

## SPARTANBURG COUNTY, SOUTH CAROLINA

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Spartanburg County, South Carolina operates under the provisions of South Carolina 1975 Act No. 283 (Home Rule Act) using a council-administrator form of government. The County provides the following services: public safety (police and judicial), public works (roads or bridges), sanitation, health and welfare, recreation, public improvements, planning and general administrative. In addition, the County operates as a collection agency for other taxing entities.

The accounting policies of Spartanburg County conform to U.S. generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

#### ***A. Reporting Entity***

As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize their separate legal existence. Each of the following discretely presented component units has a June 30 year end.

***Spartanburg County Public Library*** - The members of the governing commission of the Library are appointed by the County Council. The County has authority to review and approve budgets, sign contracts, and exercise control over Library facilities and properties. The County has responsibility for funding deficits and operating deficiencies, and guarantees the debt of the Library.

***Spartanburg Alcohol and Drug Abuse Commission*** - The Commission was created by County ordinance, and its governing body is appointed by the County Council and City Council. The County has authority to review and approve budgets, sign contracts, and exercise control over Commission facilities and properties. The County has responsibility for funding deficits and operating deficiencies of the Commission.

***Special Purpose Fire Districts*** - These districts were created by County Council Ordinance and are governed by Boards appointed by County Council. Annual budgets and tax millage rates are set by the County, and the legal liability for any general obligation debt and operating deficiencies remains with the County.

The financial statements of these component units may be obtained by request to the Spartanburg County Finance Department, P. O. Box 5666, Spartanburg, SC 29304 or arickett@Spartanburgcounty.org.

#### ***B. Government-wide and fund financial statements***

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets, report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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) capital 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and

proprietary fund financial statements is on major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being aggregated and displayed in a single column.

### ***C. Measurement Focus and Basis of Accounting***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues 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, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, licenses, and interest. Revenues from state and federal grants are recorded when expenditures are incurred. Taxes collected and held by the state at year end on behalf of the County are also recognized as revenue. All other revenue items are considered to measurable and available only when cash is received by the County.

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the County before it has a legal claim to them, as when grant money is received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the County has a legal claim to the resources, the liability for the deferred revenue is removed from the balance sheet and revenue is recognized.

The County reports the following major governmental funds:

The *General Fund* is the government’s primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The *Special Revenue Fund/Grants* fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Solid Waste Management* fund is used to account for the operation of a landfill, trash hauling and collection costs and the collection of residential and commercial fees for these services.

The County has no major proprietary funds.

Additionally, the government reports the following fund types:

*Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Proceeds from issuing general obligation bonds, revenues from federal grants, receipts designated for capital projects, and the related expenditures are recorded in the Capital Projects Fund.

*Proprietary Fund - Internal Service Fund – Fleet Services* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis.

*Fiduciary Funds - Agency Funds* are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Treasurer's Office and Delinquent Tax Office collect taxes for all taxing districts located within the county. The following offices collect fees, fines, child support, etc. for the state and other agencies: Sheriff, Clerk of Court, Master-in-Equity, Magisterial Court, Probate Court, and Register of Deeds.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers for services provided, 2) operating grants and donations, and 3) capital grants and donations. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

All proprietary funds are accounted for on a flow of economic resources measurement focus. Under this method, the accrual basis of accounting is utilized, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e. revenue) and decreases (i.e. expenses) in net assets by distinguishing 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 ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on all capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted under GAAP, the County applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions, and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The County's fiduciary fund types consists only of Agency Funds, which are custodial in nature and do not involve the measurement of operations. Agency funds use the accrual basis of accounting.

#### ***D. Assets, Liabilities, Fund Equity, Revenue, Expenditures and Expenses***

***1. Cash, Cash Equivalents, and Equity in Pooled Cash and Investments*** – Cash includes currency on hand, demand deposits with financial institutions and other accounts that have the general characteristics of demand deposits that additional funds may be deposited any time and withdrawn without prior notice or penalty.

The County pools the cash of substantially all funds into an internal cash and investment pool that is available for use by all funds. Allocation of interest is made to each fund based on pro rata equity. Each individual fund's portion of the pool is displayed on the combined balance sheet as "cash."

The Spartanburg County Public Library, a discretely presented component unit, maintains separate cash and investment accounts, generally in the form of cash in the bank and certificates of deposit.

For the purposes of the statement of cash flows, the County considers all short-term investments with original maturities of three months or less, when acquired, to be cash equivalents.

***2. Investments*** – Investments are stated at fair value.

***3. Receivables and Allowance for Doubtful Accounts*** – Accounts receivable are stated net of their allowance for uncollectible amounts. Receivables in governmental funds include revenue accruals that are recognized when they become measurable and available as previously defined.

Property taxes receivable represents delinquent and unpaid real and personal property tax billings, less an allowance for amounts estimated to be uncollectible.

**4. Inventories and prepaid items** - Inventories are valued at average cost, except for obsolete inventories which are written down to scrap value. The inventory of the General fund consists of expendable supplies and is recorded as an expenditure when consumed.

The inventory of the Fleet Services Fund consists of materials and supplies held for consumption. Costs, determined on a first in/first out (FIFO) method, are recorded as expenditures when inventory is consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Reported inventories and prepaid items in the governmental fund types are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

**5. Interfund Receivables and Payables** – Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditure or expense (transfers out) in the reimbursing fund and as reductions of the expenditure or expense (transfers in) in the fund that is reimbursed.

**6. Restricted Assets** – Restricted assets include monies or other resources, the use of which is restricted by legal or contractual requirements.

