

HOLLY SPRINGS FIRE – RESCUE DISTRICT

**Basic Financial Statements
and Supplementary Information**

For the Fiscal Year Ended June 30, 2012

HOLLY SPRINGS FIRE – RESCUE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Holly Springs Fire – Rescue District
Inman, South Carolina

We have audited the accompanying financial statements of the governmental activities and the general fund of Holly Springs Fire - Rescue District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holly Springs Fire – Rescue District's management. Our responsibility is to express opinions on these financial statements based on our audit.

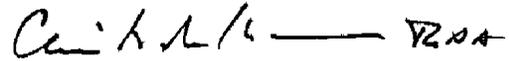
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Holly Springs Fire – Rescue District as of June 30, 2012 and the change in financial position 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 February 1, 2013 on our consideration of the District'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 26 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Holly Springs Fire – Rescue District’s financial statements as a whole. The supplementary information in Schedule 2, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "C. H. L. / 6" followed by a horizontal line and "R. S. A."

February 1, 2013

HOLLY SPRINGS – FIRE RESCUE DISTRICT
Management’s Discussion and Analysis
Fiscal Year Ended June 30, 2012

Within this section of the Holly Springs Fire – Rescue District’s (District) annual financial report, the District’s management provides a narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. The District’s financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the year by \$617,818. Of this amount, \$111,579 may be used to meet the District’s ongoing obligations to citizens and creditors.
- The District’s total net assets decreased by \$8,405 during the year ended June 30, 2012 compared to a decrease of \$54,915 for the prior year. This change is primarily the result of an increase in property tax revenue, a decrease in overall expenses, as well as a positive settlement of professional fees accrued and expensed in the prior year.
- As of the close of the year, the District’s General Fund reported an ending fund balance of \$105,093, an increase of approximately \$14,999 for the year ended June 30, 2012. Of this amount, \$1,433 is nonspendable as it is for prepaid expenses.
- The remaining General fund balance of \$103,660 is unassigned and thus is available for spending at the government’s discretion.
- The District’s capital assets decreased by \$110,676 during the current period, which is entirely due to depreciation.
- For the year ended June 30, 2012, the District’s General Fund revenues were \$279,537. General Fund expenditures were approximately \$264,538, as the District incurred \$152,594 for fire operations and \$111,944 in debt service.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The District’s annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these government-wide statements is the *Statement of Net Assets*. This is the District-wide statement of financial position presenting information that includes all of the District’s assets and liabilities with the difference 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 District as a whole is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other non-financial factors such as changes in the District’s tax base and the condition of the District’s assets.

The second government-wide statement is the *Statement of Activities*, which reports how the District’s net assets changed during the current fiscal year. All current period revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District’s distinct activities or functions on revenues provided by the District’s taxpayers.

Both government-wide financial statements distinguish governmental activities of the District that are principally supported by taxes and intergovernmental revenues, such as grants and state-shared revenues, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities included general government, public safety and public services. The District has no business type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the district's most significant funds rather than the District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The District only has governmental funds.

Governmental Funds – Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison schedule is included as required other supplementary information for the general fund. This schedule presents budget to actual variances and demonstrates compliance with the District's adopted and final revised budget.

Notes to the Financial Statements

The notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also represents certain required supplementary information and other information containing additional detail on some of the functions and programs of the District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities, which are the District's only activities.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE, Continued

The District's net assets at June 30, 2012 were \$617,818. This is a \$8,405 decrease from the previous period net assets of \$626,222. The following table provides a summary of the District's net assets for the periods ended June 30:

**Table 1
Summary of Net Assets**

	Governmental Activities	
	2012	2011
Current and Other Assets	\$ 131,407	\$ 138,652
Capital Assets	951,163	1,061,839
Total Assets	<u>1,082,570</u>	<u>1,200,491</u>
Long-term Debt Outstanding	444,904	444,379
Other Liabilities	19,848	129,890
Total Liabilities	<u>464,752</u>	<u>574,269</u>
Net Assets:		
Invested in Capital Assets, Net of Debt	506,239	527,266
Unrestricted	111,579	98,956
Total Net Assets	<u>\$ 617,818</u>	<u>\$ 626,222</u>

