

CITY OF CHESTER, SOUTH CAROLINA

**Financial Statements
(and Auditors' Report Thereon)**

For the Year Ended June 30, 2008

CITY OF CHESTER, SOUTH CAROLINA

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CITY OF CHESTER, SOUTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Chester, 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 City of Chester, South Carolina as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Chester, South Carolina's management. Our responsibility is to express an opinion 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 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 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 respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Chester, South Carolina as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison 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 December 31, 2008, on our consideration of City of Chester, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of City of Chester, South Carolina. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Camp, Moring & Cannon, LLC

Columbia, South Carolina
December 31, 2008

CITY OF CHESTER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

INTRODUCTION

This narrative overview gives an analysis of the financial activities of the City of Chester, South Carolina (the City) for the fiscal year ended June 30, 2008. Our purpose is to inform our citizens of the effect of our City's operations and to present our financial position. We ask our citizens to consider the information presented here in conjunction with the financial statements taken as a whole.

FINANCIAL HIGHLIGHTS

Although the local economy has experienced a mild recession over the last several years, the City's financial condition has continued to maintain revenues at a relatively constant level over this period.

Other key financial aspects were as follows:

- **Net Assets:** The City's governmental activities assets exceeded its liabilities at June 30, 2008 by \$4,557,985 a decrease of \$178,259 in net assets during the year. Of this amount, \$1,811,936 is unrestricted net assets. This means that these funds may be used to meet the City's ongoing obligations. Revenues increased by 1.3% and expenses increased by 1.2% over the prior year resulting in a decrease to net assets in the current year almost equal to the net decrease in the prior year. The decrease in net assets for the year was due to one time accounting/auditing costs and increases in fuel, maintenance and insurance costs.
- **Debt:** The City issued no new debt during the year. Furthermore, debt issued during the prior year to purchase a garbage truck in the amount of \$72,301 was paid off during the year ended June 30, 2008. The City has extinguished all of its long-term debt and at year end, has no debt other than accrued compensated absences.
- **Change in Net Assets:** The City's net assets of its governmental activities were reduced over the course of this year's operations. Net assets of the governmental activities decreased by \$178,259.
- **General Fund:** Our principal operating fund is the General Fund. In fiscal year 2007-08, General Fund revenues and other financing sources, which primarily consisted of property taxes, state aid and various charges for services, fines and fees were \$5,230,407, an increase of 2.8% from FY2006-07. Expenditures and Other Financing Sources and Uses in the General Fund were \$5,329,849, an increase from FY2006-07 of 3.1%. This resulted in a decrease to the fund balance for the year of \$99,442. The resulting decrease in fund balance was caused by one time expenditures related to (1) payoff long-term debt of \$72,301 and (2) costs associated with contracted services for accounting services and fees for three years of delinquent audits of \$91,704. After allowing for these one time expenditures, current year operating costs were less than revenues received.
- **Business-type Activities:** There was no business-type activity for the City for the year ended June 30, 2008.
- **General Fund Budget:** The general fund approved budget revenues reflect that actual revenues for the year exceeded projections by \$117,290. General fund actual expenditures were greater than the expenditure budget by \$52,714. The windfall in revenues was from intergovernmental revenues, primarily local option sales tax and police fines and fees which exceeded projections. Expenditures were greater than projections because of the one time expenditures due to operating increases in fuel, maintenance and insurance costs.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements (General, Special Revenue, Debt Service, Capital Projects, Proprietary and Fiduciary) and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the City:

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. These statements outline functions of the City that are principally supported by property taxes, state aid, intergovernmental grants and various charges for services, fines and fees. The governmental activities of the City include general government, public safety, public works, environment & housing, health & welfare, judicial, cultural & recreation and non-departmental allocations expenditures. The government-wide financial statements can be found on pages 9 and 11 of this report and consist of the following two statements:

1. **Statement of Net Assets:** The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
2. **Statement of Activities:** The statement of activities presents information showing how the City'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 (e.g., uncollected taxes and earned but unused compensated absences).

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary and fiduciary.

1. **Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on page 10 and 12. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service and Other Government Funds, all of which are considered to be major funds as defined by GASB Number 34. The basic governmental fund financial statements can be found on pages 13 and 14 of this report.
2. **Proprietary Funds:** Proprietary (Enterprise) funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that of monitoring the cost of such programs for public policy. The City has no proprietary funds and therefore no statements for such funds are presented in the financial statements.
3. **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the City and are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that of the proprietary funds. The basic fiduciary fund financial statement can be found on page 16 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 - 32 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual expenditure budget for the General Fund. A budgetary comparison statement has been provided for the General Fund as required supplementary information. The required supplementary information can be found on page 15 of this report.

Other supplementary information includes combining statements of funds that present more detailed views of governmental, fiduciary and proprietary funds. Additionally, certain individual statements are provided which may interest the reader.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$4,557,985 as of June 30, 2008.

A portion of the City's net assets (43.8 %) or \$1,994,919 reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, furniture and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its City of Chester residents; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City had no such debt as of June 30, 2008.

Additionally, 16.5% of the City's net assets or \$751,130 is restricted as to its uses by grantor/donors and therefore not available for general use by the City.

\$1,811,936 or 39.7% of net assets is unrestricted. This means that these funds may be used to meet the City's ongoing general obligations.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal years ended June 30, 2008 with comparative data for fiscal year ended June 30, 2007:

	Governmental Activities	
	FY2007-08	FY2006-07
Current and other assets	\$ 3,486,778	\$ 3,790,875
Capital assets, net	1,994,919	2,005,693
Total assets	5,481,697	5,796,568
Current liabilities	836,891	875,239
Long term debt outstanding	86,821	185,085
Total liabilities	923,712	1,060,324
Net assets:		
Invested in capital assets - net of related debt	1,994,919	1,933,392
Restricted for general government	751,130	894,636
Unrestricted	1,811,936	1,908,216
Total net assets	\$ 4,557,985	\$ 4,736,244

Changes in net assets: The City's total revenues for the fiscal year ended June 30, 2008, were \$5,295,148. The total cost of all programs and services was \$5,473,407. Therefore, the change in net assets was a decrease of \$178,259. The following table presents a summary of the activity that resulted in changes in net assets for the fiscal year ended June 30, 2008 with comparative summary of the activity for the fiscal year ended June 30, 2007:

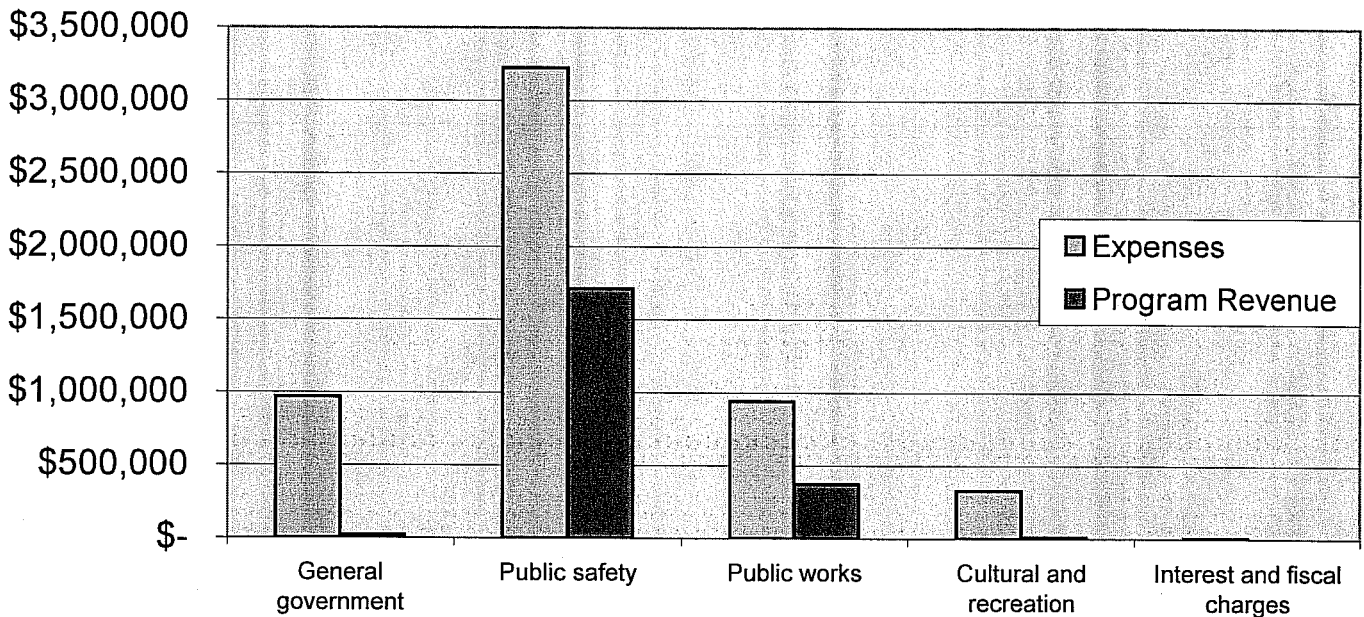
	Governmental Activities	
	FY2007-08	FY2006-07
Revenues:		
Program revenues:		
Charges for services	\$ 2,100,647	\$ 2,104,478
Operating grants/contributions	10,000	79,517
Capital grants/contributions	12,352	5,000
General revenues:		
Property taxes	1,133,733	1,155,234
Accommodations tax	19,457	17,940
Interest/investment income	66,058	102,530
Intergovernmental	1,058,162	960,992
Franchise fees	181,177	176,518
Business licenses	713,562	624,145
Total revenues	<u>5,295,148</u>	<u>5,226,354</u>
Expenses:		
General government	969,789	960,804
Public safety	3,223,696	3,161,598
Public works	942,340	959,824
Cultural and recreation	331,564	325,045
Interest and fiscal charges	6,018	122
Total expenses	<u>5,473,407</u>	<u>5,407,393</u>
Increase (decrease) in net assets	<u>\$ (178,259)</u>	<u>\$ (181,039)</u>

Governmental activities: The following table presents the cost of the five major functional activities: general government, public safety, public works, cultural and recreation and interest and fiscal charges. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

