other Non-Major Funds:</u>		
Special Revenue Fund - Narcotics Fund	5,070	-
Special Revenue Fund - Community Development Fund	15,000	-
Totals	\$ 320,070	\$ 320,070

During the course of normal operations and in order to support the numerous functions of the Town, transactions between funds may occur. In 2006, the Town used transfers to move unrestricted receipts from the General Fund to (a) fund construction projects of \$300,000 in the Capital Projects Fund and (b) allocate budgeted resources of \$20,070 for the narcotics and community development programs.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

D. Capital Assets

Capital asset activity for the Town’s governmental activities for the year ended September 30, 2006, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 680,963	-	30,748	-	\$ 650,215
Total Capital Assets, Non-Depreciable	<u>680,963</u>	<u>-</u>	<u>30,748</u>	<u>-</u>	<u>650,215</u>
Capital Assets, Depreciable:					
Infrastructure	569,242	-	-	-	569,242
Buildings and Improvements	3,923,509	-	-	-	3,923,509
Equipment	1,041,497	53,121	-	-	1,094,618
Vehicles	1,911,336	102,537	63,089	-	1,950,784
Total Capital Assets Depreciable	<u>7,445,584</u>	<u>155,658</u>	<u>63,089</u>	<u>-</u>	<u>7,538,153</u>
Less: Accumulated Depreciation for:					
Infrastructure	11,010	14,231	-	-	25,241
Buildings and Improvements	719,571	98,088	-	-	817,659
Equipment	298,021	106,930	-	-	404,951
Vehicles	801,164	152,350	59,047	-	894,467
Total Accumulated Depreciation	<u>1,829,766</u>	<u>371,599</u>	<u>59,047</u>	<u>-</u>	<u>2,142,318</u>
Total Capital Assets, Depreciable, Net	<u>5,615,818</u>	<u>(215,941)</u>	<u>4,042</u>	<u>-</u>	<u>5,395,835</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,296,781</u>	<u>(215,941)</u>	<u>34,790</u>	<u>-</u>	<u>\$ 6,046,050</u>

* See Note IV for details regarding the prior period adjustments that affected capital assets.

The cost of equipment recorded under capital lease was approximately \$926,000. Accumulated amortization was approximately \$165,000 at September 30, 2006. Amortization of assets recorded under capital lease obligations has been included with depreciation expense.

Depreciation expense for the Town’s Governmental Activities was charged to functions/programs as follows:

Functions/Programs	Amount
Governmental Activities:	
General Government	\$ 114,802
Public Safety	118,194
Public Works	62,691
Recreation	75,912
Total Depreciation Expense - Governmental Activities	<u>\$ 371,599</u>

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

D. Capital Assets (Continued)

Capital asset activity for the Town’s business-type activities for the year ended September 30, 2006, was as follows:

	Restated Beginning Balance *	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Non-Depreciable					
Land	\$ 305,505	-	-	-	\$ 305,505
Construction in Progress	3,845,543	207,670	-	(4,053,213)	-
Total Capital Assets, Non-Depreciable	4,151,048	207,670	-	(4,053,213)	305,505
Capital Assets, Depreciable					
Infrastructure	21,774,164	635,003	-	4,053,213	26,462,380
Buildings and Improvements	370,542	-	-	-	370,542
Equipment	266,214	37,895	-	-	304,109
Vehicles	128,209	-	-	-	128,209
Total Capital Assets, Depreciable	22,539,129	672,898	-	4,053,213	27,265,240
Less: Accumulated Depreciation for:					
Infrastructure	5,915,536	602,853	-	-	6,518,389
Buildings and Improvements	59,414	9,264	-	-	68,678
Equipment	159,795	23,064	-	-	182,859
Vehicles	95,199	11,760	-	-	106,959
Total Accumulated Depreciation	6,229,944	646,941	-	-	6,876,885
Total Capital Assets, Depreciable, Net	16,309,185	25,957	-	4,053,213	20,388,355
Business-Type Activities Capital Assets, Net	\$ 20,460,233	233,627	-	-	\$ 20,693,860

* See Note IV for details regarding the prior period adjustments that affected capital assets.

The cost of infrastructure that was purchased under capital lease was approximately \$3,011,000. Accumulated amortization was approximately \$1,141,000 at September 30, 2006. Amortization of assets recorded under capital lease obligations has been included with depreciation expense.

The Town receives from time to time donated infrastructure for new subdivisions/projects that are given to the Town from various developers. In 2006, the Town received approximately \$616,403 in donated infrastructure primarily related to several new subdivisions. The value of the infrastructure was based on actual cost provided to the Town by the contractor.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

E. Long-Term Obligations (Continued)

The Town issues bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the Town. Capital Lease obligations are special obligations of the Town payable from the general revenues of the Town. The full faith, credit and taxing powers of the Town are not pledged for the payment of capital lease obligations nor the interest thereon.

Details on the Town’s governmental activities outstanding debt issues and capital leases as of September 30, 2006 are as follows:

	Principal Outstanding at Year End
<i>General Obligation Bonds</i>	
\$657,300 general obligation serial bond issued in December, 1994 (“Series 1995”), due in annual installments of \$53,837 beginning December 2, 1995 through December 2, 2014 which includes interest at 5.251%. The proceeds of this issue were primarily used to build the Town’s fire station.	\$ 378,671
\$1,000,000 general obligation refunding serial bonds issued in July, 2002 (“Series 2002”), due in annual installments of \$123,230 beginning July 2, 2003 through July 2, 2012 which includes interest at 3.990%. The proceeds from this issue were used to defray the cost of constructing additions and renovations to the Fort Mill Town Hall.	646,197
Total Outstanding General Obligation Bonds	<u>\$1,024,868</u>
<i>Capital Lease Obligations</i>	
\$735,823 capital lease was entered into in June 2003, with annual installments of \$87,764 beginning June 17, 2004 through June 17, 2013 which includes interest at 3.340%. The proceeds from this capital lease obligation were primarily used to fund the acquisition of a ladder truck (“Ladder Truck”).	\$ 539,857
\$95,000 capital lease was entered into in December 2003, with annual installments of \$33,476 beginning December 5, 2004 through December 5, 2006 which includes interest at 2.830%. The proceeds from this capital lease obligation were primarily used to fund the acquisition of a recycling truck (“Recycling Truck”).	32,555
\$45,000 capital lease was entered into in July 2005, with annual installments of \$16,108 beginning July 19, 2006 through June 19, 2008 which includes interest at 3.650%. The proceeds from this capital lease obligation were primarily used to fund the acquisition of a dump truck (“Dump Truck”).	30,534
Total Outstanding Capital Lease Obligations	<u>\$ 602,946</u>