By far the largest portion of the District's net assets (82%) reflects its investment in capital assets (land, buildings, land improvements, vehicles, equipment and furniture), less any related debt to acquire those assets still outstanding. The decrease from \$527,266 to \$506,239 was primarily due to depreciation exceeding the amount of principal that was paid down on debt. The District uses these capital assets to provide firefighting services to the citizens; consequently, these assets are not available for future spending. Although the District'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 capital assets themselves cannot be used to liquidate these liabilities.

The remaining net assets (18%) are unrestricted and may be used to meet the District's ongoing obligation to citizens and creditors. The governmental activities unrestricted net assets increased to \$111,579 for the year ended June 30, 2012.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE, Continued

The following table provides a summary of the District's changes in net assets for the periods ended June 30:

Table 2
Summary of Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
General Revenues:		
Property Taxes	\$ 270,334	\$ 268,580
Grants	4,307	4,853
Other General Revenues	16,882	1,746
Total Revenues	<u>291,523</u>	<u>275,179</u>
Program Expenses		
Public Safety	263,270	304,851
Interest on Long-term Debt	36,658	25,243
Total Expenses	<u>299,928</u>	<u>330,094</u>
Increase (Decrease) in Net Assets	(8,405)	(54,915)
Beginning Net Assets	626,222	681,137
Ending Net Assets	<u>\$ 617,817</u>	<u>\$ 626,222</u>

The following is an analysis of the District's activities for the year ended June 30, 2012:

Revenues for the District's governmental activities increased \$16,344 or 6%. A significant reason for this increase was the settlement of the legal fees incurred and accrued as a liability as of June 30, 2011.

The cost of all governmental activities for the year ended June 30, 2012 were \$299,928 compared to \$330,094 for the year ended June 30, 2011. This is a decrease of \$30,116 or 9%. Of the cost of governmental activities, \$270,334 or 90% were financed by property taxes. Other general revenues and reserves financed the remaining \$29,584 or 10% of costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

General Fund – At the end of the current fiscal year, the unassigned fund balance of the general fund was \$103,660 as compared to \$86,090 for the year ended June 30, 2011. The nonspendable fund balance was \$1,433 as of June 30, 2012 as compared to \$4,004 as of June 30, 2011. This nonspendable amount relates to prepaid items, which is primarily comprised of insurance. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance represents 39% of total general fund expenditures while the total fund balance represents 40% of total general fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to South Carolina law and is based on accounting for certain transactions on a basis of cash receipts and disbursements and encumbrances. The District amended the original budget for the general fund for the period under audit; therefore, the original budget and final budget are different for the period.

The final general fund budget decreased by \$6,221 for the year ended June 30, 2012. The final general fund budget for the year ended June 30, 2012 was \$268,209 compared to \$274,430 for the year ended June 30, 2011. This decrease in budget was due to concerns over potential decreased property tax revenues due to national and local economic decline. Based upon these concerns, the District created a budget to maintain the financial health of the District.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities amounts to \$506,239 net of accumulated depreciation for the year ended June 30, 2012. The investment in capital assets includes land, buildings and improvements, land improvements, office and firefighting equipment and vehicles (see Table 3 below). The total decrease for the year ended June 30, 2012 was \$110,676. This is entirely due to accumulated depreciation.

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Land	\$ 63,941	\$ 63,941
Buildings and Improvements	649,307	670,172
Equipment	43,528	62,214
Furniture and Fixtures	6,238	8,530
Vehicles	188,149	256,982
	<u>\$ 951,163</u>	<u>\$ 1,061,839</u>

Additional information about the District's capital assets is presented in Note 5 of the Notes to the Financial Statements.