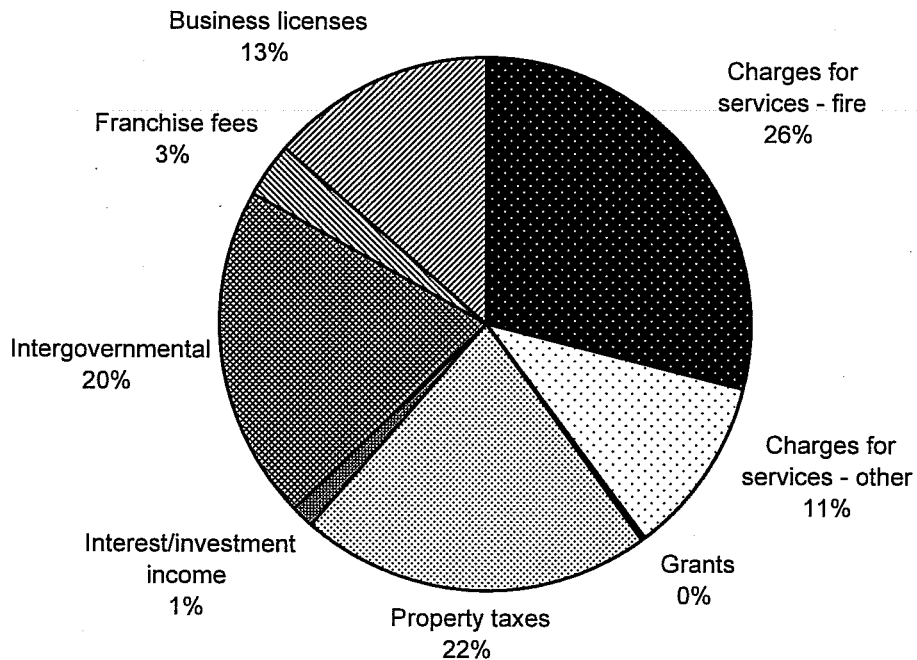
	Expenses		Program Revenue		Net Revenues (Expenses) and Changes in Net Assets	
	FY2007-08	FY2006-07	FY2007-08	FY2006-07	FY2007-08	FY2006-07
General government	\$ 969,789	\$ 960,804	\$ 22,426	\$ 92,155	\$ (947,363)	\$ (868,649)
Public safety	3,223,696	3,161,598	1,712,544	1,696,795	(1,511,152)	(1,464,803)
Public works	942,340	959,824	374,702	373,375	(567,638)	(586,449)
Cultural and recreation	331,564	325,045	13,327	26,670	(318,237)	(298,375)
Interest and fiscal charges	6,018	122	-	-	(6,018)	(122)
Total expenses	<u>\$ 5,473,407</u>	<u>\$ 5,407,393</u>	<u>\$ 2,122,999</u>	<u>\$ 2,188,995</u>	<u>\$(3,350,408)</u>	<u>\$(3,218,398)</u>

CITY OF CHESTER, SOUTH CAROLINA
MANAGEMENTS ANALYSIS AND DISCUSSION
For The Year Ended June 30, 2008

**Expenses and Program Revenues -
Governmental Activities**



Revenue by Source - Governmental Activities



- The cost of all governmental activities this year was \$5,473,407, an increase of \$66,014 from the prior year.
- Net cost of governmental activities was (\$3,350,408) which was financed by general revenues and beginning net assets. General revenues consist primarily of property taxes of \$1,133,733, state aid of \$1,077,619 and franchise fees, business licenses and interest of \$960,797. \$178,259 came from beginning net assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$2,564,781. \$1,813,651 or 70.7% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remaining fund balance of \$751,130 is reserved or designated to indicate that it is not available for spending because it has already been committed to specific special and capital projects.

- The General Fund is the principal operating fund of the City. The decrease in fund balance in the General Fund for the fiscal year was \$99,442. The general fund approved budget revenues reflect that actual revenues for the year exceeded projections by \$117,290. General fund actual expenditures were greater than the expenditure budget by \$215,015. The windfall in revenues was from intergovernmental revenues, primarily local option sales tax and police fines and fees which exceeded projections. Expenditures exceeded projections because of one time expenditures related to (1) payoff long-term debt of \$72,301 and (2) costs associated with contracted services for accounting services and fees for three years of delinquent audits of \$91,704. After allowing for these one time expenditures, current year operating costs were less than revenues received.

Proprietary Fund: Proprietary Funds are used to account for operations that are financial and operated in a manner similar to private business enterprises. The City has no Proprietary Funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: As of June 30, 2008, the City had \$1,994,919 in capital assets – net of accumulated depreciation, and including land, buildings and improvements, vehicles, computers, and other equipment. Total depreciation expense for the year was \$180,458.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2008 with comparative balance for the fiscal year ended June 30, 2007:

	Governmental Activities		Net Increase
	FY2007-08	FY2006-07	Over Prior Year
Land	\$ 36,000	\$ 36,000	\$ -
Buildings	1,977,073	1,968,366	8,707
Improvements other than buildings	351,914	323,783	28,131
Construction in progress	22,741	-	22,741
Machinery and equipment	2,323,098	2,212,993	110,105
	4,710,826	4,541,142	169,684
Less accumulated depreciation	2,715,907	2,535,449	180,458
	<u>\$ 1,994,919</u>	<u>\$ 2,005,693</u>	<u>\$ (10,774)</u>

Additional information on the City's capital assets can be found in Note 7 on page 28 of this report.

Debt Administration: At June 30, 2008, the City had no long term debt. The City paid off its one capital lease obligation during the year ended June 30, 2008. During the prior year, the City had entered into one new debt obligations, a capital leases agreement for \$72,301 to purchase a garbage truck used by the Public Works department. The total cost of the garbage truck of \$122,301 was paid for with \$72,301 proceeds from the capital lease arrangement and \$50,000 from the general fund. City Council approved the early pay off of this debt during the year ended June 30, 2008. The following table presents a summary of the City's outstanding long-term debt related to capital leases payable for the fiscal year ended June 30, 2008 with comparative data from fiscal year ended June 30, 2007:

	Governmental Activities		Net Decrease
	FY2007-08	FY2006-07	Over Prior Year
Capital leases payable	\$ -	\$ 72,301	\$ (72,301)

State statutes currently limit the amount of general obligation debt a City may issue to 8 percent of its total property taxes assessed valuation. The current debt limitation for the City is approximately \$600,000. Additional information on the City's long-term debt can be found in Note 8 on page 29 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

City of Chester is located in the north central portion of South Carolina and is a near equal distance between Columbia and Charlotte along the I-77 corridor.

The City of Chester is in the mist of a recession as is the entire nation. Generally poor economic conditions are expected to impact the City, particularly as are related to intergovernmental aid from the State of South Carolina and specifically, local option sales taxes. Current state projections could reflect a 10% decrease for the year 2008-09. State aid has already been reduced by 3%.

Some small businesses and a textile manufacturing plants operated by Springs Mill have discontinued operations recently. This can only have a negative impact on the City's tax base.

South Carolina State government has eliminated or reduced programs that have required City government to assume some of the services. State government has funded programs with non-recurring funds that have caused a financial crisis that will continue for a number of years. We expect more State programs to be shifted to City government. Also, state aid to local governments received annually from the State was reduced by 3% for FY2008-2009.

The Federal government's trend towards the greatest tax cut in history, along with increased war related spending overseas, economic woes related to the recent financial crisis are having the effect of a shift of program responsibility to the States. We expect fewer Federal grants and pressure by State government to pass responsibility to City government.

Prospects for significant economic development in the immediate future are not optimistic.

These detrimental economic factors will greatly challenge the City's management to continue to offer a high level of service without raising taxes. City Council will be forced to make some very difficult decisions in the coming years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Director, City of Chester, 100 West End Street, Chester, South Carolina 29706 (Telephone # 803-581-2123).

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,962,269
Receivables (net of allowance for uncollectibles):	
Property taxes	400,943
Intergovernmental	428,375
Other	399,111
Notes receivable, net	224,080
Capital lease receivable	72,000
Capital assets:	
Land	36,000
Buildings and improvements	1,977,073
Improvements, other than buildings	351,914
Construction in progress	22,741
Machinery and equipment	2,323,098
Accumulated depreciation	<u>(2,715,907)</u>
 Total Assets	 <u>5,481,697</u>
LIABILITIES	
Accounts payable	31,558
Accrued expenses	153,802
Deferred revenue	651,531
Noncurrent liabilities:	
Due within one year	17,364
Due after one year	<u>69,457</u>
 Total Liabilities	 <u>923,712</u>
NET ASSETS	
Invested in capital assets - net of related debt	1,994,919
Restricted for general government	751,130
Unrestricted	<u>1,811,936</u>
 Total Net Assets	 <u><u>\$ 4,557,985</u></u>

See independent auditors' report and accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA
RECONCILIATION OF TOTAL
GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2008

Total fund balances - governmental funds, June 30, 2008	\$ 2,564,781
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	4,710,826
Accumulated depreciation	(2,715,907)
Some revenue will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Property taxes	85,106
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds	
Compensated absences	(86,821)
Total net assets - governmental activities, June 30, 2008	\$ 4,557,985

See independent auditors' report and the accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT				
Governmental Activities				
General government	\$ 969,789	\$ 12,426	\$ -	\$ (947,363)
Public safety	3,223,696	1,700,192	12,352	(1,511,152)
Public works	942,340	374,702	-	(567,638)
Cultural and recreation	331,564	13,327	-	(318,237)
Interest and fiscal charges	6,018	-	-	(6,018)
Total Governmental	5,473,407	2,100,647	12,352	(3,350,408)
Business-Type Activities				
None	-	-	-	-
Total Primary Government	\$ 5,473,407	\$ 2,100,647	\$ 12,352	(3,350,408)
		General Revenues		
		Property taxes levied for:		
		General purposes		1,133,733
		Accommodations tax		19,457
		Interest/investment income		66,058
		Intergovernmental		1,058,162
		Franchise fees		181,177
		Business licenses		713,562
		Total general revenues		3,172,149
		Changes in net assets		(178,259)
		Net Assets, beginning		4,736,244
		Net Assets, ending		\$ 4,557,985

See independent auditors' report and the accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Change in fund balances - governmental funds, June 30, 2008	\$	(272,150)
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Amounts reported for governmental activities in
the statement of activities are different because:

Governmental funds report capital outlay as expenditures.

In the government-wide statement of activities and changes
in net assets, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the
amount of capital assets recorded in the current period.

169,684

Depreciation expense on capital assets is reported in the
government-wide statement of activities and changes in net assets,
but they do not require the use of current financial resources. Therefore
depreciation expense is not reported as expenditures in governmental funds.