**7. Capital Assets and Depreciation** – Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year (\$1,000 and an estimated useful life of two or more years for the Spartanburg County Public Library). Such assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Public domain (infrastructure) capital assets have been capitalized using actual and estimated historical costs of major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements in fiscal years ending after June 30, 1980.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	30
Office equipment	10
Vehicles	5

For the County’s discretely presented component units, fixed assets are stated at cost less accumulated depreciation.

**Infrastructure.** The County has elected to use the “Modified Approach” as defined by GASB Statement No. 34 for Infrastructure reporting for its roads and bridges. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The government uses an asset management system with characteristics of 1) an up-to-date inventory; 2) perform condition assessments and summarize the results using a measurement scale; and 3) estimate the annual amount to maintain and preserve the assets at the established condition assessment level.
- The government documents that the eligible infrastructure capital assets are being preserved approximately at the established and disclosed condition assessment level.

**Roads.** The County manages its road network using its pavement management system and accounts for them using the modified approach. The road condition rating (OCI) is a numerical scale ranging from 0 (failed) to 100 (new). The County’s goal is to maintain roads at or above an OCI rating of 50 (Fair). Current road condition data is shown on schedule S-93-1.

**Bridges.** The County manages its bridge network using the State’s Bridge Management and Inspection Program that determines a bridge’s condition rating (“Sufficiency Rating”). The bridge “Sufficiency Rating” is a numerical scale ranging from 0 (failed) to 100 (new). The County’s goal is to maintain bridges at or above a “Sufficiency Rating” of 50 (Fair). Current bridge condition data is shown on schedule S-93-2.

**8. Compensated Absences** - It is the County’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay amounts when employees separate from service with the County. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The General Fund is typically used to liquidate the liability for compensated absences.

**9. Long-term Obligations** – In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Long-term debt represents unmatured principal of general and special obligation bond indebtedness. Other long-term obligations represent outstanding net present value portions due on capital lease obligations, and landfill closure costs.

**10. Net Assets and Fund Balances** – In the government-wide financial statements, the difference between the County’s total assets and total liabilities represents net assets. Net assets for both governmental funds and proprietary fund types displays three components – invested in capital assets , net of related debt; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net assets represent the net assets available for future operations.

The County reserves those portions of governmental 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. Fund balance reserves have been established for revenue bonds, debt service, inventory and prepaid items, and encumbrances. Designations of fund balance represent tentative management plans that are subject to change. Designations have been established for future expenditures, equipment replacement, and next year’s budget.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

**11. Landfill Closure and Post-Closure Care Costs** - In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*, the County recognizes expenses for landfill closure and post-closure care costs over the life of the landfill’s operation in proportion to the usage of the landfill’s total capacity. Federal and state regulations related to landfill closure procedures are comprehensive and require post-closure care and monitoring for a period extending thirty (30) years after closure.

Landfill sites	Croft	Wellford I - IV	Wellford V	Total
	Estimated future costs:			
Closure	Completed	Completed	\$5,145,428	\$5,145,428
Post-closure	<u>\$1,981,968</u>	<u>\$3,856,550</u>	<u>3,777,300</u>	<u>9,615,818</u>
	1,981,968	3,856,550	8,922,728	14,761,246
Percentage of total landfill capacity used as at June 30, 2005	<u>100%</u>	<u>100%</u>	<u>86.5%</u>	
	1,981,968	3,856,550	7,718,160	13,556,678
Above amounts in FY2006 budget	<u>82,582</u>	<u>154,262</u>	<u>0</u>	<u>236,844</u>
	<u>\$1,899,386</u>	<u>\$3,702,288</u>	<u>\$7,718,160</u>	<u>\$13,319,834</u>

The County will record the remaining estimated cost of closure and post-closure care costs of \$1,204,568 as the remaining capacity is filled. The liability recorded is based on current year estimated dollars. Actual costs may be higher due to inflation, changes in technology, or changes in the federal/state regulations. Estimated remaining landfill life is 50 years.

## **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets and Budgetary Accounting** - The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the County Administrator submits to the County Council a separate budgetary report which includes a proposed budget for the fiscal year commencing on that date. The operating budget includes proposed expenditures and the means of financing them.
2. The proposed budget is discussed at regular meetings of County Council.
3. After three (3) readings before County Council, the budget ordinance is legally enacted.
4. The County Administrator is authorized to transfer budgeted amounts within departments in any fund. During the year, as additional resources become available and/or additional services and programs are approved by County Council, the original budgeted amounts are amended to reflect such changes.
5. Legally adopted annual budgets and formal budgetary integration is employed as a management control device during the year for the General Fund, most Special Revenue Funds, and Debt Service Fund. Capital Projects Funds are budgeted on a long-term project basis, rather than annual appropriations.
6. Budgets for the General Fund, most Special Revenue Funds, and Debt Service Fund are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Appropriations for these funds lapse at the end of the fiscal year unless approved for carry forward as supplemental appropriations.
7. Budgets for most grants are not adopted until the grant has been awarded and the actual amount of the award is known. After grant award, a budget is adopted for the grant. These budgets are for the duration of the grant which most times span fiscal years. Council approval is required before application can be made for a grant and any required local match has been appropriated by Council.

**B. Encumbrances** – Under encumbrance accounting outstanding purchase orders are recorded in order to reserve that portion of the applicable appropriation in order to reserve that portion of the applicable appropriation in the governmental fund types. Encumbrances outstanding at year end are carried forward and are reported as reservations of fund balance.