Debt

The District had \$444,904 in notes outstanding for the period ending June 30, 2012. The District did not enter into any new debt agreements for the period ended June 30, 2012.

Table 4
Outstanding Debt, at Year End

	Governmental Activities	
	2012	2011
Station Loan	\$ 365,435	\$ 409,658
Equipment Loans	79,469	124,915
	<u>\$ 444,904</u>	<u>\$ 534,573</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION, Continued

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of the assessed value of the property located in the District.

Additional information on the District's long-term debt is presented in Note 6 in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for Spartanburg County, which includes the Holly Springs Fire – Rescue District, remained unchanged over the prior year at 11.7% which is slightly higher than the national and state unemployment rate.
- The District is primarily a residential community. The District has experienced a population increase in the past five years.
- Property tax rates were assessed at 16.7 mills for the period audited.

All of these factors were considered in preparing the District's annual 2011 – 2012 budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Holly Springs Fire – Rescue District at 3301 Highway 357, Inman, South Carolina, 29349.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Statement of Net Assets
June 30, 2012

	Governmental Activities
<u>Assets</u>	
Cash	\$ 113,951
Property Taxes Receivable, net	16,023
Prepaid Expenses	1,433
Capital Assets :	
Non-Depreciable	63,941
Depreciable, Net	887,222
Total Assets	1,082,570
 <u>Liabilities</u>	
Accounts Payable	3,689
Payroll Liabilities	1,776
Accrued Interest Payable	14,383
Notes Payable	
Due Within One Year	94,355
Due in More Than One Year	350,549
Total Liabilities	464,752
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	506,239
Unrestricted	111,579
Total Net Assets	\$ 617,818

See Notes to Financial Statements

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Statement of Net Activities
June 30, 2012

HOLLY SPRINGS FIRE - RESCUE DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Capital</u>	<u>Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
					<u>Primary Government</u>
					<u>Governmental Activities</u>
Primary Government					
Governmental Activities					
Public Safety	\$ 263,270			\$ 4,307	\$ (258,963)
Interest on Long-Term Debt	36,658				(36,658)
Total Governmental Activities	<u>\$ 299,928</u>			<u>\$ 4,307</u>	<u>(295,621)</u>
General Revenues					
Property Taxes					270,334
Contribution Income					1,285
Miscellaneous Income					15,597
Total General Revenues					<u>287,216</u>
Change in Net Assets					(8,405)
Net Assets - Beginning of Period					<u>626,222</u>
Net Assets - End of Period					<u>\$ 617,817</u>

See Notes to Financial Statements

HOLLY SPRINGS FIRE – RESCUE DISTRICT
 Balance Sheet – Governmental Funds
 June 30, 2012

	General Fund
<u>Assets</u>	
Cash and Cash Equivalents	\$ 113,951
Prepaid Insurance	1,433
Property Taxes Receivable	8,577
Total Assets	\$ 123,961
<u>Liabilities</u>	
Accounts Payable	\$ 3,689
Payroll Liabilities	1,776
Deferred Revenue	13,403
Total Liabilities	18,868
<u>Fund Balances</u>	
Nonspendable:	
Prepays	1,433
Unassigned	103,660
Total Fund Balances	105,093
Total Liabilities and Fund Balance	\$ 123,961

See Notes to Financial Statements

HOLLY SPRINGS FIRE – RESCUE DISTRICT
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 June 30, 2012

Total Fund Balances - Governmental Funds \$ 105,093

Amounts Reported for Governmental Activities in the Statement of Net Assets
 are Different Because of the Following:

Capital Assets Used in Governmental Activities are Not Financial Resources and
 Therefore are Not Reported as Assets in the Governmental Funds. The Cost of
 the Assets is \$2,003,483 and the Accumulated Depreciation is (\$1,052,320). 951,163

Property Taxes Receivable That are Not Available to Pay Current-Period
 Expenditures are Deferred in the Funds. 20,829