(180,458)

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term debt
consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. This amount is the net
effect of these differences in the treatment of long-term debt and related items.

Principal payments

72,301

Compensated absences

25,963

Some property tax will not be collected for several months after the County's fiscal
year end, they are not considered "available" revenues in the
governmental funds.

6,401

Change in net assets - governmental activities, June 30, 2008	\$	(178,259)
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See independent auditors' report and the accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA**BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,437,386	\$ 524,883	\$ 1,962,269
Receivables (net of allowance for uncollectibles):			
Taxes	400,943	-	400,943
Intergovernmental	428,375	-	428,375
Other	399,111	-	399,111
Notes receivable, net	-	224,080	224,080
Due from other funds	105,027	215,657	320,684
Capital lease receivable	72,000	-	72,000
 Total Assets	 \$ 2,842,842	 \$ 964,620	 \$ 3,807,462
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 31,558	\$ -	\$ 31,558
Accrued expenses	153,802	-	153,802
Deferred revenue	628,174	108,463	736,637
Due to other funds	215,657	105,027	320,684
 Total Liabilities	 1,029,191	 213,490	 1,242,681
FUND BALANCES			
Fund balances			
Reserved	-	751,130	751,130
Unreserved	1,813,651	-	1,813,651
 Total Fund Balances	 1,813,651	 751,130	 2,564,781
 Total Liabilities and Fund Balances	 \$ 2,842,842	 \$ 964,620	 \$ 3,807,462

See independent auditors' report and accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Other Governmental Fund	Total Governmental Funds
REVENUES			
Taxes - property	\$ 1,093,050	\$ -	\$ 1,093,050
Licenses and permits	894,739	-	894,739
Intergovernmental	1,077,619	30,845	1,108,464
Charges for services	2,080,497	15,306	2,095,803
Investment earnings	50,221	10,838	61,059
Payments in lieu of taxes	34,281	-	34,281
Drug forfeitures	-	1,351	1,351
	<hr/>	<hr/>	<hr/>
Total Revenues	5,230,407	58,340	5,288,747
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current:			
General government	908,457	33,498	941,955
Public safety	3,135,584	28,169	3,163,753
Public works	890,160	-	890,160
Cultural and recreation	298,689	21,313	320,002
Capital outlay	19,899	149,785	169,684
Debt service	75,343	-	75,343
	<hr/>	<hr/>	<hr/>
Total Expenditures	5,328,132	232,765	5,560,897
	<hr/>	<hr/>	<hr/>
Excess revenue over (under) expenditures	(97,725)	(174,425)	(272,150)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(1,717)	1,717	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(1,717)	1,717	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(99,442)	(172,708)	(272,150)
	<hr/>	<hr/>	<hr/>
Fund Balance, beginning of year, adjusted	1,913,093	923,838	2,836,931
	<hr/>	<hr/>	<hr/>
Fund Balance, end of year	<u>\$ 1,813,651</u>	<u>\$ 751,130</u>	<u>\$ 2,564,781</u>

See independent auditors' report and accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes - property	\$ 1,171,169	\$ 1,171,169	\$ 1,093,050	\$ (78,119)
Licenses and permits	810,380	810,380	894,739	84,359
Intergovernmental	1,013,075	1,013,075	1,077,619	64,544
Charges for services	2,012,860	2,012,860	2,080,497	67,637
Investment earnings	85,000	85,000	50,221	(34,779)
Payments in lieu of taxes	20,633	20,633	34,281	13,648
Total Revenues	5,113,117	5,113,117	5,230,407	117,290
EXPENDITURES				
Current:				
General government	792,412	882,412	908,457	(26,045)
Public safety	3,094,855	3,094,855	3,135,584	(40,729)
Public works	946,603	946,603	890,160	56,443
Cultural and recreation	279,247	279,247	298,689	(19,442)
Capital outlay	-	-	19,899	(19,899)
Debt service	-	72,301	75,343	(3,042)
Total Expenditures	5,113,117	5,275,418	5,328,132	(52,714)
Excess revenue over (under) expenditures	-	(162,301)	(97,725)	64,576
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	-	-	(1,717)	(1,717)
Total Other Financing Sources (Uses)	-	-	(1,717)	(1,717)
Net change in fund balances	-	(162,301)	(99,442)	62,859
Fund Balance, beginning of year	-	162,301	1,942,295	1,779,994
Prior period adjustments	-	-	(29,202)	(29,202)
Fund Balance, beginning of year, adjusted	-	162,301	1,913,093	1,750,792
Fund Balance, end of year	\$ -	\$ -	\$ 1,813,651	\$ 1,813,651

See independent auditors' report and accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2008

	Evergreen Cemetery Trust Fund	Agency Funds
ASSETS		
Cash	\$ 177,649	\$ 415,723
Due from City of Chester	<u>6,316</u>	<u>-</u>
Total Assets	<u><u>\$ 183,965</u></u>	<u><u>\$ 415,723</u></u>
LIABILITIES		
Due to City of Chester	\$ -	\$ 373,788
Due to SC State	-	16,856
Funds held in trust for others	<u>183,965</u>	<u>25,079</u>
Total Liabilities	<u><u>\$ 183,965</u></u>	<u><u>\$ 415,723</u></u>

See independent auditors' report and accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements

June 30, 2008

Note 1 – Summary of Significant Accounting Policies

A. General

The City of Chester is a municipality in the state of South Carolina that was initially incorporated on December 18, 1840. The City adopted the Council-Mayor form of government pursuant to the Home Rule Statute, Act. No. 283 of 1975. The Certificate of Incorporation was issued by the Secretary of State on October 28, 1975. The City provides services as authorized by its charter for public safety, public works, planning and development, streets and sanitation, licensing and regulation, recreation and general administrative services.

The financial statements of City of Chester have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement Number 34, *Basic Financial Changes – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City (the Primary Government) operations. The criteria for including other organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on this criteria, the City has determined that no other governmental organizations operating within its city limits are deemed component units of the City of Chester.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

C. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include all financial activities of the primary government, except for the fiduciary funds. The effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities for the City. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

This government-wide focus is more on the sustainability of the City as an entity and the change in City's net assets resulting from the current year's activities.

Fund Financial Statements

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental fund types are used to account for the government's general government activities. Governmental funds include the following fund types:

The **general fund** of the City is used to account for all financial resources except those required to be accounted for in another fund. All property taxes, intergovernmental revenues, charges for services, fines, forfeits and miscellaneous revenues are recorded in this fund except amounts that are specifically collected to service debt or for which the City Treasurer collects taxes and other funds in a fiduciary capacity.

Operational expenditures for general government, public safety, public works and other departments of the City are paid through the general fund. Governmental accounting principles generally accepted in the United States of America require the presentation of a combined statement of revenues, expenditures and changes in fund balance - budget and actual for general and special revenue funds. As no budget is legally adopted for the City's special revenue funds, only general fund information is included in the aforementioned statement.

The **special revenue fund** is used to account for the proceeds of specific revenue sources (other than major capital projects) that include special projects requiring separate accounting because of legal or regulatory provisions and/or administrative action.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

The **debt service fund** is used to account for the accumulation of resources and the payment of general long-term debt principal, interest and any related costs. The City has no debt service fund as its policy is to pay its capital lease payments, its only long-term debt, from the general fund.

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary fund types

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. The City has no proprietary fund operations.

Fiduciary fund types

Fiduciary funds are used to account for assets held by the City on behalf of other organizations or activities not considered an activity of the City. The City's fiduciary funds consist of a trust fund for the perpetual care of its cemetery and agency funds.

Trust Funds are used to account for assets held by the City in a trustee capacity. When the objectives of a trust fund can be achieved by spending both the principal and the earnings of the fund, the fund is referred to as an expendable trust fund. The City accounts for certain revenue from the cemetery care fees and expenditures for the cemetery in this fund.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB Statement Number 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Since by definition, the City has no major funds except the general fund, no distinction between major and non-major funds is reflected in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (the City has a trust fund and four agency funds). Since by definition, these assets are being held for the benefit of a third party (other local government or other entity) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

D. Measurement Focus

Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets.

Fund financial statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Like the government-wide statements, all proprietary fund types are accounted for in a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic measurement focus.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and the presentation of expenses versus expenditures.

Revenues – exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: delinquent taxes collected within sixty days of fiscal year end, sales tax, grants, interest, fees and charges for service.

Deferred revenue

Deferred revenue arises when assets are recognized before recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2008 (all property owned by taxpayers are assessed as of December 31, 2006), but which were billed in October 2007 to finance fiscal year 2007-08 operations, have been recorded as revenue. That portion not expected to be collected within one year has been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period (which is defined as within 60 days of year end) have been reported as deferred revenue.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Expenses/expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

F. Assets, Liabilities and Equity

Cash and investments

For purposes of the Statement of Net Assets, cash includes all demand, savings accounts and certificates of deposits of the City. For the purposes of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit or short-term investments (including restricted assets) with original maturity of three months or less.

Investments are carried at fair value, which is based on quoted market price.

Receivables and payables

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The allowance for trade accounts receivable is computed based upon an estimate of collections within each aging category. The allowance for property taxes receivable is based upon a composite average of each delinquent tax year's collections to the outstanding balance at the beginning of the fiscal year.

Property taxes become a lien on real estate and certain personal properties owned on the preceding December 31 of each City fiscal year ended June 30. These taxes are levied on or before October 31 and are due without penalty through January 15. Penalties are added to the taxes depending on the date paid as follows:

January 16 through February 1	3% of tax
February 2 through March 15	10% of tax
March 16 and thereafter	15% of tax plus collection cost

The lien and collection date for motor vehicles is the last day of the month in which the motor vehicle license expires. The City bills and collects its own real property taxes. Chester County bills and collects vehicle property taxes and payments in lieu of taxes and remits to the City its collections monthly following the month received. Property tax revenue is recognized when past due and collectible within the current period or soon enough thereafter (defined as sixty days) to pay liabilities of the current period. An allowance is provided for an estimated amount of taxes billed that may ultimately prove to be uncollectible. Deferred revenue (property taxes) represents that portion of property taxes which is deemed not available to pay current expenses.

Interfund receivables and payables

Short-term amounts owed between funds are classified as "Due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Due from other governments

Amounts due from state and federal grants represent reimbursable costs that have been incurred by the City but have not been reimbursed by the grantor agency. Costs under grant programs are recognized as expenditures in the period in which the City incurs them.