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

E. Long-Term Obligations (Continued)

Presented below is a summary of changes in long-term obligations for the year ended September 30, 2006, for the Town's governmental activities:

Long-Term Obligations	Restated Beginning Balance *	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Debt:					
GOB - Series 1995	\$ 410,963	-	32,292	378,671	\$ 33,988
GOB - Series 2002	739,904	-	93,707	646,197	97,446
Total Debt	1,150,867	-	125,999	1,024,868	131,434
Capital Leases:					
Back Hoe	16,985	-	16,985	-	-
Ladder Truck	607,337	-	67,480	539,857	69,733
Recycling Truck	64,213	-	31,658	32,555	32,554
Dump Truck	45,000	-	14,466	30,534	14,994
Total Capital Leases	733,535	-	130,589	602,946	117,281
Compensated Absences	137,361	184,350	143,820	177,891	150,000
Total Governmental Activities	\$ 2,021,763	184,350	400,408	1,805,705	\$ 398,715

* See Note IV for details regarding the prior period adjustment that affected long-term obligations.

Resources from the General Fund have been used to liquidate the governmental activities debt, capital lease obligations, and compensated absence liabilities.

Article Eight, Section Seven of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight percent (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town 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 (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight percent (8%) of assessed valuation; whereas, with a referendum any amount can be floated. As of September 30, 2006, the Town had approximately \$1,025,000 of bonded debt subject to the 8% limit of approximately \$1,651,000 resulting in an unused legal debt margin of approximately \$626,000.

Details on the Town's business-type activities outstanding debt issues and capital leases as of September 30, 2006 are as follows:

Revenue Bonds	Principal Outstanding at Year End
\$6,375,000 waterworks and sewer refunding and improvement revenue bonds issued in June, 1998 ("1998 Revenue Bonds"), due in annual installments of \$80,000 to \$360,000 beginning December 1, 1998 through December 1, 2022, plus interest at approximately 4.966% due semi-annually. The proceeds from this issue were used to advance refund the 1988 and 1991 bonds and to provide funding for further expansion and improvement of the water/sewer system.	\$5,155,000

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

E. Long-Term Obligations (Continued)

	Principal Outstanding at Year End
<i>State Water Pollution Control Revolving Fund Loans (“State Revolving Loan”)</i>	
\$490,037 revolving fund loan issued in September, 2001 (“2001 State Revolving Loan”), due in quarterly installments of \$8,695 beginning October 1, 2001 through January 1, 2021 which includes interest at 3.5%. The proceeds from this issue were used to fund an expansion to the wastewater treatment plant.	\$ 388,925
\$568,708 revolving fund loan issued in December, 2004 (“2003 State Revolving Loan”), due in quarterly installments of \$12,101 to \$10,137 beginning March 1, 2004 through December 1, 2023, which includes interest at 3.75%. The proceeds from this issue were used to fund the Tega Cay and Banks Street Water line extensions.	513,306
\$2,625,993 revolving fund loan issued in May, 2004 (“2004 State Revolving Loan”), due in quarterly installments of \$48,526 beginning September 1, 2005 through May 1, 2025, which includes interest at 3.75%. The proceeds from this issue were used to fund an expansion to the wastewater treatment plant.	2,508,805
Total Outstanding State Revolving Loans	<u>\$3,411,036</u>
<i>Capital Lease Obligations</i>	
\$2,762,550 capital lease was entered into in December, 1992 (“Rock Hill Water Line Lease”), due in annual installments of \$101,919 to \$202,185 beginning December 1, 1993 through December 1, 2019, plus interest at approximately 5.643% due semi-annually. The proceeds from this capital lease obligation were used to fund the purchase of the Rock Hill water line.	<u>\$1,973,686</u>

Presented below is a summary of changes in long-term obligations for the year ended September 30, 2006, for the Town’s business-type activities:

Long-Term Obligations	Restated Beginning Balance *	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Debt:					
State Revolving Loans:					
2001	\$ 409,637	-	20,712	388,925	\$ 16,015
2003	534,113	-	20,807	513,306	21,599
2004	2,308,216	294,774	94,185	2,508,805	90,147
Total State Revolving Loans	3,251,966	294,774	135,704	3,411,036	127,761
1998 Revenue Bonds	5,345,000	-	190,000	5,155,000	200,000
Total Debt	8,596,966	294,774	325,704	8,566,036	327,761
Capital Lease - Rock Hill Water Line	2,063,629	-	89,943	1,973,686	95,373
Compensated Absences	28,386	37,758	29,492	36,652	30,000
Total Business-Type Activities	\$ 10,688,981	332,532	445,139	10,576,374	\$ 453,134

* See Note IV for details regarding the prior period adjustments that affected long-term obligations.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

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

E. Long-Term Obligations (Continued)

Resources from the Gross Revenue Fund have been used to liquidate business-type activities debt, capital leases, and compensated absence liabilities.

Certain proceeds from the issuance of the Revenue Bonds as well as revenues generated by water/sewer operations are restricted by the bond ordinance for construction, payment of operating, and other expenses, or are set aside as reserves to ensure repayment of the bonds. Certain other assets are accumulated and restricted in accordance with the bond ordinance for the purposes of paying interest and principal payments and for the purpose of maintaining reserve funds at the required levels.