Long-term Liabilities are Not Due and Payable in the Current Period and Therefore
 are Not Reported as Liabilities in the Funds. Long-Term Liabilities Consist of:

Accrued Interest Payable	(14,383)
Notes Payable	<u>(444,884)</u>

Total Net Assets - Governmental Activities \$ 617,818

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2012

	General Fund
Revenues	
Property Taxes	\$ 258,348
Grant Revenue	4,307
Contributions	1,285
Miscellaneous	15,597
Total Revenues	279,537
 Expenditures	
Public Safety	152,594
Debt Service	
Principal Retirement	89,669
Interest	22,275
Total Expenditures	264,538
Excess (Deficiency) of Revenues over Expenditures	14,999
Net Change in Fund Balance	14,999
Fund Balance - Beginning of Year	90,094
Fund Balance - End of year	\$ 105,093

See Notes to Financial Statements

HOLLY SPRINGS FIRE – RESCUE DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances
 To the Statement of Activities
 June 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ 14,999
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives as Depreciation Expense. This is the Amount by Which Depreciation Expense (\$110,676) Exceeds Capital Asset Additions in the Period.	(110,676)
Repayment of Bond and Note Principal is an Expenditure in the Governmental Funds, but the Repayment Reduces Long-Term Liabilities in the Statement of Net Assets. Note Payable	89,669
In the statement of activities, interest accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.	14,383
Revenues in the Statement of Activities That do not Provide Current Financial Resources are not Reported as Revenue in the Funds. This Consists of the Current Period Increase in Deferred Property Taxes.	<u>(16,780)</u>
Change in Net Assets - Governmental Activities	<u><u>\$ (8,405)</u></u>

See Notes to Financial Statements

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

a. Reporting Entity

Holly Spring Fire – Rescue District (the District) provides fire and emergency protection and related services to the Holly Springs community. The District is supported by tax revenues and an emergency service contract with Spartanburg County. Spartanburg County bills and collects the District's property taxes.

The District is not included in any other governmental "reporting entity" as defined in the Governmental Accounting Standards Board (GASB) Sec. 2100.108 since Board members (five at the present time) are elected at large by the voters in the district and have decision making authority, the power to designate management, the ability to significantly influence operations and the primary accountability for fiscal matters. For these reasons, the District is recognized as a primary government in accordance with GAAP.

b. Component Units

Component units are legally separate entities for which the District (primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

c. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information of the District as a whole. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and District general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services – which report fees, fines, forfeitures and other charges to users of the District's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major governmental funds and enterprise funds are reported in separate columns with composite columns for non-major funds (if any).

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District have been prepared in conformity with United States generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds), revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year of which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation principal and interest which are reported as expenditures in the year due.

The major revenue source susceptible to accrual is property taxes. In general, other revenues are recognized when the cash is received.

e. Fund Types and Major Funds

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be use. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The district reports the following major governmental fund:

General Fund – The general fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of South Carolina and the bylaws of the District.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

f. Cash and Cash Equivalents

For financial statement purposes, the District considers all highly liquid investments (including restricted assets) purchased with an original maturity of three months or less to be cash equivalents. Those investments purchased with an original maturity of more than three months are classified as investments.

g. Receivables

All property taxes receivable are shown net of an allowance for uncollectibles.

h. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

i. Capital Assets, Depreciation and Amortization

The District's capital assets, which include property plant and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at estimated fair value on the date donated.

The District generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The District generally does not incur expenditures for public domain (infrastructure) fixed assets.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and Improvements	5-40
Furniture and Equipments	5-20
Land improvements	20
Vehicles	5-20

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

j. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, long-term obligations, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability only when payment is due.