Inventories

The general fund of the City has no significant inventories. The cost is recorded as expenditures at the time individual inventory items are purchased.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, water & sewer systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Because City of Chester qualifies as a small governmental entity as defined by GASB 34 (governments with annual revenues less than \$10 million), the City has elected not to capitalize its infrastructure retroactively as large governmental entities are required to do. Prior to June 30, 2003, City of Chester has not capitalized infrastructure. Infrastructure with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years is being capitalized beginning July 1, 2003 and thereafter.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets are capitalized as the projects are constructed. Interest incurred during the construction phase of proprietary capital assets is included as part of the capitalized value of the assets constructed.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings	30 years
Building improvements	15 years
Vehicles	5 years
Furniture and equipment	3 to 10 years
Machinery and equipment	5 to 10 years
Public domain infrastructure	40 years

Compensated absences

City employees earn from one day to two days each month, depending on longevity, for vacation and one day a month for sick leave. If an employee leaves the employment of the City, he/she is entitled to be paid for up to six weeks of unused vacation. There is no liability for sick pay since it is the City's policy to only pay sick leave when it is used. The entire compensated absence liability is reported on the government-wide financial statements. Expenditures for these fringe benefits are recorded at the time the benefits are paid for governmental fund types and accrued currently for proprietary fund types.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Fund equity - reservations and designations of fund balances

Reservations represent the portions of fund balances that are not appropriated for expenditures or have been segregated for specific future uses by legal mandate. Designations represent tentative plans by the City for financial resource utilization in a future period. Such plans are subject to change and may never result in expenditures.

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those net assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through restrictions imposed by creditors, grantors, laws, or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Revenues, Expenditures and Expenses

Property taxes

The City follows Governmental Accounting Standards Board (GASB) Statement Number 33, *Accounting and Financial Reporting for Non-exchange Transactions* to account for non-exchange revenues that primarily consist of imposed non-exchange revenues or ad valorem taxes. Under the standard, a receivable is recorded when an enforceable legal claim for property taxes has arisen and revenue is recognized when the resources are available.

Operating revenues and expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing or delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities.

Expenditures/expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:

Current (further classified by function)

Debt service

Capital outlay

Proprietary Fund – By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund transfers

Reallocations of resources between funds of the reporting entity are classified as interfund transfers and are reported as operating transfers. For purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2008

Use of estimates

The financial statements include estimates and assumptions that affect the City's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

H. Stewardship, Compliance and Accountability

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Certain Special Revenue funds and Capital Projects funds are budgeted over the life of the grant or project but are not formally approved by City Council. Therefore, Special Revenue and Capital Projects fund budget comparisons to actual expenditures are not presented herein.

All departments of the City submit their requests for appropriations for the coming year to the Council Administrator by March 15 along with revenue estimates so that a budget may be prepared. By May 1, the proposed budgets are presented to City Council for review. The Council holds public hearings and adopts the final budgets by July 1 through passage of an ordinance.

City Council, at the individual fund level, determines the legal level of budgetary control. Expenditures by department, sub-organizational level and major category (i.e. personnel, non-personnel and capital outlay) are further defined in the budget document and are subject to City Administrator approval. The City Administrator is authorized to make transfers between major expenditure categories within departments and between departments within the same fund. The budget ordinance must be amended by council to effect changes in fund totals.

Budgets, as reported in the financial statements, are originally passed by ordinance and may be subsequently amended. During the year, no supplementary appropriations were enacted. All annual appropriations lapse at year end.

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances reserved as of June 30, 2008.

Budget Basis of Accounting

The City has legally adopted a budget for the general fund. The City's budgetary process is based primarily upon the cash basis of accounting.

It is the opinion of the City that a meaningful comparison of actual results to budget can be presented for the General Fund due to the fact that there is no material difference between actual results on the GAAP basis and actual results on a budget basis.

Excess of Expenditures Over Budget Appropriations in Individual Department of the General Fund

Expenditures exceeded budget appropriations for the following department for the fiscal year:

• Administration	\$ 32,398
• Police	\$ 59,712
• Recreation	\$ 33,725

Expenditures were authorized by City Council; however the budget was not formally amended.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

DETAILED NOTES ON ALL FUNDS

Note 2 - Cash and Investments

The City's investments are invested pursuant to statutes established by the State of South Carolina. The statutes allow the City to invest City monies in the most prudent manner possible. At June 30, 2008, the City had no investments.

At year end, the carrying amount of the City's cash deposits (checking accounts, savings accounts and certificates of deposit), was \$1,962,269 and the bank balances were \$2,096,261. Of the bank balances, \$557,321 was covered by federal depository insurance (FDIC). The bank balances are classified in three categories of credit risk. Category 1 includes deposits that are insured or collateralized with securities held by the City or by its agent in the City's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes deposits that are uncollateralized. All cash is in either Category 1 or 2; the City has no cash in Category 3.

Note 3- Capital Lease Receivable and Sewer Escrow

The City entered into a lease in 1978 with the Chester Sewer District to lease the municipal sewer and sewage disposal systems to the District through the year 2040. Terms provide for rental payments totaling \$5,000 per year. The District is also required to pay \$5,000 per year into an escrow account to be maintained under the joint control of the Mayor of the City of Chester and the Executive Director of the District. The agreement does not address the disposition of these escrow funds upon the termination of the lease. These escrow funds are recorded in the special revenue fund of the City. The escrow funds are to be used for the sole purpose of making extensions and improvements to the system.

Due to the modified accrual basis of accounting, revenue from the lease is not recognized until it is available. A deferred revenue account has been established to offset the lease receivable. Revenue will be recognized yearly as it becomes available.

Note 4- Notes Receivable and Allowance for Doubtful Accounts

Notes receivable in the special revenue fund are composed of various loans made in prior years from Community Developments Block Grant funds.

Four of the City's Rehabilitation Notes Receivable are doubtful as to whether they can be collected. The notes receivable in the special revenue fund is shown net of a \$43,775 allowance.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2008 including penalties, are as follows:

Real property (1999 - 2008)	\$	406,777
Vehicle taxes (through Chester County)		<u>14,504</u>
		421,281
Less allowance for doubtful accounts		<u>(20,338)</u>
Total property taxes receivable - net of allowance for uncollectibles	\$	<u><u>400,943</u></u>

Intergovernmental receivables at June 30, 2008 are as follows;

State of South Carolina for		
Aid to Local Governments	\$	55,570
Accommodations taxes		17,640
Local Option Sales Taxes		119,125
Chester County		
Payments in lieu of taxes		169
Three Mile Fire District		<u>235,871</u>
Total intergovernmental receivables	\$	<u><u>428,375</u></u>

Other receivables at June 30, 2008 are as follow:

Solid waste disposal fees	\$	25,317
Police fines escrow account		248,129
Teens United for the Future		<u>125,665</u>
Total other receivables - net of allowance for uncollectible	\$	<u><u>399,111</u></u>

Governmental funds report deferred revenue in connection with taxes receivable for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Delinquent property taxes	\$	356,544
Received but not earned		<u>-</u>
Total deferred revenues related to property taxes		356,544
Deferred revenue - capital lease of sewage plant		72,000
Deferred revenue - proceeds from insurance not yet expended to replace destroyed fire truck		199,630
Deferred revenue - Fire Equipment Replacement - insurance proceeds		<u>108,463</u>
Total deferred revenue	\$	<u><u>736,637</u></u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2008, is as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 105,027	\$ 215,657
Special Revenue Fund - Fire Equipment Replacement	-	27,068
Special Revenue Fund - Special Projects	-	68,824
Special Revenue Fund - Victims Assistance	-	9,135
Special Revenue Fund - Community Development	5,441	-
Special Revenue Fund - Sewer Escrow	17,000	-
Special Revenue Fund - Grant Projects	27,867	-
Capital Projects Fund - Capital Improvement	165,349	-
Total Other Governmental Funds	215,657	105,027
Totals	\$ 320,684	\$ 320,684

	Interfund Transfer In	Interfund Transfers Out
General Fund	\$ -	\$ 1,717
Special Revenue Fund - Special Projects	-	5,900
Special Revenue Fund - Community Development	5,900	-
Special Revenue Fund - Finley Preservation Fund	1,717	-
Total Other Governmental Funds	7,617	5,900
Totals	\$ 7,617	\$ 7,617

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2008 is as follows:

	Balance 06/30/07	Additions	Retirements	Balance 06/30/08
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Total capital assets, not being depreciated	36,000	-	-	36,000
Capital assets, being depreciated:				
Buildings	1,968,366	8,707	-	1,977,073
Improvements other than buildings	323,783	28,131	-	351,914
Construction in progress	-	22,741	-	22,741
Machinery and equipment	2,212,993	110,105	-	2,323,098
Total capital assets, being depreciated	4,505,142	169,684	-	4,674,826
Less accumulated depreciation for:				
Buildings	801,955	40,632	-	842,587
Improvements other than buildings	122,075	9,428	-	131,503
Machinery and equipment	1,611,419	130,398	-	1,741,817
Total accumulated depreciation	2,535,449	180,458	-	2,715,907
Total capital assets, being depreciated, net	1,969,693	(10,774)	-	1,958,919
Governmental activities capital assets, net	<u>\$ 2,005,693</u>	<u>\$ (10,774)</u>	<u>\$ -</u>	<u>\$ 1,994,919</u>

Depreciation expense was charged as direct expenses to programs of the City government as follows:

Governmental Activities:	
General government	\$ 37,628
Public safety	72,739
Public works	52,394
Culture and recreation	17,697
	<u>\$ 180,458</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 8 - Long-Term Debt

Long-term liability activity for the year was comprised of obligations under capital leases and accrued compensated absences. Activity for the fiscal year is as follows:

	Balance 06/30/07	Additions	Retirements	Balance 06/30/08
<u>Capital Lease</u>				
2007 Rear Loader Garbage Truck				
\$72,301; 5 annual payments of \$16,238.26				
including interest @ 4.05%				
Due 05/07/12	\$ 72,301	\$ -	\$ 72,301	\$ -
Total capital leases	72,301	-	72,301	-
Accrued compensated absences	112,784	-	25,963	86,821
Total general long-term debt	\$ 185,085	\$ -	\$ 98,264	\$ 86,821

Long-term debt is reflected in the Statement of Net Assets based on the maturity of the debt as follow:

	Capital Lease Payable	Accrued Compensated Absences	Total
Due within one year	\$ -	\$ 17,364	\$ 17,364
Due after one year	-	69,457	69,457
Total general long-term debt	\$ -	\$ 86,821	\$ 86,821

Interest expense for the year related to long term debt was \$3,042.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 9 - Employee Pension Plans

A. Plan Description -- The City is a member of the South Carolina Retirement System (SCRS) and the South Carolina Police Officer's Retirement System (PORS), two of four defined benefit retirement systems maintained by the Retirement Division of the State Budget and Control Board of South Carolina. Each system publishes its own component unit financial statement report.