In addition, the bond ordinance also contains various negative, affirmative, and administrative covenants as defined in the bond ordinance. Of particular importance is the requirement that the Town maintain a rate covenant (net earnings to annual principal and interest requirements for qualified debt for the each fiscal year as defined) of 120%. The Town met the rate covenant for the year ended September 30, 2006.

Debt Service Requirements to Maturity

Presented below is a summary of debt service requirements to maturity by year for the Town’s governmental and business-type activities as of September 30, 2006:

Year Ended September 30,	Debt		Capital Lease Obligations		Totals
	Principal	Interest	Principal	Interest	
Governmental Activities					
2007	\$ 131,434	45,668	117,281	20,068	\$ 314,451
2008	137,107	39,995	87,603	16,269	280,974
2009	143,029	34,074	74,469	13,295	264,867
2010	149,211	27,892	76,956	10,808	264,867
2011	155,664	21,439	79,527	8,238	264,868
2012 - 2015	308,423	30,299	167,110	8,418	514,250
Totals	\$ 1,024,868	199,367	602,946	77,096	\$ 1,904,277
Business-Type Activities					
2007	\$ 327,761	367,762	95,373	108,744	\$ 899,640
2008	387,322	352,378	101,485	103,079	944,264
2009	402,678	336,208	106,965	97,023	942,874
2010	418,236	319,208	113,058	90,644	941,146
2011	439,003	301,174	119,833	83,906	943,916
2012 - 2016	2,479,413	1,199,051	711,225	305,353	4,695,042
2017 - 2021	2,672,420	614,972	725,747	84,197	4,097,336
2022 - 2025	1,439,203	89,606	-	-	1,528,809
Totals	\$ 8,566,036	3,580,359	1,973,686	872,946	\$ 14,993,027

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

IV. OTHER INFORMATION

A. Risk Management

Participation in Public Entity Risk Pools for Property and Casualty Insurance

The Town 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 Town has joined together with other municipalities in the state to form the South Carolina Municipal Insurance and Risk Financing Fund (“SCMIRF”), which is a public entity risk pool currently operating as a common risk management and insurance program. The Town obtains its general risk insurance through SCMIRF. It pays an annual premium for this coverage. For the year ended September 30, 2006, the Town made premium payments totaling approximately \$139,000. SCMIRF is self-sustaining through member premiums and reinsures through commercial companies. SCMIRF’s net assets from its most recently issued audited financial statements at December 31, 2005, totaled approximately \$12,514,000. 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 Town 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 Town pays an annual premium to SCMIT. In the year ended September 30, 2006, the Town made premium payments totaling approximately \$52,000. The Trust uses reinsurance agreements to reduce its exposure to large workers’ compensation losses. SCMIT’s net assets (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.

Health Plan

The Town maintains a fully insured health insurance program for Town employees. The Town pays a premium each month to the insurer and the insurance provider pays all covered claims.

B. Contingent Liabilities and Commitments

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

C. Deferred Compensation Plan

The Town offers its employees the option to participate in the South Carolina 401(k) Deferred Compensation Plan (“401(k) Plan”), a defined contribution plan. The 401(k) Plan is administered by the South Carolina Deferred Compensation Commission (“Commission”). All amounts of compensation contributed under the 401(k) Plan, all income, and rights attributable to such amounts remain the sole property of the participating employee. Current year payroll covered under the 401(k) Plan was approximately \$2,350,000 of the Town’s \$2,748,000 total payroll (for all Town employees). Employees can contribute a minimum of \$10 of gross salary per paycheck, up to a maximum of \$15,000 per year.

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

IV. OTHER INFORMATION (CONTINUED)

C. Deferred Compensation Plan (Continued)

Contributions are not available to employees until termination of employment, retirement, death, or unforeseeable emergency, with the exceptions of education and purchase or improvement of a primary residence. There are no eligibility or vesting requirements. The Town contributes five dollars per week to each employee chosen to participate. Employer and Employee contributions were approximately \$16,000 and \$54,000 respectively for the year ended September 30, 2006. There were no significant changes in plan provisions during the current year.

D. Retirement Plans

South Carolina Retirement and Police Officer's Retirement System

Full time employees of the Town are covered under two different retirement plans. Town employees, except for fire and police department employees participate in the South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan. Town police officers and firemen participate in the South Carolina Police Officers' Retirement System ("SCPORS"), a cost-sharing multiple-employer defined benefit pension plan.

Both the SCRS and the SCPORS 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 South Carolina Code of Laws and thus only the State of South Carolina has authority to establish and amend benefits and funding policy. A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and SCPORS is issued and publicly available by writing to the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

The SCRS was established by the South Carolina state legislature on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivisions. The PORS was established by the South Carolina state legislature on July 1, 1962, for the benefit of police officers and firemen.

Group life insurance benefits equal to one year's salary may be paid to a beneficiary after one year of service and a lump sum payment of up to \$6,000 based upon years of service.

Both employees and the Town are required to contribute to the Plans at rates established under authority of Title 9 of the South Carolina Code of Laws. The Town's contributions are actuarially determined, but are communicated to and paid by the Town as a percentage of the employees' annual earnings. Employees covered under PORS are required to contribute 6.5% of salary. Employees covered under SCRS are required to contribute 6.5% of salary as of year end. The Town is required to contribute 10.3% of gross earnings under PORS and 8.05% under SCRS as of year end. Employees have the option of not participating in the retirement plans. Current year payrolls covered under both systems are as follows:

	PORS	SCRS
\$	1,629,230	\$ 1,045,741

Total payroll for 2006 for all Town employees was approximately \$2,748,000. The Town's contributions equaled the amount required. The retirement contributions made by the Town for the current year and each of the two preceding years are as follows:

Year Ended September 30,	SCRS Contributions		SCPORS Contributions	
	Required	% Contributed	Required	% Contributed
2006	\$ 127,477	100%	\$ 111,894	100%
2005	108,634	100%	100,575	100%
2004	\$ 98,267	100%	\$ 93,557	100%

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

IV. OTHER INFORMATION (CONTINUED)

E. Other Postemployment Benefits

Upon retirement from the Town, employees who meet certain eligibility requirements have the option to retain health and dental insurance under the Town's insurance plan by paying 100% of the employee premium. Presently there is one participant.

