
CITY OF CHESTER, SOUTH CAROLINA

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

For the Year Ended June 30, 2011

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 the City of Chester, South Carolina as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 the City of Chester, South Carolina as of June 30, 2011, 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 October 31, 2011, on our consideration of the 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 the 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
October 31, 2011

CITY OF CHESTER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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

The local economy has experienced a severe recession over the last year that is continuing to date. Unemployment in Chester County has been as high as 21% during the last year. Anticipated decreasing revenues have resulted in a strain on the City's financial condition. In spite of poor economic times, overall revenues remained consistent with the prior year. Decreases to business licenses revenue, state aid revenues, charges for services and interest income were offset by increases to grant revenues and property tax collections. During the year ended June 30, 2011, the City's management required department heads to reduce their non-personnel expenditure budgets by 10% in response to projected decreases in revenue. In spite of poor economic conditions, the City has successfully maintained a high level of services provided to the citizens of the City of Chester.

Other key financial aspects were as follows:

- **Net Assets:** The City's governmental activities assets exceeded its liabilities at June 30, 2011 by \$4,360,993, a decrease of \$216,019 in net assets during the year. Of this amount, \$1,388,715 is unrestricted net assets. This means that these funds may be used to meet the City's ongoing obligations.
- **Debt:** The City issued a general obligation bond for \$400,000 during the 2010 year and made a principal payment of \$35,368 during the 2011 fiscal year resulting in a balance of \$329,382. The City also has accrued compensated absences of \$69,465.
- **Change in Net Assets:** The City's net assets of its governmental activities were decreased over the course of this year's operations. Net assets of the governmental activities decreased \$216,019. Revenues and expenses decreased over the prior year resulting in an overall decrease to net assets in the current year. The prior year, there was a \$135,885 decrease in net assets.
- **General Fund:** Our principal operating fund is the General Fund. In fiscal year 2010-11, General Fund revenues and other financing sources, which primarily consisted of property taxes, state aid and various charges for services, fines and fees were \$4,959,207, an increase from FY2009-10. Expenditures and Other Financing Sources and Uses in the General Fund were \$5,048,747, an increase from FY2009-10. This resulted in a decrease to the fund balance for the year of \$89,540. The resulting decrease in fund balance was caused by one time expenditures related to a transfer to the special revenue funds of \$39,363 and Council approved City improvements of \$129,103.
- **Business-type Activities:** There was no business-type activity for the City for the year ended June 30, 2011.
- **General Fund Budget:** The general fund approved budgeted revenues reflect that actual revenues for the year were more than projections by \$221,840. General fund actual expenditures were more than the final approved expenditure budget by \$311,380. Expenditures were greater than projections caused by one time expenditures related to a transfer to the special revenue fund of \$39,363 and City improvements of \$129,103.

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 themselves. 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 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. 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.
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.

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.

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.

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 \$4,360,993 as of June 30, 2011.

A portion of the City's net assets (51%) or \$2,240,720 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 \$329,382 of such debt as of June 30, 2011.

Additionally, 17% of the City's net assets or \$731,558 is restricted as to its uses by grantor/donors and therefore not available for general use by the City.

\$1,388,715 or 32% 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 year ended June 30, 2011 with comparative data for fiscal year ended June 30, 2010:

	Governmental Activities	
	FY2010-11	FY2009-10
Current and other assets	\$ 2,888,964	\$ 3,407,061
Capital assets, net	<u>2,570,102</u>	<u>2,414,625</u>
Total assets	<u>5,459,066</u>	<u>5,821,686</u>
Current liabilities	699,226	795,629
Long term debt outstanding	<u>398,847</u>	<u>449,046</u>
Total liabilities	<u>1,098,073</u>	<u>1,244,675</u>

Net assets:

Invested in capital assets - net of related debt	2,240,720	2,049,875
Restricted for general government	731,558	1,070,193
Unrestricted	<u>1,388,715</u>	<u>1,456,943</u>
Total net assets	<u>\$ 4,360,993</u>	<u>\$ 4,577,011</u>

Changes in net assets: The City's total revenues for the fiscal year ended June 30, 2011, were \$5,198,568. The total cost of all programs and services was \$5,413,587. Therefore, the change in net assets was a decrease of \$216,019. The following table presents a summary of the activity that resulted in changes in net assets for the fiscal year ended June 30, 2011 with comparative summary of the activity for the fiscal year ended June 30, 2010:

	Governmental Activities			
	<u>FY2010-11</u>	<u>FY2009-10</u>	<u>Net Change</u>	<u>% Net Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 1,993,053	\$ 1,991,870	\$ 1,183	0.06%
Operating grants/contributions	141,125	25,597	115,528	451.33%
Capital grants/contributions	65,000	138,567	(73,567)	-53.09%
General revenues:				
Property taxes	1,168,965	1,231,003	(62,038)	-5.04%
Accommodations tax	27,464	19,218	8,246	42.91%
Interest/investment income	26,973	15,234	11,739	77.06%
Intergovernmental	962,861	988,962	(26,101)	-2.64%
Franchise fees	241,508	216,553	24,955	11.52%
Business licences	<u>570,619</u>	<u>561,709</u>	<u>8,910</u>	<u>1.59%</u>
Total revenues	5,197,568	5,188,713	8,855	0.17%
Expenses:				
General government	894,901	1,042,542	(147,641)	-14.16%
Public safety	3,312,091	3,091,821	220,270	7.12%
Public works	900,982	910,183	(9,201)	-1.01%
Cultural and recreation	293,389	275,302	18,087	6.57%
Interest and fiscal charges	<u>12,224</u>	<u>4,750</u>	<u>7,474</u>	<u>157.35%</u>
Total expenses	5,413,587	5,324,598	88,989	1.67%
Increase (decrease) in net assets	<u>\$ (216,019)</u>	<u>\$ (135,885)</u>	<u>\$ (80,134)</u>	<u>179.94%</u>

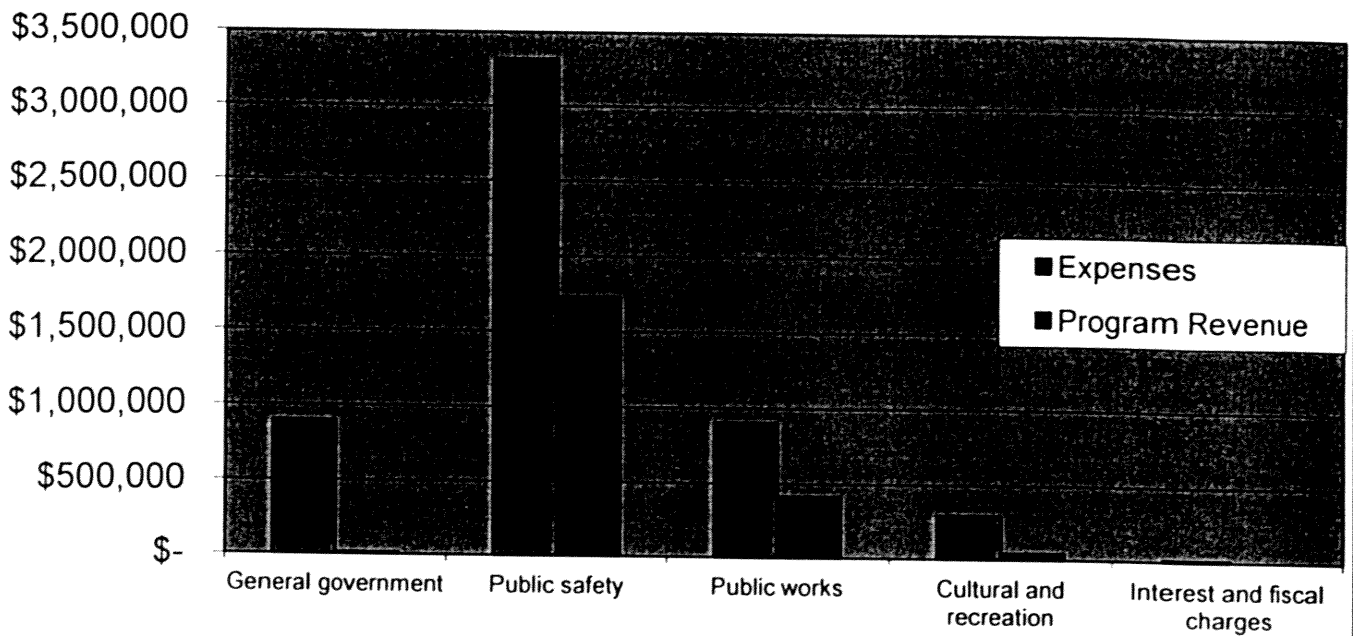
Governmental activities: The following table presents the cost of the five major functional activities: general government, public safety, public works, cultural and recreation and interest and fiscal charges. The table also shows each function's net cost (total cost less charges for services generated 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	
	FY2010-11	FY2009-10	FY2010-11	FY2009-10	FY2010-11	FY2009-10
General government	\$ 894,901	\$ 1,042,542	\$ 13,367	\$ 17,416	\$ (881,534)	\$(1,025,126)
Public safety	3,312,091	3,091,821	1,728,133	1,770,166	(1,583,958)	(1,321,655)
Public works	900,982	910,183	413,264	340,847	(487,718)	(569,336)
Cultural and recreation	293,389	275,302	44,414	27,605	(248,975)	(247,697)
Interest and fiscal charges	<u>12,224</u>	<u>4,750</u>	<u>-</u>	<u>-</u>	<u>(12,224)</u>	<u>(4,750)</u>
Total expenses	<u>\$ 5,413,587</u>	<u>\$ 5,324,598</u>	<u>\$ 2,199,178</u>	<u>\$ 2,156,034</u>	<u>\$(3,214,409)</u>	<u>\$(3,168,564)</u>