The systems provide retirement, death and disability benefits to State employees, public school employees, and employees of counties, municipalities, and certain other State political subdivisions. Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants.

A comprehensive annual report containing financial statements and required supplementary information for the South Carolina Retirement System and Police Officers' Retirement System is issued and publicly available on their website at www.retirement.sc.gov or by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

B. Funding and Benefit Policies -- Title 9 of the South Carolina Code of Laws of 1976 (as amended) prescribes requirements relating to membership, benefits, and employee/employer contributions for each system. The following paragraphs summarize the requirements for SCRS and PORS.

SCRS is a cost-sharing multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions, such as municipalities. Membership is required as a condition of employment. Both employers and employees must contribute. Employees contributed at 6.5% and employers at 9.06% during the year ended June 30, 2008. In addition to the above rates, participating employers of SCRS contribute .15% of payroll to provide group life insurance benefit for their participants. Benefits vest after five years of service. Vested members, who retire at age sixty-five or with twenty-eight years of service at any age, receive an annual benefit, payable for life. The benefit is based on length of service and on average final compensation, an annualized average of the employee's highest twelve consecutive quarters of compensation. The annual benefit amount is 1.82% of average final compensation times years of credited service. Reduced benefits are payable as early as age sixty with 5% reduction for each year under age 65 and at age 55 with 25 years of service, reduced by 4% for each year of service under 28 years.

PORS is a cost-sharing multiple employer pension system that benefits all full-time City employees whose principal duties are the preservation of public order, protection, or prevention and control of property destruction by fire. Membership is required as a condition of employment. Both employers and employees must contribute. Employees contributed at 6.5% and employers at 10.3% for the year ended June 30, 2008. In addition to the above rates, participating employers of PORS contribute .20% of payroll to provide a group life insurance benefit and another .20% to provide accidental death coverage for their participants. Employees who retire at fifty-five or with twenty-five years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 2.14% of average final compensation multiplied by the number of years of credited service. Benefits fully vest on reaching 5 years of service. PORS has no provision for early retirement.

C. Funding Status and Progress -- The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits (adjusted for the effects of projected salary increases and step-rate benefits) estimated to be payable in the future as a result of employee service to date. The State discloses this measure to help users of these financial statements to: (1) assess the system's funding status on a going-concern basis, (2) assess progress toward accumulating sufficient assets to pay benefits when due, and (3) compare various public employee retirement systems and employers. The measure is the actuarial present value of credited projected benefits. This method is independent of the funding methods the State's consulting actuary uses to determine contributions to the system. A 7.25% interest rate (compounded annually) was used to compute the pension benefit obligation.

The South Carolina Retirement System (SCRS) and the South Carolina Police Officers' Retirement System (PORS) do not separately measure assets and pension benefit obligations for individual employers. The total unfunded accrued liability obligation expressed in millions at July 1, 2008 for SCRS was \$10,225 and for PORS was \$570.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

D. Contributions Required and Contributions Made -- The State's consulting actuary determines employer contributions for all four systems. The systems use the projected benefit method with entry age normal cost and benefits and allocate pension cost to each year as a level percentage of salary. In determining funding requirements, the actuary uses the same actuarial assumptions as those used to calculate the pension benefit obligation, with the following assumptions: (1) post-retirement benefit increases were projected for retired members and members eligible to retire (2) net assets attributable to group life insurance were excluded. At July 1, 2008 (latest data available), the unfunded liability liquidation period in years for SCRS was 29 years and for PORS was 16 years.

Both employees and employers are required to contribute to the Plan at rates established under the authority of Title 9 Code of Laws.

The following provides a summary of the City's retirement Plan Contributions at June 30, 2008 (includes group life insurance for both plans and accidental death insurance for the Police Plan) with comparative data at June 30, 2007 and 2006.

Year Ended June 30,	Plan	Employee Contributions	Employer Contributions	Total Contributions
2008	Regular	63,892	90,944	154,836
	Police	114,525	181,272	295,797
2007	Regular	61,141	78,674	139,815
	Police	111,583	176,677	288,260
2006	Regular	59,853	72,302	132,155
	Police	105,019	166,415	271,434

Employer contributions are recorded to departments corresponding to the locations where the covered employee works and are called "Retirement" in the financial statements.

Note 10 – Post-Employment Benefits

The City policy is to provide postretirement health care benefits to all employees who are eligible to retire from the South Carolina Retirement System (SCRS) and who have 20 years of credited service with the City of Chester and who have at least 10 years of medical coverage with the South Carolina Local Government Assurance Group. Currently, there are 16 eligible participants receiving benefits. During the years ended June 30, 2008 and June 30, 2007, the City paid approximately \$57,750 and \$55,000, respectively, in premiums for retired employees.

Note 11 - Commitments

The City has committed to provide fire protection services within the Chester Fire District for a total fee of \$1,571,968 for the period July 1, 2008 through June 30, 2009.

Note 12 - Contingent Liability - Self Insured Unemployment Claims

The City has elected to be self insured for unemployment claims. The City reimburses the South Carolina Employment Security Commission for legitimate claims paid to former employees. Historically, claims have been minimal and the City expects this to continue. The liability from future claims is indeterminable and, as such, no liability has been accrued in these financial statements for future claims.

Note 13 – Contingent Liability – Legal Claims

The City is a defendant in various lawsuits arising from the conduct of normal business. Although any litigation has an element of uncertainty, it is management's opinion that the outcome of any litigation pending or threatened, or combination thereof, will not have a material adverse effect on the financial position of the City.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2008

Note 14 – Risk Management

The City is exposed to various risks of loss and maintains insurance coverage for each of those risks (except unemployment claims as described in Note 13). The City pays insurance premiums to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the period in accordance with insurance policy and benefits program limits except for the deductibles.

The City pays premiums to the South Carolina State Retirement System for the claims of covered employees for long-term disability and group-life benefits. Premiums are paid to the South Carolina Local Government Assurance Group for employee health, dental and life insurance coverage. Premiums are paid to the South Carolina Municipal Insurance Trust for worker's compensation insurance.

The City, as do other South Carolina municipalities, pay premiums to the South Carolina Municipal Insurance Reserve Fund (SCMIRF) which issues policies, accumulates assets to cover risks of loss, and pays claims incurred for covered losses related to the following assets, activities and/or events:

1. Theft of, damage to or destruction of assets.
2. Real property, its contents, and other equipment.
3. Motor vehicles.
4. Torts.
5. Natural disasters.

The SCMIRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit extreme losses in all of the activities listed above. The SCMIRF's rates are determined actuarially.

The City maintains employee fidelity bond insurance with coverage up to \$20,000 per occurrence on certain employee for losses arising from theft or mismanagement. The City self-insures above this amount.

The City has recorded insurance premium expenditures in the applicable department where assets are used and employees work.

Note 15 – Prior Period Adjustments

City of Chester re-evaluated its Water Works fund and determined that it should be reflected as a special revenue fund rather than part of the general fund as it has been recorded and reported in prior years. Therefore, a prior period adjustment was necessary to adjust the opening fund balances of the general fund and the special revenue fund. This adjustment does not affect the Government Wide Net Assets opening balance.

	Fund Statements	
	General Fund	Other Governmental Fund.
Beginning fund balance, June 30, 2008	\$ 1,942,295	\$ 894,636
Change the Water Works Fund from a general fund account to a special revenue fund account.	(29,202)	29,202
Beginning fund balance, June 30, 2008, as adjusted	\$ 1,913,093	\$ 923,838

SUPPLEMENTARY INFORMATION

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
TAXES:				
Property taxes - current	\$ 1,031,169	\$ 1,031,169	\$ 929,069	\$ (102,100)
Property taxes - delinquent	140,000	140,000	163,981	23,981
	<u>1,171,169</u>	<u>1,171,169</u>	<u>1,093,050</u>	<u>(78,119)</u>
LICENSES, FINES, FEES AND PERMITS:				
Business licenses	633,880	633,880	713,562	79,682
Franchise fees	176,500	176,500	181,177	4,677
	<u>810,380</u>	<u>810,380</u>	<u>894,739</u>	<u>84,359</u>
INTERGOVERNMENTAL:				
State shared revenues:				
Local government revenue	207,850	207,850	211,454	3,604
Local option sales tax	590,000	590,000	640,424	50,424
Homestead exemption	160,659	160,659	169,365	8,706
Accommodations tax	18,000	18,000	19,457	1,457
Merchant's inventory tax	34,566	34,566	34,567	1
Manufacturing depreciation tax	2,000	2,000	2,352	352
	<u>1,013,075</u>	<u>1,013,075</u>	<u>1,077,619</u>	<u>64,544</u>
CHARGES FOR SERVICES:				
Chester Fire District contract	1,529,710	1,529,710	1,529,710	-
Police fines and fees	65,000	65,000	150,332	85,332
Solid waste fees - commercial	72,000	72,000	70,010	(1,990)
Solid waste fees - residential	306,280	306,280	303,087	(3,193)
Public Works fees	-	-	1,605	1,605
Cemetery fees	23,820	23,820	12,426	(11,394)
Recreation Department fees	16,050	16,050	13,327	(2,723)
	<u>2,012,860</u>	<u>2,012,860</u>	<u>2,080,497</u>	<u>67,637</u>
INVESTMENT EARNINGS:				
Interest income	80,000	80,000	43,702	(36,298)
Lease income	5,000	5,000	5,000	-
Other income	-	-	1,519	1,519
	<u>85,000</u>	<u>85,000</u>	<u>50,221</u>	<u>(34,779)</u>
PAYMENTS IN LIEU OF TAXES:				
Payments in lieu of taxes	20,633	20,633	34,281	13,648
TOTAL REVENUES	<u><u>\$ 5,113,117</u></u>	<u><u>\$ 5,113,117</u></u>	<u><u>\$ 5,230,407</u></u>	<u><u>\$ 117,290</u></u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT:				
CITY COUNCIL				
Salaries	\$ 51,700	\$ 51,700	\$ 52,494	\$ (794)
Payroll taxes	3,955	3,955	3,661	294
Retirement	4,679	4,679	4,991	(312)
Employee insurance and benefits	30,278	30,278	28,251	2,027
Mayor's meeting expenses	2,000	2,000	2,057	(57)
Council conferences and travel	19,500	19,500	12,348	7,152
Tourism and accommodations	7,000	7,000	7,350	(350)
Supplies and materials	2,000	2,000	5,786	(3,786)
Agency support expenses	2,300	2,300	1,594	706
	<u>123,412</u>	<u>123,412</u>	<u>118,532</u>	<u>4,880</u>
ADMINISTRATION				
Salaries	100,900	100,900	89,981	10,919
Payroll taxes	7,720	7,720	8,656	(936)
Retirement	7,600	7,600	10,172	(2,572)
Employee insurance and benefits	14,152	14,152	18,708	(4,556)
Supplies and materials	250	250	212	38
Postage	200	200	397	(197)
Travel and training	6,000	6,000	5,756	244
Dues and subscriptions	3,700	3,700	3,831	(131)
Auto repairs and maintenance	2,150	2,150	1,478	672
Advertising and printing	850	850	1,662	(812)
Utilities	119,350	119,350	134,146	(14,796)
Repairs and maintenance	3,100	3,100	4,972	(1,872)
Communications	4,330	4,330	5,843	(1,513)
General and miscellaneous	800	800	19,341	(18,541)
Contracted services	2,400	2,400	665	1,735
Insurance	7,542	7,542	5,486	2,056
Juror's fees	1,000	1,000	160	840
Interest expense	-	-	2,976	(2,976)
	<u>282,044</u>	<u>282,044</u>	<u>314,442</u>	<u>(32,398)</u>
FINANCE				
Salaries	211,141	211,141	204,211	6,930
Payroll taxes	16,152	16,152	13,380	2,772
Retirement	17,207	17,207	16,179	1,028
Employee insurance and benefits	56,550	56,550	56,214	336
Supplies and materials	12,876	12,876	12,149	727
Postage	5,200	5,200	7,093	(1,893)
Travel and training	1,500	1,500	2,985	(1,485)
Dues and subscriptions	500	500	946	(446)