F. Economic Dependency

The Town's Gross Revenue Fund purchases all its water, used for resale, from the City of Rock Hill, South Carolina. The Town entered into an agreement with the City of Rock Hill whereby the City of Rock Hill will sell the Town through the year 2014 at the City of Rock Hill's prevailing wholesale rate.

One water customer accounted for approximately 28% of total water sales for the year ended September 30, 2006. In December 1998, the Town entered into a water service agreement with this customer whereby this customer will purchase a minimum of 200,000 gallons of water per day through the year 2008.

G. Prior Period Adjustments

The Town's fund balances/net assets were restated as follows:

The net assets for the Gross Revenue Fund were restated to (a) reflect approximately \$26,000 of unrecorded long-term obligations, (b) reduce accounts receivable by approximately \$269,000 for uncollectible water and sewer accounts, (c) correct the balance of capital assets affecting net assets by approximately \$18,000 (net of a balance sheet adjustment between retainage payable of approximately \$90,000), and (d) record a receivable of approximately \$187,000 for the Economic Development Administration grant received in prior years

The fund balance for the General Fund was restated to (a) correct real property tax revenue of approximately \$307,000 that was incorrectly recorded as revenue, (b) reduce accounts receivable by approximately \$33,000 for uncollectible receivables, and (c) reduce the prior tax receivable balance by approximately \$40,000.

The fund balance for the Community Development fund was restated to adjust accounts receivable down approximately \$26,000 for uncollectible receivables.

Governmental activities net assets were restated due to the above governmental fund adjustments as well as the following: (a) to decrease capital assets recorded in prior years to supporting detail (approximately \$413,000) and (b) to include compensatory time in the beginning balance of the compensated absences liability (approximately \$30,000).

H. Subsequent Events

In December 2006, the Town entered into a capital lease for approximately \$635,000 with Branch Banking and Trust Company for the purchase of various vehicles. Capital lease payments begin in December 2007 and continue through December 2009 with debt service payments of \$227,925 and interest at approximately 3.78%.

In March 2006, the Town Council approved a hospitality tax ordinance. Starting October 1, 2007, the Town commenced collections of hospitality tax revenues.

Town Council changed the millage from 90.0 mills to 81.0 mills for fiscal year 2007 due to York County-wide reassessment.

TOWN OF FORT MILL, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND

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

YEAR ENDED SEPTEMBER 30, 2006

	GENERAL FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 2,212,290	2,212,290	2,156,584	\$ (55,706)
Fines, Fees, Licenses and Permits:	1,568,400	1,568,400	1,794,506	226,106
Charges For Services	370,000	370,000	387,098	17,098
Grants	30,000	30,000	11,311	(18,689)
Intergovernmental	283,209	283,209	295,070	11,861
Miscellaneous	221,826	221,826	235,504	13,678
Investment Earnings	5,000	5,000	14,764	9,764
TOTAL REVENUES ALL SOURCES	4,690,725	4,690,725	4,894,837	204,112
EXPENDITURES				
Current:				
General Government	563,116	563,116	520,026	43,090
Judicial	39,003	39,003	40,640	(1,637)
Public Works	1,319,402	1,319,402	1,511,487	(192,085)
Public Safety	2,203,832	2,203,832	2,148,390	55,442
Culture and Recreation	157,123	157,123	162,680	(5,557)
Capital Outlay	125,000	125,000	154,957	(29,957)
Debt Service:				
Principal Retirement	350,170	350,170	256,588	93,582
Interest and Fiscal Charges	-	-	74,957	(74,957)
TOTAL EXPENDITURES	4,757,646	4,757,646	4,869,725	(112,079)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(66,921)	(66,921)	25,112	92,033
OTHER FINANCING SOURCES (USES)				
Proceeds from the Disposal of Capital Assets	10,000	10,000	180,930	170,930
Transfers Out	(20,000)	(20,000)	(320,070)	(300,070)
TOTAL OTHER FINANCING SOURCES (USES)	(10,000)	(10,000)	(139,140)	(129,140)
NET CHANGE IN FUND BALANCE	(76,921)	(76,921)	(114,028)	(37,107)
FUND BALANCE, Beginning of Year	1,733,240	1,733,240	1,733,240	-
Prior Period Adjustments	(379,595)	(379,595)	(379,595)	-
FUND BALANCE, Beginning of Year, Restated	1,353,645	1,353,645	1,353,645	-
FUND BALANCE, End of Year	\$ 1,276,724	1,276,724	1,239,617	\$ (37,107)

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. The original and revised budget reflects the use of \$76,921 of accumulated fund balance from prior years, appropriated for current year expenditures.

TOWN OF FORT MILL, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF DETAILED REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
FINAL BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2006

	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES			
Taxes:			
Current Property Taxes	\$ 1,825,000	1,751,666	\$ (73,334)
Current Vehicle Taxes	350,000	372,270	22,270
Delinquent Taxes	5,000	(2,926)	(7,926)
Prior Years, Including Penalties and Execution Fees	5,000	8,950	3,950
Housing Authority in Lieu of Taxes	27,290	26,624	(666)
Total Taxes	2,212,290	2,156,584	(55,706)
Fines, Fees, Licenses, and Permits:			
Privilege Licenses	1,250,000	1,309,379	59,379
Duke Power in Lieu of Taxes	125,000	142,229	17,229
York Electric in Lieu of Taxes	28,000	36,941	8,941
Fines and Penalties	65,000	83,146	18,146
Permits	100,400	222,811	122,411
Total Fines, Fees, Licenses, and Permits	1,568,400	1,794,506	226,106
Charges for Services:			
Garbage Revenue	340,000	349,198	9,198
Cemetery Lots	4,000	4,330	330
Grave Openings	20,000	26,385	6,385
Assembly Center Fees	6,000	7,185	1,185
Total Charges for Services	370,000	387,098	17,098
Grant Revenues:			
Forensics Grant	30,000	11,311	(18,689)
Total Grant Revenues	30,000	11,311	(18,689)
Intergovernmental Revenues:			
State Shared Revenue	206,740	211,523	4,783
Manufacturer's Depreciation Reimbursement	1,000	8,526	7,526
Merchants Inventory Tax	15,469	15,469	-
Parks	60,000	59,552	(448)
Total Intergovernmental Revenues	283,209	295,070	11,861
Miscellaneous:			
York County Natural Gas Authority	35,000	45,909	10,909
School Resource Officers	165,000	152,296	(12,704)
York County Fire Protection	12,326	15,775	3,449
Other	9,500	21,524	12,024
Total Miscellaneous	\$ 221,826	235,504	\$ 13,678