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

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

k. Compensated Absences

The District's policy is that neither vacation nor sick leave accumulates or carries over to the subsequent year; therefore, no accrual has been made for these items.

l. Net Assets and Fund Balance

District-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned because they were not used. Net assets on the Statement of Net Assets include the following:

Investment in Capital Assets, Net of Related Debt – The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Unrestricted – The difference between the assets and liabilities that is not reported in Investment in Capital Assets, Net of Related Debt or Restricted Net Assets.

Restricted – The component of net assets that reports the difference between assets and liabilities that are restricted for a particular use or program.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

I. Net Assets and Fund Balance, Continued

Governmental Fund Financial Statements

As of these financial statements, the District has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form (such as inventories or prepaid amount) or because they are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these are not expected to be converted to cash.

Restricted – Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The District had no restricted fund balances as of June 30, 2012.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the District's Board of Commissioners. The District had no committed fund balances as of June 30, 2012.

Assigned – Amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The District has no assigned fund balances as of June 30, 2012.

Unassigned – All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet. The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

m. Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 2 – Budgetary Information

The Board of Commissioners adopts an annual budget for the General Fund. The annual budget for the General Fund is prepared primarily in accordance with the basis of accounting utilized by the fund. Board approval is required for expenditures outside of the budget. The Board of Commissioners did formally amend the annual budget this year. All annual appropriations lapse at the end of the fiscal year.

Note 3 – Cash and Cash Investments

The District maintains a checking account with one financial institution. At the fiscal year ended June 30, 2012, the reported amount of the District's cash deposits was \$113,951, and the bank balance was \$116,615. The balance for the period under audit was covered by the Federal Deposit Insurance Corporation.

For the purposes of these financial statements, the District considers all unrestricted highly liquid investments with maturities of three months or less to be cash equivalents.

Statutes authorize the District to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the state of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations and the state treasurer's investment pool. Investments are carried at cost.

Note 4 – Property taxes and Deferred Revenue

Tax revenues are based upon property taxes levied by the Spartanburg County Auditor each fall on the assess valuation of the property located in the District as of the preceding January 1. The tax books are open for collection September 1, with the first penalty of 3% applied to payments made after January 15, the due date. An additional penalty of 5% is charged for payments made after January 31. Uncollected property taxes attach as an enforceable lien on January 1. Uncollected property taxes as of March 15 are transferred to the Spartanburg County Delinquent Tax Collector at which time an additional 5% penalty is assessed. Spartanburg County bills and collects the property taxes for the District.

The assessed value of the District's real and personal property for the year ended June 30, 2012 totaled approximately \$16.15 million. The District's operating tax rate for the fiscal year ended June 30, 2012 was 16.7 mills.

In the governmental fund financial statements for the year ended June 30, 2012, property taxes receivable are the uncollected taxes as of June 30, 2012 net of an allowance for uncollectible accounts. Deferred revenue is the amount of those taxes not collected within 60 days. The amount for the fiscal year ended June 30, 2012 is presented below:

Gross Property Taxes Receivable	\$ 21,980
Less Allowance for Uncollectible Accounts	5,958
Net Property Taxes Receivable	<u>\$ 16,022</u>
Amount not collected within 60 days	<u>\$ 4,700</u>

In the government-wide financial statements, property taxes receivable include all amounts due to the District (net of allowance for uncollectible) regardless of when cash is received.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 5 – Capital Assets

The following table provides a summary of changes in capital assets for the fiscal year ended June 30, 2012:

Primary Government Governmental Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
<u>Capital Assets, Not Being Depreciated</u>				
Land	\$ 63,941	-	-	\$ 63,941
Total Capital Assets, Not Being Depreciated	<u>63,941</u>	<u>-</u>	<u>-</u>	<u>63,941</u>
<u>Capital Assets, Being Depreciated</u>				
Buildings and Improvements	799,185	-	-	799,185
Equipment	256,208	-	-	256,208
Furniture and Fixtures	43,721	-	-	43,721
Vehicles	840,428	-	-	840,428
Total Capital Assets, Being Depreciated	<u>1,939,542</u>	<u>-</u>	<u>-</u>	<u>1,939,542</u>
<u>Less Accumulated Depreciation For</u>				
Buildings and Improvements	129,013	20,865	-	149,878
Equipment	193,994	18,686	-	212,680
Furniture and Fixtures	35,191	2,292	-	37,483
Vehicles	583,446	68,833	-	652,279
Total Accumulated Depreciation	<u>941,644</u>	<u>110,676</u>	<u>-</u>	<u>1,052,320</u>
 Total Capital Assets, Being Depreciated, Net	 <u>2,881,186</u>	 <u>110,676</u>	 <u>-</u>	 <u>887,222</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 2,945,127</u>	 <u>110,676</u>	 <u>-</u>	 <u>\$ 951,163</u>

All depreciation expense was charged to the Public Safety function. Depreciation expense for the year ended June 30, 2012 was \$110,676.

The purchase of a 2006 Contender Truck and a 2009 Ford F-550 are partially funded by FEMA grants. According to the grant agreement, the District may not transfer or convey, including leasing the property, without the written consent of FEMA.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 6 – Long-Term Debt

The following tables provide a summary of the changes in general long-term debt for the fiscal year ended June 30, 2012:

Long-Term Debt

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
<u>Governmental Activities</u>				
Note payable to a financial institution for \$87,500, for a vehicle, with annual payments of \$16,399 including interest at 3.46%. Payments began November 2009, matures November 2014	\$ 60,293	-	13,787	\$ 46,506
Note payable to a financial institution for \$492,886, for a building, with annual payments of \$61,223 including interest at 4.15%. Payments began August 2009, matures August 2018.	\$ 409,658	-	44,223	365,435
Note payable to a financial institution for \$179,215, for the refinance of two fire apparatus, with annual payments of \$34,321 including interest at 4.12%. Payments began April 2008, matures April 2013.	64,622	-	31,659	32,963
Total Government Long-Term Debt	\$ 534,573	-	89,669	\$ 444,904

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2012 are as follows:

<u>Year</u>	Governmental Activities General Obligation Debt	
	Principal	Interest
2013	\$ 94,355	\$ 17,731
2014	63,289	14,333
2015	65,810	11,812
2016	52,033	9,190
2017	54,192	7,031
2018-2019	115,225	7,221
Totals	\$ 444,904	\$ 67,318

For the fiscal year ended June 30, 2012 interest expense for the General Fund was \$22,275.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Financial Statements, Continued
June 30, 2012

Note 7 – Defined Benefit Pension Plan

The District contributes to the South Carolina Retirement System (SCRS), which is a cost sharing, multiple employer defined benefit pension plan administered by the South Carolina Retirement System, a division of the State Budget and Control Board.

All full-time employees of the District are required to participate in SCRS as a condition of employment. Employees who retire at or after the age 65 or with 28 years of credited service at any age are entitled to a retirement benefit, payable monthly for life, equal to 1.82% of average final compensation multiplied by the number of years of credited service. Average final compensation is the employee's average salary over the last three years of credited service. Vested employees may retire at age 55 or 60 with 25 years service and receive reduced retirement benefits. SCRS also provides disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. Benefits are established under the authority of Title 9 of the South Carolina Code of Laws.

The South Carolina Retirement System issues a publicly available comprehensive annual financial report containing financial statement and required supplementary information for SCRS. This report may be obtained by writing to South Carolina Retirement System, PO Box 11960, Columbia, SC 29211-1960.

PORS Plan members are required to contribute 6.5% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate for the periods under audit is 11.36% of annual covered payroll plus .20% for incidental death benefit and .20% for accidental death contributions. The District's contributions to PORS for the year ended June 30, 2012 were \$814, which equals 100% of the required contributions.

The District's contributions to SCRS for the year ended June 30, 2011 and June 30, 2010 were \$1,037 and \$7,225 respectively.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years. Commercial insurance is also carried for workers' compensation.

The District participates in certain federal programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant.