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Advertising and printing	9,000	9,000	5,714	3,286
Utilities	3,000	3,000	3,517	(517)
Repairs and maintenance	16,920	16,920	36,258	(19,338)
Communications	8,960	8,960	7,424	1,536
General and miscellaneous	2,700	2,700	1,957	743
Contracted services	11,100	101,100	100,098	1,002
Insurance	14,150	14,150	7,358	6,792
	<u>386,956</u>	<u>476,956</u>	<u>475,483</u>	<u>1,473</u>
Total General Government	<u>792,412</u>	<u>882,412</u>	<u>908,457</u>	<u>(26,045)</u>

PUBLIC SAFETY:

POLICE DEPARTMENT

Salaries	935,959	935,959	1,000,856	(64,897)
Payroll taxes	67,508	67,508	74,682	(7,174)
Retirement	98,376	98,376	106,921	(8,545)
Employee insurance and benefits	263,576	263,576	266,893	(3,317)
Supplies and materials	24,160	24,160	27,560	(3,400)
Postage	730	730	476	254
Travel and training	9,500	9,500	6,675	2,825
Dues and subscriptions	1,200	1,200	2,028	(828)
Auto repairs and maintenance	120,500	120,500	108,751	11,749
Advertising and printing	2,000	2,000	1,488	512
Utilities	4,550	4,550	10,667	(6,117)
Repairs and maintenance	5,200	5,200	18,786	(13,586)
Communications	24,200	24,200	21,713	2,487
General and miscellaneous	6,500	6,500	2,216	4,284
Uniforms	9,000	9,000	11,150	(2,150)
Contracted services	35,550	35,550	11,175	24,375
Insurance	35,000	35,000	31,184	3,816
	<u>1,643,509</u>	<u>1,643,509</u>	<u>1,703,221</u>	<u>(59,712)</u>

FIRE DEPARTMENT

Salaries	867,280	867,280	867,096	184
Payroll taxes	65,481	65,481	63,654	1,827
Retirement	88,875	88,875	94,180	(5,305)
Employee insurance and benefits	215,700	215,700	216,152	(452)
Supplies and materials	30,700	30,700	27,394	3,306
Postage	600	600	313	287
Travel and training	12,900	12,900	6,702	6,198
Dues and subscriptions	2,000	2,000	1,941	59

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Auto repairs and maintenance	33,050	33,050	36,993	(3,943)
Advertising and printing	1,000	1,000	668	332
Utilities	22,700	22,700	21,542	1,158
Repairs and maintenance	21,200	21,200	19,799	1,401
Communications	8,700	8,700	7,728	972
General and miscellaneous	4,575	4,575	4,481	94
Uniforms	11,935	11,935	12,643	(708)
Contracted services	33,650	33,650	23,034	10,616
Insurance	31,000	31,000	28,043	2,957
	<u>1,451,346</u>	<u>1,451,346</u>	<u>1,432,363</u>	<u>18,983</u>
Total Public Safety	<u>3,094,855</u>	<u>3,094,855</u>	<u>3,135,584</u>	<u>(40,729)</u>
PUBLIC WORKS:				
PUBLIC WORKS - COMMERCIAL				
Salaries	305,463	305,463	321,219	(15,756)
Payroll taxes	23,333	23,333	24,037	(704)
Retirement	27,948	27,948	26,388	1,560
Employee insurance and benefits	92,500	92,500	86,134	6,366
Supplies and materials	29,900	29,900	26,039	3,861
Postage	1,600	1,600	1,226	374
Travel and training	1,250	1,250	320	930
Dues and subscriptions	100	100	215	(115)
Auto repairs and maintenance	73,500	73,500	73,423	77
Advertising and printing	1,300	1,300	807	493
Utilities	7,000	7,000	5,965	1,035
Repairs and maintenance	2,750	2,750	1,123	1,627
Communications	2,500	2,500	2,431	69
Professional services	2,500	2,500	449	2,051
Insurance	25,500	25,500	14,293	11,207
Solid waste - yard	40,000	40,000	21,582	18,418
Solid waste - commercial	45,000	45,000	44,469	531
	<u>682,144</u>	<u>682,144</u>	<u>650,120</u>	<u>32,024</u>
PUBLIC WORKS - RESIDENTIAL				
Salaries	108,600	108,600	100,172	8,428
Payroll taxes	8,308	8,308	7,154	1,154
Retirement	10,001	10,001	8,675	1,326
Employee insurance and benefits	34,100	34,100	39,768	(5,668)
Supplies and materials	2,700	2,700	2,144	556
Postage	-	-	387	(387)
Travel and training	1,050	1,050	-	1,050
Dues and subscriptions	100	100	-	100

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Auto repairs and maintenance	18,500	18,500	18,214	286
Repairs and maintenance	-	-	265	(265)
Contracted services	1,100	1,100	237	863
Solid waste - residential	80,000	80,000	63,024	16,976
	<u>264,459</u>	<u>264,459</u>	<u>240,040</u>	<u>24,419</u>
Total Public Works	946,603	946,603	890,160	56,443
CULTURE AND RECREATION:				
RECREATION DEPARTMENT				
Salaries	141,670	141,670	147,735	(6,065)
Payroll taxes	10,839	10,839	10,548	291
Retirement	11,038	11,038	11,631	(593)
Employee insurance and benefits	25,600	25,600	22,045	3,555
Supplies and materials	13,800	13,800	16,974	(3,174)
Postage	350	350	317	33
Travel and training	1,600	1,600	1,756	(156)
Dues and subscriptions	500	500	275	225
Auto repairs and maintenance	7,750	7,750	7,303	447
Advertising and printing	1,300	1,300	1,678	(378)
Utilities	39,000	39,000	27,898	11,102
Repairs and maintenance	8,300	8,300	26,823	(18,523)
Communications	4,000	4,000	6,077	(2,077)
General and miscellaneous	1,000	1,000	728	272
Uniforms	1,550	1,550	1,642	(92)
Contracted services	750	750	2,737	(1,987)
Insurance	2,500	2,500	1,559	941
Programs and services	7,700	7,700	10,963	(3,263)
	<u>279,247</u>	<u>279,247</u>	<u>298,689</u>	<u>(19,442)</u>
Total Culture and Recreation	279,247	279,247	298,689	(19,442)
CAPITAL OUTLAY				
Finance Department	-	-	2,176	(2,176)
Fire Department	-	-	3,440	(3,440)
Recreation	-	-	14,283	(14,283)
Total Capital Outlay	-	-	19,899	(19,899)

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
DEBT SERVICE				
Principal	-	72,301	72,301	-
Interest	-	-	3,042	(3,042)
Total Debt Service	-	72,301	75,343	(3,042)
OTHER FINANCING (SOURCES) USES				
Transfer in (out)	-	-	1,717	(1,717)
Total Other Financing (Sources) Uses	-	-	1,717	(1,717)
TOTAL EXPENDITURES	<u>\$ 5,113,117</u>	<u>\$ 5,275,418</u>	<u>\$ 5,329,849</u>	<u>\$ (51,389)</u>
EXCESS EXPENDITURES OVER REVENUES	<u>\$ -</u>	<u>\$ (162,301)</u>	<u>\$ (99,442)</u>	<u>\$ 65,901</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

SPECIAL REVENUE FUNDS

	Community Development	McAliley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow	Victim Advocate
ASSETS							
Cash	\$ 43,818	\$ -	\$ 30,505	\$ 43,180	\$ 133,562	\$ 67,870	\$ 15,962
Notes receivable, net	16,080	208,000	-	-	-	-	-
Due from other funds	5,441	-	27,867	-	-	17,000	-
Total Assets	<u>\$ 65,339</u>	<u>\$ 208,000</u>	<u>\$ 58,372</u>	<u>\$ 43,180</u>	<u>\$ 133,562</u>	<u>\$ 84,870</u>	<u>\$ 15,962</u>
LIABILITIES AND FUND BALANCE							
Deferred revenue - insurance proceeds	\$ -	\$ -	\$ -	\$ -	\$ 108,463	\$ -	\$ -
Due to other funds	-	-	-	-	27,068	-	9,135
Fund balance	65,339	208,000	58,372	43,180	(1,969)	84,870	6,827
Total Liabilities and Fund Balance	<u>\$ 65,339</u>	<u>\$ 208,000</u>	<u>\$ 58,372</u>	<u>\$ 43,180</u>	<u>\$ 133,562</u>	<u>\$ 84,870</u>	<u>\$ 15,962</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	CAPITAL PROJECTS				
	SPECIAL REVENUE FUNDS			FUND	
	Special Projects	Stadium Fund	Finley Ctr Preservation Fund	Water Works Fund	Capital Improvement Fund
					Totals
ASSETS					
Cash	\$ 72,636	\$ -	\$ -	\$ 25,899	\$ 91,451
Notes receivable, net	-	-	-	-	-
Due from other funds	-	-	-	-	165,349
Total Assets	\$ 72,636	\$ -	\$ -	\$ 25,899	\$ 256,800
					\$ 964,620
LIABILITIES AND FUND BALANCE					
Deferred revenue - insurance proceeds	\$ -	\$ -	\$ -	\$ -	\$ 108,463
Due to other funds	68,824	-	-	-	105,027
Fund balance	3,812	-	-	25,899	256,800
Total Liabilities and Fund Balance	\$ 72,636	\$ -	\$ -	\$ 25,899	\$ 256,800
					\$ 964,620