(Continued)

TOWN OF FORT MILL, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF DETAILED REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
FINAL BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2006

	FINAL BUDGET	ACTUAL	VARIANCE
Investment Earnings:			
Investment Earnings	\$ 5,000	14,764	\$ 9,764
Total Investment Earnings	5,000	14,764	9,764
 TOTAL REVENUES ALL SOURCES	 4,690,725	 4,894,837	 204,112
 EXPENDITURES			
General Government:			
Town Council:			
Personnel Services	8,697	7,393	1,304
Operating Expenditures	77,841	48,416	29,425
Community Promotions	1,500	1,379	121
Miscellaneous	1,000	212	788
Total Town Council	89,038	57,400	31,638
Administration:			
Personnel Services	257,266	244,291	12,975
Operating Expenditures	216,812	218,335	(1,523)
Total Administration	474,078	462,626	11,452
Total General Government	563,116	520,026	43,090
 Judicial:			
Municipal Court:			
Personnel Services	17,533	16,251	1,282
Operating Expenditures	21,470	24,389	(2,919)
Capital Outlay	3,500	2,150	1,350
Total Judicial	42,503	42,790	(287)
 Public Works:			
Administration:			
Personnel Services	61,488	61,280	208
Operating Expenditures	24,441	24,432	9
Total Administration	85,929	85,712	217
Sanitation:			
Personnel Services	165,409	167,447	(2,038)
Operating Expenditures	220,997	218,891	2,106
Total Sanitation	\$ 386,406	386,338	\$ 68

(Continued)

TOWN OF FORT MILL, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF DETAILED REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
FINAL BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2006

	FINAL BUDGET	ACTUAL	VARIANCE
Public Works (Continued):			
Building and Grounds:			
Personnel Services	\$ 369,670	388,811	\$ (19,141)
Operating Expenditures	66,823	88,400	(21,577)
Total Building and Grounds	<u>436,493</u>	<u>477,211</u>	<u>(40,718)</u>
Street Department:			
Personnel Services	128,959	143,893	(14,934)
Operating Expenditures	202,974	335,806	(132,832)
Total Street Department	<u>331,933</u>	<u>479,699</u>	<u>(147,766)</u>
Garage and Vehicle:			
Personnel Services	46,521	45,851	670
Operating Expenditures	32,120	36,676	(4,556)
Total Garage and Vehicle	<u>78,641</u>	<u>82,527</u>	<u>(3,886)</u>
Total Public Works	<u>1,319,402</u>	<u>1,511,487</u>	<u>(192,085)</u>
Public Safety:			
Police Department:			
Personnel Services	1,459,038	1,387,058	71,980
Operating Expenditures	287,408	295,074	(7,666)
Capital Outlay	91,000	124,431	(33,431)
Total Police Department	<u>1,837,446</u>	<u>1,806,563</u>	<u>30,883</u>
Fire Department:			
Personnel Services	330,047	327,810	2,237
Operating Expenditures	127,339	138,448	(11,109)
Capital Outlay	29,500	28,376	1,124
Total Fire Department	<u>486,886</u>	<u>494,634</u>	<u>(7,748)</u>
Total Public Safety	<u>2,324,332</u>	<u>2,301,197</u>	<u>23,135</u>
Cultural and Recreation:			
Recreation:			
Personnel Services	54,155	56,112	(1,957)
Operating Expenditures	102,968	106,568	(3,600)
Capital Outlay	1,000	-	1,000
Total Cultural and Recreation	<u>\$ 158,123</u>	<u>162,680</u>	<u>\$ (4,557)</u>

(Continued)

TOWN OF FORT MILL, SOUTH CAROLINA

GENERAL FUND

SCHEDULE OF DETAILED REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
FINAL BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2006

	FINAL BUDGET	ACTUAL	VARIANCE
Debt Service:			
Principal Retirement	\$ 350,170	256,588	\$ 93,582
Interest and Fiscal Charges	-	74,957	(74,957)
Total Debt Service	<u>350,170</u>	<u>331,545</u>	<u>18,625</u>
TOTAL EXPENDITURES	<u>4,757,646</u>	<u>4,869,725</u>	<u>(112,079)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(66,921)</u>	<u>25,112</u>	<u>92,033</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from the Disposal of Capital Assets	10,000	180,930	170,930
Transfers Out	(20,000)	(320,070)	(300,070)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,000)</u>	<u>(139,140)</u>	<u>(129,140)</u>
NET CHANGE IN FUND BALANCE	<u>(76,921)</u>	<u>(114,028)</u>	<u>(37,107)</u>
FUND BALANCE, Beginning of Year	1,512,326	1,733,240	220,914
Prior Period Adjustments	(379,595)	(379,595)	-
FUND BALANCE, Beginning of Year, Restated	<u>1,132,731</u>	<u>1,353,645</u>	<u>220,914</u>
FUND BALANCE, End of Year	<u>\$ 1,055,810</u>	<u>1,239,617</u>	<u>\$ 183,807</u>