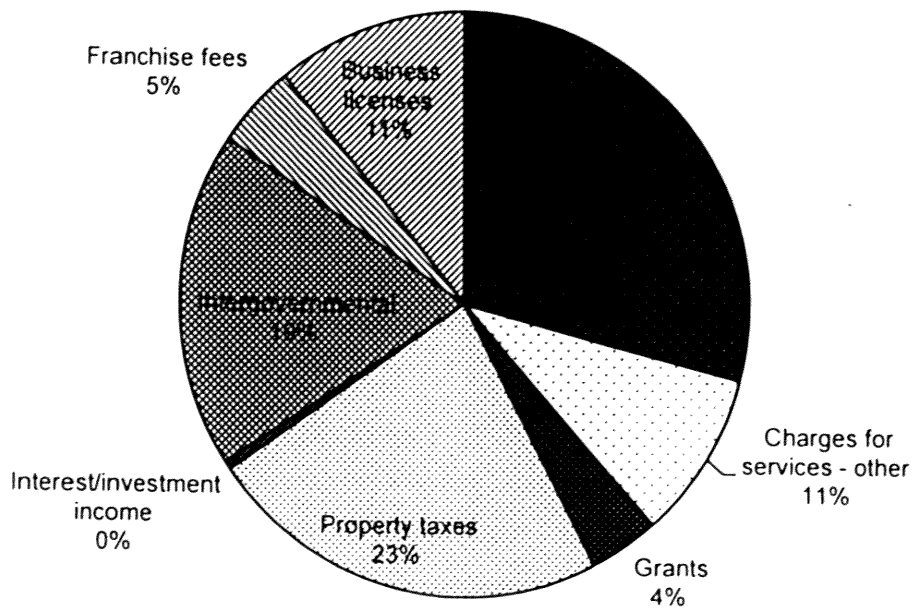
- The cost of all governmental activities this year was \$5,413,587, an increase from the prior year.
- Net cost of governmental activities was \$(3,214,409) which was financed by general revenues. General revenues consist primarily of property taxes of \$1,168,965, state aid of \$962,861 and franchise fees, business licenses and interest of \$812,127.

**CITY OF CHESTER, SOUTH CAROLINA
MANAGEMENTS ANALYSIS AND DISCUSSION
For The Year Ended June 30, 2009**

**Expenses and Program Revenues -
Governmental Activities**



Revenue by Source - Governmental Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. 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 \$2,115,119. \$1,383,561 or 65% 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 \$731,558 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 \$89,540.
- The general fund approved budget revenues reflect that actual revenues for the year were over projections by \$221,840.
- General fund actual expenditures were greater than the expenditure budget by \$272,017.

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, 2011, the City had \$2,570,102 in capital assets – net of accumulated depreciation, including land, buildings and improvements, vehicles, computers, and other equipment. Capital asset purchases for the year totaled \$384,459. Total depreciation expense for the year was \$228,982.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2011 with comparative balance for the fiscal year ended June 30, 2010:

	Governmental Activities		Net Increase
	FY2010-11	FY2009-10	Over Prior Year
Land	\$ 36,000	\$ 36,000	\$ -
Buildings	2,212,548	2,121,283	91,265
Infrastructure - sidewalks	435,667	42,204	393,463
Improvements other than buildings	224,094	351,914	(127,820)
Construction in progress	7,000	7,000	-
Machinery and equipment	3,034,153	3,006,602	27,551
	5,949,462	5,565,003	384,459
Less accumulated depreciation	3,379,360	3,150,378	228,982
	<u>\$ 2,570,102</u>	<u>\$ 2,414,625</u>	<u>\$ 155,477</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, 2011, the City long term debt of \$329,382. The City also has compensated absences of \$69,465.

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

The 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. The unemployment rate for Chester County is approximately 21%. Generally poor economic conditions are expected to continue 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 2010-11. State aid was reduced to FY2005-2006 levels for the year ending June 30, 2011 and this trend is expected to continue.