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

SPECIAL REVENUE FUNDS

	Community Development	McAiley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow	Victim Advocate
REVENUES							
Intergovernmental:							
Federal sources	\$ -	\$ -	\$ 12,352	\$ -	\$ -	\$ -	\$ -
Local sources	-	-	-	-	8,493	-	-
Charges for services	-	-	-	-	-	5,000	10,306
Investment earnings	1,418	-	29	39	5,319	2,616	24
Drug forfeitures	-	-	-	1,351	-	-	-
Total Revenues	1,418	-	12,381	1,390	13,812	7,616	10,330
EXPENDITURES							
General government	-	-	-	-	-	-	-
Public safety	-	-	10,711	4,155	-	-	13,303
Cultural and recreation	-	-	-	-	-	-	-
Capital outlay	22,741	-	1,641	-	30,369	-	25,000
Total Expenditures	22,741	-	12,352	4,155	30,369	-	38,303
Excess (deficiency) of revenues over expenditures	(21,323)	-	29	(2,765)	(16,557)	7,616	(27,973)
Other financing sources							
Transfers in	-	-	-	-	-	-	-
Transfers (out)	5,900	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	(27,223)	-	29	(2,765)	(16,557)	7,616	(27,973)
Fund Balance, June 30, 2007, adjusted	92,562	208,000	58,343	45,945	14,588	77,254	34,800
Fund Balance, June 30, 2008	\$ 65,339	\$ 208,000	\$ 58,372	\$ 43,180	\$ (1,969)	\$ 84,870	\$ 6,827

CITY OF CHESTER, SOUTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL OTHER GOVERNMENTAL FUNDS**

AS OF JUNE 30, 2008

	CAPITAL PROJECTS				
	SPECIAL REVENUE FUNDS		FUND		
	Special Projects	Stadium Fund	Finley Ctr Preservation Fund	Water Works Fund	Capital Improvement Fund
REVENUES					Totals
Intergovernmental:					
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 12,352
Local sources	10,000	-	-	-	18,493
Charges for services	-	-	-	-	15,306
Investment earnings	96	-	4	1,197	10,838
Drug forfeitures	-	-	-	-	1,351
Total Revenues	10,096	-	4	1,197	58,340
EXPENDITURES					
General government	33,498	-	-	-	33,498
Public safety	-	-	-	-	28,169
Cultural and recreation	-	156	5,168	4,500	21,313
Capital outlay	62,617	-	-	-	149,785
Total Expenditures	96,115	156	5,168	4,500	232,765
Excess (deficiency) of revenues over expenditures	(86,019)	(156)	(5,164)	(3,303)	(174,425)
Other financing sources					
Transfers in	5,900	-	1,717	-	7,617
Transfers (out)	-	-	-	-	5,900
Excess (deficiency) of revenues and other financing sources over expenditures	(80,119)	(156)	(3,447)	(3,303)	(172,708)
Fund Balance, June 30, 2007, adjusted	83,931	156	3,447	29,202	923,838
Fund Balance, June 30, 2008	\$ 3,812	\$ -	\$ -	\$ 25,899	\$ 751,130

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>Tax Sale Escrow Fund</u>				
ASSETS				
Cash	\$ -	\$ 34,382	\$ -	\$ 34,382
Total Assets	<u>\$ -</u>	<u>\$ 34,382</u>	<u>\$ -</u>	<u>\$ 34,382</u>
LIABILITIES				
Funds held in trust for others	\$ -	\$ 34,382	\$ -	\$ 34,382
Total Liabilities	<u>\$ -</u>	<u>\$ 34,382</u>	<u>\$ -</u>	<u>\$ 34,382</u>
 <u>Fireman's Fund</u>				
ASSETS				
Cash	\$ 14,291	\$ 23,117	\$ 24,677	\$ 12,731
Total Assets	<u>\$ 14,291</u>	<u>\$ 23,117</u>	<u>\$ 24,677</u>	<u>\$ 12,731</u>
LIABILITIES				
Funds held in trust for others	\$ 14,291	\$ 23,117	\$ 24,677	\$ 12,731
Total Liabilities	<u>\$ 14,291</u>	<u>\$ 23,117</u>	<u>\$ 24,677</u>	<u>\$ 12,731</u>
 <u>Teen United for the Future</u>				
ASSETS				
Cash	\$ 49,235	\$ 96,180	\$ 59,180	\$ 86,235
Total Assets	<u>\$ 49,235</u>	<u>\$ 96,180</u>	<u>\$ 59,180</u>	<u>\$ 86,235</u>
LIABILITIES				
Due to City of Chester	\$ 85,397	\$ 40,268	\$ -	\$ 125,665
Funds held in trust for others	<u>(36,162)</u>	<u>55,912</u>	<u>59,180</u>	<u>(39,430)</u>
Total Liabilities	<u>\$ 49,235</u>	<u>\$ 96,180</u>	<u>\$ 59,180</u>	<u>\$ 86,235</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
<u>Police Fines Escrow</u>				
ASSETS				
Cash	\$ -	\$ 478,159	\$ 195,784	\$ 282,375
Total Assets	<u>\$ -</u>	<u>\$ 478,159</u>	<u>\$ 195,784</u>	<u>\$ 282,375</u>
LIABILITIES				
Due to City of Chester	\$ -	\$ 248,123	\$ -	\$ 248,123
Due to SC State	-	16,856	-	16,856
Funds held in trust for others	-	213,180	195,784	17,396
Total Liabilities	<u>\$ -</u>	<u>\$ 478,159</u>	<u>\$ 195,784</u>	<u>\$ 282,375</u>
<u>Totals - All Agency Funds</u>				
ASSETS				
Cash	\$ 63,526	\$ 631,838	\$ 279,641	\$ 415,723
Total Assets	<u>\$ 63,526</u>	<u>\$ 631,838</u>	<u>\$ 279,641</u>	<u>\$ 415,723</u>
LIABILITIES				
Due to City of Chester	\$ 85,397	\$ 288,391	\$ -	\$ 373,788
Due to SC State	-	16,856	-	16,856
Funds held in trust for others	(21,871)	326,591	279,641	25,079
Total Liabilities	<u>\$ 63,526</u>	<u>\$ 631,838</u>	<u>\$ 279,641</u>	<u>\$ 415,723</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
EVERGREEN CEMETERY TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS				
Cash	\$ 171,778	\$ 6,450	\$ 579	\$ 177,649
Due from City of Chester	<u>6,316</u>	<u>-</u>	<u>-</u>	<u>6,316</u>
Total Assets	<u>\$ 178,094</u>	<u>\$ 6,450</u>	<u>\$ 579</u>	<u>\$ 183,965</u>
LIABILITIES				
Funds held in trust for others	<u>\$ 178,094</u>	<u>\$ 6,450</u>	<u>\$ 579</u>	<u>\$ 183,965</u>
Total Liabilities	<u>\$ 178,094</u>	<u>\$ 6,450</u>	<u>\$ 579</u>	<u>\$ 183,965</u>

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2008

AMOUNT RETAINED BY CITY OF CHESTER

Fines	\$ 56,672
Fees	98,480
	<hr/>
Total retained by City of Chester	<u>155,152</u>

AMOUNT REMITTED TO STATE TREASURER

Assessments	57,404
Surcharges	23,189
	<hr/>
Total remitted to State Treasurer	<u>80,593</u>

AMOUNT ALLOCATED TO VICTIM'S SERVICES

Court Assessments	7,231
Court Surcharges	3,075
	<hr/>
Total allocated to Victim's Services	<u>\$ 10,306</u>

COMPLIANCE SECTION

CAMP, MORING & CANNON, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1418 LAUREL STREET
COLUMBIA, SOUTH CAROLINA 29201
PHONE (803) 252-9375
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JOHN F. CAMP, CPA
WALTER L. MORING, JR., CPA
CONNIE M. CANNON, CPA

MEMBERS:
AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS
S.C. ASSOCIATION
OF CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor and Members of
City Council for
City of Chester, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Chester, South Carolina as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2008. 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 City of Chester, South Carolina's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinions on the financial statements but not to express an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Chester's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described previously and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies involving the internal control over financial reporting and its operation that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as Finding 08-01 and Finding 08-02.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. None of the significant deficiencies noted were considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Chester, South Carolina'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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as Finding 08-01 and Finding 08-02.

City of Chester, Chester, South Carolina's responses to the findings identified in our audit are described in the accompanying management's response to auditors' findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Camp, Moring + Cannon, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
December 31, 2008

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Summary of Auditors' Results:

1. The audit report issued on the financial statements was unqualified.
2. The audit disclosed no instances of noncompliance that is material to the financial statements.
3. A compliance report for major federal programs was not necessary because the City did not reach the threshold required for reporting.
4. The audit did disclose certain audit findings that are required to be reported. No separate Management Letter was issued.
5. No major program was determined because total Federal Awards amount did not exceed the threshold of \$500,000.
6. Because of the small amount of Federal Programs, there was no threshold needed to distinguish between Type A and Type B programs.
7. The City was determined not to be a low risk auditee.

Generally Accepted Governmental Auditing Standards Findings and Questioned Costs:

Finding Number 08-01: Police Fines are Not Correctly Reconciled with the State Treasurer Deposits

Condition

There is a persistent error in the reporting amounts to the State Treasurer. Amounts reported and paid to the State Treasurer appear much less than those amounts that are actually collected. No periodic reconciliation is prepared between amounts collected and amounts reported to the State Treasurer. The error appears to be the result of an inconsistency between fines paid and cases closed, however the amount continues to accumulate and has not been resolved.