Required Supplementary Information

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Schedules of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Fiscal Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 269,665	268,209	258,348	\$ (9,861)
Grant	-	-	4,307	4,307
Contract	-	-	1,285	1,285
Miscellaneous	-	-	15,597	15,597
Total Revenues	<u>269,665</u>	<u>268,209</u>	<u>279,537</u>	<u>11,328</u>
Expenditures				
Public Safety	155,382	155,382	152,594	2,788
Debt Service	-	-	-	-
Principal Retirement	89,669	89,669	89,669	-
Interest	23,158	23,158	22,275	883
Total Capital Assets, Being Depreciated	<u>268,209</u>	<u>268,209</u>	<u>264,538</u>	<u>3,671</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,456</u>	<u>-</u>	<u>14,999</u>	<u>14,999</u>
Net Change in Fund Balance	1,456	-	14,999	14,999
Fund Balance - Beginning of Year	<u>90,094</u>	<u>90,094</u>	<u>90,094</u>	<u>90,094</u>
Fund Balance - End of Year	<u>\$ 91,550</u>	<u>90,094</u>	<u>105,093</u>	<u>\$ 105,093</u>

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Notes to Required Supplementary Information

Note 1 – Budgetary Information

The District's budget policies and practices are fully discussed in Note 2 of the Notes to Financial Statements.

Note 2 – Excess of Expenditures over Appropriations

In the general fund, expenditures for some of the functions exceeded their appropriated amounts. The excess expenditures of the various functions were funded with excess appropriations in other functions and revenue sources that were not budgeted. In addition, some expenditures are allocated to one function for budget purposes; however, for financial statements purposes expenditures are allocated to the function for which it applies.

HOLLY SPRINGS FIRE – RESCUE DISTRICT
Schedules of General Fund Expenditures and Other Financing Uses
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Safety			
Payroll	\$ 37,567	45,518	\$ (7,951)
Employee Benefits	2,000	814	1,186
Payroll Taxes	2,885	4,647	(1,762)
Building, Grounds & Supplies	1,500	4,801	(3,301)
Equipment	8,600	5,545	3,055
Fire/Rescue/Station Supplies	2,000	2,662	(662)
Grant Expense		3,120	(3,120)
Information Systems	2,000	2,891	(891)
Insurance	17,180	20,150	(2,970)
Admin, Office Supplies & Postage	3,000	1,885	1,115
Other Expense/Public Relations/Event	1,750	1,570	180
Physicals	4,000	4,445	(445)
Professional Fees	27,000	15,730	11,270
Sanitation	750	716	34
Training	3,700	1,430	2,270
Uniforms	2,700	612	2,088
Utilities	16,000	13,432	2,568
Vehicle Expense	18,250	15,884	2,366
Volunteer Expense	4,500	6,742	(2,242)
	<u>155,382</u>	<u>152,594</u>	<u>2,788</u>
Total Public Safety			
Debt Service			
Principal Retirement	89,669	89,669	-
Interest	23,158	22,275	883
	<u>112,827</u>	<u>111,944</u>	<u>883</u>
Total Debt Service			
	<u>\$ 268,209</u>	<u>264,538</u>	<u>\$ 3,671</u>
Total Expenditures			

Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements Performed
Accordance With Government Auditing Standards

Holly Springs Fire and Rescue District
Inman, South Carolina

We have audited the financial statements of the general fund information of Holly Springs Fire and Rescue District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 1, 2013. 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 Holly Springs Fire and Rescue District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holly Springs Fire and Rescue District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holly Springs Fire and Rescue District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

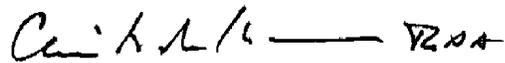
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holly Springs Fire and Rescue District's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Holly Springs Fire and Rescue District in a separate letter dated February 1, 2013.

This report is intended solely for the information and use of management, others within the entity 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.



February 1, 2013