TOWN OF FORT MILL, SOUTH CAROLINA

COMBINING BALANCE SHEET - NON-MAJOR FUNDS

SEPTEMBER 30, 2006

	SPECIAL REVENUE FUNDS			TOAL NON-MAJOR FUNDS
	NARCOTICS	COMMUNITY DEVELOPMENT	AVERY LAKE	
ASSETS				
Cash and Cash Equivalents	\$ -	68,065	-	\$ 68,065
Cash and Cash Equivalents, Restricted	35,118	-	5,000	40,118
Receivables, Net:				
Other	-	2,313	-	2,313
Due From:				
Other Funds	16,200	-	-	16,200
TOTAL ASSETS	51,318	70,378	5,000	126,696
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to Other Funds	-	16,200	-	16,200
Deferred and Unearned Revenues	-	2,313	5,000	7,313
TOTAL LIABILITIES	-	18,513	5,000	23,513
FUND BALANCES				
Unreserved - Undesignated	39,531	63,652	-	103,183
TOTAL FUND BALANCES	39,531	63,652	-	103,183
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,531	82,165	5,000	\$ 126,696

TOWN OF FORT MILL, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR FUNDS

YEAR ENDED SEPTEMBER 30, 2006

	SPECIAL REVENUE FUNDS			TOTAL NON-MAJOR FUNDS
	NARCOTICS	COMMUNITY DEVELOPMENT	AVERY LAKE	
REVENUES				
Grants	\$ -	-	437,000	\$ 437,000
Miscellaneous	10,597	-	-	10,597
Investment Earnings	416	-	-	416
TOTAL REVENUES ALL SOURCES	11,013	-	437,000	448,013
EXPENDITURES				
Current:				
Public Safety	335	-	-	335
Community Development	-	7,075	437,000	444,075
TOTAL EXPENDITURES	335	7,075	437,000	444,410
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	10,678	(7,075)	-	3,603
OTHER FINANCING SOURCES (USES)				
Transfers In	5,070	15,000	-	20,070
TOTAL OTHER FINANCING SOURCES (USES)	5,070	15,000	-	20,070
NET CHANGE IN FUND BALANCES	15,748	7,925	-	23,673
FUND BALANCES, Beginning of Year	23,783	81,910	-	105,693
Prior Period Adjustments	-	(26,183)	-	(26,183)
FUND BALANCES, Beginning of Year, Restated	23,783	55,727	-	79,510
FUND BALANCES, End of Year	\$ 39,531	63,652	-	\$ 103,183

TOWN OF FORT MILL, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF DETAILED REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
FINAL BUDGET AND ACTUALS

YEAR ENDED SEPTEMBER 30, 2006

	GROSS REVENUE				VARIANCE (Budgetary Basis)
	FINAL BUDGET (Budgetary Basis)	ACTUAL (Budgetary Basis)	GAAP Adjustments	ACTUAL (GAAP)	
OPERATING REVENUES					
Water Revenue and Penalties	\$ 1,168,200	1,284,855	-	1,284,855	\$ 116,655
Sewer Revenues	1,429,303	1,561,527	-	1,561,527	132,224
York County Water Sales	555,750	762,210	-	762,210	206,460
Riverview Water Sales	109,000	128,725	-	128,725	19,725
Tega Cay Water Sales	123,600	188,171	-	188,171	64,571
Water Taps	200,000	388,758	-	388,758	188,758
Sewer Taps	300,000	579,850	-	579,850	279,850
Other Revenues	1,000	2,020	-	2,020	1,020
TOTAL OPERATING REVENUES	3,886,853	4,896,116	-	4,896,116	1,009,263
OPERATING EXPENSES					
Water:					
Water Purchases	1,035,045	1,300,022	-	1,300,022	(264,977)
Salaries	366,552	485,141	-	485,141	(118,589)
Fringe Benefits	90,394	89,764	-	89,764	630
Material and Supplies	60,700	82,960	-	82,960	(22,260)
Electricity	2,500	1,978	-	1,978	522
Permits	10,000	12,824	-	12,824	(2,824)
Insurance	1,373	7,630	-	7,630	(6,257)
Water Meter Replacement	24,000	24,280	-	24,280	(280)
Equipment Repairs	7,500	359	-	359	7,141
Other Repairs	4,000	2,968	-	2,968	1,032
Postage	8,800	11,250	-	11,250	(2,450)
Gas, Oil, and Grease	7,000	11,745	-	11,745	(4,745)
Street Maintenance	80,000	103,228	-	103,228	(23,228)
Miscellaneous	2,000	2,312	-	2,312	(312)
Auto Repairs	6,400	8,113	-	8,113	(1,713)
Uniforms	5,800	6,410	-	6,410	(610)
Water and Heat	1,000	-	-	-	1,000
Telephone	9,500	8,469	-	8,469	1,031
Travel/Training	2,500	336	-	336	2,164
Membership/Dues	1,000	1,171	-	1,171	(171)
Advertising	1,000	1,254	-	1,254	(254)
Professional Services	4,000	38,528	-	38,528	(34,528)
Hydrant Repairs	20,000	12,750	-	12,750	7,250
Pre-Employment Expense	3,000	235	-	235	2,765
Contracted services	5,000	10,050	-	10,050	(5,050)
Employee Assistance	196	193	-	193	3
Building Maintenance	500	2,071	-	2,071	(1,571)
Capital Outlay	17,000	18,600	(18,600)	-	(1,600)
	\$ 1,776,760	2,244,641	(18,600)	2,226,041	\$ (467,881)

(Continued)

TOWN OF FORT MILL, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF DETAILED REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
FINAL BUDGET AND ACTUALS