This is a repeat finding from the prior year.

Reason Improvement Needed

The amount paid to the State from Police fines should be able to reconcile with the police fines received over a period of time.

Cause of Condition

It appears that the current system used to track fines paid and closed cases needs to be understood more completely by members of management and the employees responsible for Police Fines. There is currently a backlog of cases that have requested Jury Trials, but a Jury Trial has not taken place in quite some time.

Recommendation

At minimum, total collections should be reconciled to amounts reported to the State Treasurer, amounts retained by the City, amounts designated for Victim's Assistance, amounts retained as bonds and amount remitted to citizens. The overall system needs to be looked at in depth, specifically why there are excessive fines collected that are not remitted to the State, and why there are a backlog of open cases that have not receive the requested Jury Trial. This has been a consistent finding for every Fiscal Year since 2004, and needs to be addressed in a timely manner.

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Finding Number 08-02: Poor Administration of Teens United for the Future

Condition

The City has accepted responsibility to serve as the fiscal agent of the Teens United for the Future (TUFF), a program unrelated to the City's normal mission and activities. The City accounts for TUFF activities in an agency fund; therefore the City's responsibility is custodial in nature and does not involve measurement of results of operations. The City has agreed to serve as the fiscal agent of this program only to the extent that it is self supporting.

As of June 30, 2008, the TUFF program owes the City \$125,665. As of June 30, 2008, there was \$88,351 in the TUFF bank account. It appears that there may be insufficient funds to fully reimburse the City. Also, the Program Director, who is considered a City employee, receives expanded health care coverage for family members at no additional cost to the employee that is not available to any other City employee.

Cause of Condition

The City is primarily at fault as they have not consistently billed the TUFF program for the Program Director's salary, payroll taxes, SC retirement and expanded family health insurance coverage that the City pays.

Recommendation

The City should immediately bill and collect its outstanding receivable from the TUFF program and determine the extent to which City Council is willing to subsidize this program.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

As part of procedures performed as during our audit of the financial statements of City of Chester for the year ended June 30, 2008, we investigated the disposition of the findings for the year ended June 30, 2007. We determined that corrective action had or had not been taken for each finding as follows:

Finding Number 07-01: The City substantially has no Formal Internal Controls

Condition:

The City has a formal personnel manual and an investment policy. Otherwise, there is little in the way of written internal procedures or internal accounting controls available for use by the finance department to guide the management's daily operations, monthly reporting and yearly closeouts.

Corrective Action Taken By Auditee

Under the new Finance Director, Internal Controls have been made a top priority. The City now has more precise accounting procedures and systems which aid in day to day internal control. Multiple memos have been issued to define procedures put in place. An accounting manual is being written that will formalize accounting procedures in all areas.

Finding Number 07-02: Bank Accounts Not Reconciled on a Timely Basis

Condition

Bank accounts were not timely reconciled. Some of the accounts for fiscal 2006 were not reconciled until early 2008.

Corrective Action Taken By Auditee

Bank Accounts balances are now being reconciled to the balances in the general ledger on a monthly basis, and proper records of the reconciliation are kept.

Finding Number 07-03: Cash Deposits Not Made on a Timely or Accurate Basis

Condition:

Cash Receipts were not deposited intact daily. This condition existed at least from June 30, 2003 (and probably well before) and continued until the new Finance Director was hired in late June 2007. During this time, deposits were often made by staff as much as 15 days after receipt. Several instances were noted where deposits were made only two or three times a month, although individual deposit tickets were written - - resulting in as many as a dozen deposits on a given day. Further, numerous instances were noted where the deposits were commingled among days. For instance, amounts received on one day might be on the same deposit ticket with amounts from ten days later while items received in between may well be on a different deposit ticket(s). Sometimes, as many as 70 individual items were deposited from as many as 10 different days on one deposit ticket and yet other items received on many of those same days were on other deposit slips. Many thousands of individual receipts were so handled over the years, making the tracing of deposits from the supporting documentation on hand to the bank statements extremely difficult.

Corrective Action Taken By Auditee

Cash Deposits are now made on a daily basis. The Cash is properly reconciled and accounted for, so tracing such records and their documentation is now easily accomplished.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Finding Number 07-04: Police Fines Not Deposited and Recorded on a Timely or Accurate Basis

Condition

Police fines are not timely deposited or recorded and errors are often made in reporting amounts to the State Treasurer.

Corrective Action Taken By Auditee

The Police Fines have been properly deposited and recorded in the year ending June 30, 2008; however, there is still no corrective action taken in the underreporting of fines and fines paid to the State Treasurer. This is a repeat finding for the year ended June 30, 2008 (see Finding Number 08-01).

Finding Number 07-05: Missing Paid Invoices

Condition

Our tests of cash disbursements transactions revealed that approximately 10% of those transactions tested were not appropriately supported by a paid invoice that reflected what, when and purpose of the purchase.

Corrective Action Taken By Auditee

The City now has keep paid invoices well organized and filed so that the proper invoices are retrievable.

Finding Number 07-06: Payroll Error - - Failure to Record Manual Checks

Condition

During the fiscal year 2006, most payroll payments to employees were made through direct deposits to their accounts by the bank based on information transmitted to the bank electronically by the City of Chester's payroll department. However, over \$4,500 was paid on over 6 checks. These checks were not recorded on the books of account and were not properly reconciled to the bank statements. Wages and withholdings, however, were properly reported to taxing authorities for these items as they were posted to the employee master file and individual employee records.

Corrective Action Taken By Auditee

Manual checks are now recorded correctly into the General Ledger and we properly accounted for.

Finding Number 07-07: Deficit Spending and Budget Oversight

Condition

The City operations for the year resulted in deficit spending in the general fund. For the year, the City expended \$260,582 more than the revenue generated. However, there is no record of City Council addressing the problem or making budgetary adjustments as necessary to prevent overspending or to ratify the overspending.

Corrective Action Taken By Auditee

The City of Chester spent within the Budget set forth by council, and made budgetary adjustments when needed.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

Finding Number 07-08: Poor Administration of Teens United for the Future

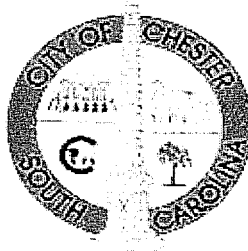
Condition

The City has accepted responsibility to serve as the fiscal agent of the Teens United for the Future (TUFF), a program unrelated to the City's normal mission and activities. The City accounts for TUFF activities in an agency fund; therefore the City's responsibility is custodial in nature and does not involve measurement of results of operations. The City has agreed to serve as the fiscal agent of this program only to the extent that it is self supporting.

As of June 30, 2007, the TUFF program owed the City \$85,397. It appears that there may be insufficient funds to fully reimburse the City. Also, the Program Director, who is considered a City employee, receives expanded health care coverage for family members at no additional cost to the employee that is not available to any other City employee.

Corrective Action Taken By Auditee

Corrective action has been taken by the City, and as of the date of this report, TUFF has reimbursed the City \$104,724, leaving \$20,941 balance left to bring the program up to date. The City and TUFF have agreed that the city will not pay for any expenses the TUFF program incurs until such time the program has reimbursed the City in full for the past due amount, as well as for the yearly payroll that is paid through the City of Chester Payroll system, including FICA taxes, Retirement, and Health Benefits. This is a repeat finding in the year ended June 30, 2008 (see Finding Number 08-02).



City of Chester
100 West End Street Chester, SC 29706
(803) 581-2123 Fax (803) 377-1116

January 12, 2009

Camp, Moring & Cannon, CPAs
1418 Laurel Street
Columbia, South Carolina

This letter is in response to the deficiencies that you noted in your audit of the financial statements of City of Chester for the year ended June 30, 2008.

Please be aware that the City of Chester has made tremendous progress toward rectifying most of the problems that existed during the audit year ended June 30, 2008.

Our response and corrective action already taken to each of your findings is as follow:

Finding Number 08-01: Police Fines are Not Correctly Reconciled with the State Treasurer Deposits

Condition

There is a persistent error in the reporting amounts to the State Treasurer. Amounts reported and paid to the State Treasurer appear much less than those amounts that are actually collected. No periodic reconciliation is prepared between amounts collected and amounts reported to the State Treasurer. The error appears to be the result of an inconsistency between fines paid and cases closed, however the amount continues to accumulate and has not been resolved.

Management's response

The Finance Director now makes all deposits and reviews the detail before taking them to the bank. The clerk of court who handles police fines and fees has been physically moved into the Finance Office. There remains a problem with reconciling amounts collected with amounts remitted to the State Treasurer. However, this is an area that we agree needs further consideration and development of formalized procedures, which we are continuing to improve. The City has taken steps to handle the backlog of Jury Trials, and those trials are scheduled to begin in January 2009.

Finding Number 08-02: Poor Administration of Teens United for the Future

Condition

The City has accepted responsibility to serve as the fiscal agent of the Teens United for the Future (TUFF), a program unrelated to the City's normal mission and activities. The City accounts for TUFF activities in an agency fund; therefore the City's responsibility is custodial in nature and does not involve

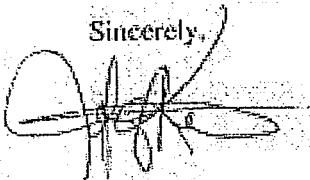
measurement of results of operations. The City has agreed to serve as the fiscal agent of this program only to the extent that it is self supporting.

As of June 30, 2008, the TUFF program owes the City \$125,665. As of June 30, 2008, there was \$88,351 in the TUFF bank account. Also, the Program Director, who is considered a City employee, receives expanded health care coverage for family members at no additional cost to the employee that is not available to any other City employee.

Management's response

To date, TUFF has reimbursed the City \$125,396, leaving \$269 balance left to bring the program current through the year ended June 30, 2008. The TUFF program has not, however, reimbursed the City for any of the salary and fringe benefits expenditures for the fiscal year 2008-09 which, to date, is approximately \$20,000. The City and TUFF have agreed that the City will not pay for any expenses, except salary and fringes, the TUFF program incurs until such time that the programs has reimbursed the City in full for the past due amount, as well as for the yearly payroll that is paid through the City of Chester Payroll system, including FICA taxes, Retirement, and Health Benefits. The City continues to examine the TUFF Program to insure that the Program can run successfully without creating additional indebtedness to the City.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Kerr', with a large, stylized flourish extending from the end of the signature.

Jeff Kerr
City Administrator