YEAR ENDED SEPTEMBER 30, 2006

	GROSS REVENUE				
	FINAL BUDGET (Budgetary Basis)	ACTUAL (Budgetary Basis)	GAAP Adjustments	ACTUAL (GAAP)	VARIANCE (Budgetary Basis)
Sewer:					
Salaries	\$ 311,432	213,028	-	213,028	\$ 98,404
Fringe Benefits	67,699	72,204	-	72,204	(4,505)
Electricity	45,000	69,685	-	69,685	(24,685)
Equipment Repairs	15,000	23,526	-	23,526	(8,526)
Material and Supplies	40,000	44,801	-	44,801	(4,801)
Electricity Lift Station	30,000	27,363	-	27,363	2,637
Alum	25,000	23,661	-	23,661	1,339
Professional Services	20,000	23,406	-	23,406	(3,406)
Insurance	8,091	20,942	-	20,942	(12,851)
Contract Labor	8,500	17,013	-	17,013	(8,513)
Chemicals	10,000	14,715	-	14,715	(4,715)
Lab Supplies	4,000	3,848	-	3,848	152
Gas, Oil, and Grease	7,000	15,453	-	15,453	(8,453)
Service Contracts	4,000	2,495	-	2,495	1,505
Natural Gas	10,000	112	-	112	9,888
Auto Repairs	4,500	4,512	-	4,512	(12)
Telephone	4,650	4,787	-	4,787	(137)
Uniforms	6,750	5,679	-	5,679	1,071
Travel/Training	4,200	1,263	-	1,263	2,937
Transportation	4,000	4,200	-	4,200	(200)
Miscellaneous	397,389	134,237	-	134,237	263,152
Water and Heat	2,000	1,318	-	1,318	682
Building Maintenance	8,500	8,898	-	8,898	(398)
Lime	17,000	15,042	-	15,042	1,958
Membership/Dues	1,000	250	-	250	750
Landfill Fees	60,000	66,309	-	66,309	(6,309)
Rental	-	475	-	475	(475)
Permits	3,500	125	-	125	3,375
Pump Station Repairs	25,000	40,934	-	40,934	(15,934)
Machinery and Equipment	36,000	-	-	-	36,000
Pump Station Monitoring	10,000	3,259	-	3,259	6,741
Employee Assistance	176	167	-	167	9
Capital Outlay	-	37,895	(37,895)	-	(37,895)
	<u>1,190,387</u>	<u>901,602</u>	<u>(37,895)</u>	<u>863,707</u>	<u>288,785</u>
Other Operating Expenses	1,355	5,256	-	5,256	(3,901)
Depreciation	-	-	646,941	646,941	-
TOTAL OPERATING EXPENSES	<u>2,968,502</u>	<u>3,151,499</u>	<u>590,446</u>	<u>3,741,945</u>	<u>(182,997)</u>
OPERATING INCOME (LOSS)	\$ 918,351	1,744,617	(590,446)	1,154,171	\$ 826,266

(Continued)

TOWN OF FORT MILL, SOUTH CAROLINA

PROPRIETARY FUND

SCHEDULE OF DETAILED REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
FINAL BUDGET AND ACTUALS

YEAR ENDED SEPTEMBER 30, 2006

	GROSS REVENUE				VARIANCE (Budgetary Basis)
	FINAL BUDGET (Budgetary Basis)	ACTUAL (Budgetary Basis)	GAAP Adjustments	ACTUAL (GAAP)	
NON-OPERATING REVENUES (EXPENSES)					
Donated Capital Assets	\$ -	-	616,403	616,403	\$ -
Investment Earnings	10,000	50,278	-	50,278	40,278
Debt Service	(941,351)	(661,457)	120,873	(540,584)	279,894
Tega Cay Water Line Payment	12,000	12,000	-	12,000	-
Gain (Loss) on Sale of Capital Assets	1,000	-	-	-	(1,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(918,351)	(599,179)	737,276	138,097	319,172
CHANGE IN NET ASSETS	-	1,145,438	146,830	1,292,268	1,145,438
NET ASSETS, Beginning of Year	11,638,287	11,638,287	-	11,638,287	-
Prior Period Adjustments	(126,376)	(126,376)	-	(126,376)	-
NET ASSETS, Beginning of Year, Restated	11,511,911	11,511,911	-	11,511,911	-
NET ASSETS, End of Year	\$ 11,511,911	12,657,349	146,830	12,804,179	\$ 1,145,438

Note: The above budgetary information has been prepared on the Town's budgetary basis (cash basis), which is not consistent with accounting principles generally accepted in the United States of America ("GAAP").

The actual budgetary basis results have been adjusted to reflect GAAP adjustments to tie to the basic financial statements as follows:

- Depreciation Expense	\$ (646,941)
- Capital Asset Additions	56,495
- Donated Capital Assets (Infrastructure)	616,403
- Principal Payments on Debt and Capital Leases	415,647
- Borrowings on State Revolving Fund Bonds	(294,774)
Total GAAP Adjustments	\$ 146,830

TOWN OF FORT MILL, SOUTH CAROLINA

SCHEDULE OF MUNICIPAL COURT FINES, ASSESSMENTS, AND SURCHARGES

YEAR ENDED SEPTEMBER 30, 2006

FISCAL YEAR	MUNICIPAL COURT ASSESSMENTS COLLECTED	MUNICIPAL COURT ASSESSMENTS REMITTED TO STATE TREASURER	MUNICIPAL COURT ASSESSMENTS RETAINED BY CITY TREASURER	TOTAL MUNICIPAL COURT FINES AND ASSESSMENTS COLLECTED
2006	\$ 232,126	125,205	106,921	\$ 232,126

TOWN OF FORT MILL, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2006

Program	Federal CFDA Number	Grant / Contract Number	Expenditures
US DEPARTMENT OF HOUSING / URBAN DEVELOPMENT			
Pass Through the State of South Carolina Community Development/Block Grant/Entitlement Grants	14.218	B-94-MC-45-0003	\$ 437,000
TOTAL US DEPARTMENT OF HOUSING / URBAN DEVELOPMENT			437,000
US DEPARTMENT OF TRANSPORTATION			
Pass Through State Department of Public Safety Programs: Highway Planning and Construction	20.205	STP-MP04(013)	18,468
TOTAL US DEPARTMENT OF TRANSPORTATION			18,468
DEPARTMENT OF JUSTICE			
Pass Through the State of South Carolina Byrne Formula Grant Program	16.579	n/a	11,311
TOTAL DEPARTMENT OF JUSTICE			11,311
ENVIROMENTAL PROTECTION AGENCY			
Pass Through the State of South Carolina SCCW State Revolving Fund	66.458	1-08 903-366-06	273,626
TOTAL ENVIRONMENTAL PROTECTION AGENCY			273,626
GRAND TOTALS			\$ 740,405

TOWN OF FORT MILL, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2006

A. – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal award programs of the Town of Fort Mill, South Carolina (the “Town”) for the year ended September 30, 2006. Expenditures for federal financial assistance awarded directly from the federal agencies, as well as those passed through other government agencies, are included on the Schedule.

B. – BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in the notes to the Town’s basic financial statements.

C. – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Federal award expenditures are reported in the Town’s basic financial statements as expenditures in the General Fund and Special Revenue Funds for all federal programs except for the State Revolving Loan program. Expenditures for the State Revolving Loan program are reported as increases in capital assets in the Gross Revenue Fund’s Statement of Net Assets for the year ended September 30, 2006.

D. – MATCHING COSTS

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

E. – SUB-RECIPIENTS

Of the federal expenditures presented in the accompanying Schedule, the Town provided federal awards of \$437,000 to sub-recipients from the Community Development Block Grant.

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

Members of Town Council
Town of Fort Mill
Fort Mill, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Mill (the "Town") as of and for the year ended September 30, 2006, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, and 2006-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 object 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 other matters that we reported to management of the Town in a separate letter dated March 23, 2007.

This report is intended solely for the information and use of Town Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Greene, Finney & Horton, LLP
March 23, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of Town Council
Town of Fort Mill
Fort Mill, South Carolina

Compliance

We have audited the compliance of the Town of Fort Mill ("Town"), with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted two matters involving the internal control over compliance and its operation that we consider to be a reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Town's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-3.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe the reportable conditions described above are not material weaknesses.

This report is intended solely for the information and use of Town Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Greene, Finney & Horton, LLP
March 23, 2007

TOWN OF FORT MILL, SOUTH CAROLINA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2006

Findings - 2005 Major Federal Awards Programs Audit

2005-5: Single Audit

Condition: Procedures remain inadequate to insure that the requirements to have a single audit will be evident to management and auditors. Expenditure items are not recorded or grouped to be accounted for as federal source transactions.

Status: The Town is developing procedures to insure compliance with audit requirements.

TOWN OF FORT MILL, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

TOWN OF FORT MILL, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006

Section II - Findings - 2006 Financial Statement Audit

2006-1: Timely Completion of Bank Reconciliations

Condition: The Town did not reconcile all bank accounts and the reconciliations completed were not prepared on a timely basis. In addition, we noted that the bank reconciliations were not reviewed.

Criteria: In order to ensure that transactions are recorded timely and accurately, the Town should reconcile all bank accounts on a regular basis. Once the reconciliations are completed they should be reviewed by someone independent of the process. In addition, the preparer and reviewer should sign and date the reconciliation to evidence the completion and review.

Effect: When bank reconciliations are not completed or are not completed timely the risk of error or fraud increases significantly.

Cause: Due to competing priorities.

Recommendation: We recommend the Town reconcile all bank accounts on a timely and monthly basis. In addition, the reconciliations should be signed and dated by the preparer and reviewer once complete.

Response: Bank statements are being reconciled monthly by the Finance Director and reviewed by the Town Manager.

2006-2: Lack of Segregation of Duties in Payroll, Human Resource, and Accounts Payable

Condition: There is a lack of segregation of duties in the Payroll, Human Resource, and Accounts Payable operations.

Criteria: A segregation of accounting duties should exist that provides reasonable assurance for the prevention or early detection of fraud.

Effect: Due to the lack of segregation of accounting duties, the risk of fraud increases significantly.

Cause: The same person administers all human resource and payroll functions, such as the input of employee salary data, input of new employees, preparation of payroll disbursements, and actual payroll disbursements. In addition, this person can add new vendors and prepares all accounts payable disbursements.

Recommendations: We recommend the Town consider hiring an accountant or bookkeeper; this person could help eliminate the segregation of duties by being responsible for part of the payroll and accounts payable functions. In the interim, we recommend the Town consider the following recommendations:

- The Finance Director produces and approves a payroll pre-list prior to the generation of payroll checks. In addition, immediately after the disbursement of payroll checks the amount disbursed should be checked against the previously approved payroll register.
- Once invoices have been reviewed and checks printed, the Finance Director should account for the numerical sequence of all checks. The checks should then be submitted to the Town manager for his signature. The Town manager should not return these checks once he has signed them; they should be mailed by his office.

Response: The Town acknowledges that further segregation of duties is necessary. However, current staffing does not allow for this. In the interim, the Town will look into additional security measures relating to employee access to payroll. The Finance Director will increase review of check activity to provide better oversight. Additionally, the Town will continue to review staffing levels in order to provide better segregation of duties in payroll and accounts payable.

TOWN OF FORT MILL, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006

Section II - Findings - 2006 Financial Statements Audit (Continued)

2006-3: Internal Controls over Recording Federal Awards

Condition: The Town has not recorded revenues and expenditures related to federal awards for which they serve as a pass-through entity.

Criteria: All federal awards must be accounting for in the financial records of the Town on a timely basis regardless of whether they are direct or pass-through awards.

Effect: The Town's financial records were not complete.

Cause: Lack of understanding of the accounting requirements for federal awards for pass-through entities.

Recommendation: We recommend the Town record all direct and pass-through federal awards in the financial records of the Town.

Response: Previously, grant activity was not recorded on Town's books, but was being audited at the Catawba Regional Council of Governments in Rock Hill, South Carolina. The Town contracts with the Council of Governments to oversee grant management. Now that the Town has a better understanding of its fiduciary responsibility, Town will record and maintain grant activity on its books in addition to what the administrating agent maintains.

Section III - Findings and Questioned Costs – Major Federal Awards Programs Audit

See Section II – Finding 2006-1 and 2006-3.