Some small businesses and a textile manufacturing plants operated by Springs Mill have discontinued operations in recent years. Census information reflects that the population in the City continues to decrease each year. These factors 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.

The City has applied for and will continue to increase its efforts toward acquiring Federal government grants and awards. The current administration in Washington has enacted a significant economic bailout program. To date, the City has been awarded some of this federal grant money but it has been less than anticipated. Furthermore, this funding assumes that the City will continue to fund theses services once the grants end, putting further strain on the City's future resources.

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, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,519,382
Receivables (net of allowance for uncollectibles):	
Property taxes	641,543
Intergovernmental	291,057
Other	128,350
Notes receivable, net	224,080
Prepaid expenses	13,092
Capital lease receivable	71,460
Capital assets:	
Land	36,000
Buildings and improvements	2,212,548
Improvements, other than buildings	435,667
Infrastructure - sidewalks	224,094
Machinery and equipment	3,034,153
Construction in progress	7,000
Accumulated depreciation	<u>(3,379,360)</u>
 Total Assets	 <u>5,459,066</u>
 LIABILITIES	
Accounts payable	20,712
Accrued expenses	92,135
Deferred revenue	586,379
Noncurrent liabilities:	
Due within one year	50,485
Due after one year	<u>348,362</u>
 Total Liabilities	 <u>1,098,073</u>
 NET ASSETS	
Invested in capital assets - net of related debt	2,240,720
Restricted for general government	731,558
Unrestricted	<u>1,388,715</u>
 Total Net Assets	 <u><u>\$ 4,360,993</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, 2011

Total fund balances - governmental funds, June 30, 2011	\$ 2,115,119
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	5,949,462
Accumulated depreciation	(3,379,360)
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	74,619
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:	
Bonds payable	(329,382)
Compensated absences	(69,465)
Total net assets - governmental activities, June 30, 2011	<u>\$ 4,360,993</u>

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

CITY OF CHESTER, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT					
Governmental Activities					
General government	\$ 894,901	\$ 13,079	\$ 288	\$ -	\$ (881,534)
Public safety	3,312,091	1,612,465	115,668	-	(1,583,938)
Public works	900,982	348,264	-	65,000	(487,718)
Cultural and recreation	293,389	19,245	25,169	-	(248,975)
Interest and fiscal charges	12,224	-	-	-	(12,224)
Total Governmental	5,413,587	1,993,053	141,125	65,000	(3,214,409)
Business-Type Activities					
None	-	-	-	-	-
Total Primary Government	\$ 5,413,587	\$ 1,993,053	\$ 141,125	\$ 65,000	(3,214,409)
General Revenues					
Property taxes levied for:					
General purposes					1,168,965
Accommodations tax					27,464
Interest/investment income					26,973
Intergovernmental					962,861
Franchise fees					241,508
Business licences					570,619
Total general revenues					2,998,390
Changes in net assets					(216,019)
Net Assets, beginning					4,577,012
Net Assets, ending					\$ 4,360,993

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, 2011

Change in fund balances - governmental funds, JUNE 30, 2011	\$	(428,175)
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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.

384,459

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.

(228,982)

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 on long-term debt

35,368

Compensated absences

14,830

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.

6,481

Change in net assets - governmental activities, JUNE 30, 2011	\$	(216,019)
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(216,019)

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, 2011

	General Fund	Other Governmental Funds	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,145,839	\$ 293,704	\$ 79,839	\$ 1,519,382
Receivables (net of allowance for uncollectibles):				
Taxes	641,542	-	-	641,542
Intergovernmental	291,057	-	-	291,057
Other	111,612	16,738	-	128,350
Notes receivable, net	-	224,080	-	224,080
Due from other funds	27,592	149,649	-	177,241
Prepaid expenses	13,092	-	-	13,092
Capital lease receivable	71,460	-	-	71,460
 Total Assets	 <u>\$ 2,302,194</u>	 <u>\$ 684,171</u>	 <u>\$ 79,839</u>	 <u>\$ 3,066,204</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 18,664	\$ 2,044	\$ -	\$ 20,708
Accrued expenses	92,135	-	-	92,135
Deferred revenue	661,001	-	-	661,001
Due to other funds	146,833	30,408	-	177,241
 Total Liabilities	 <u>918,633</u>	 <u>32,452</u>	 <u>-</u>	 <u>951,085</u>
FUND BALANCES				
Fund balances				
Reserved	-	651,719	79,839	731,558
Unreserved	1,383,561	-	-	1,383,561
 Total Fund Balances	 <u>1,383,561</u>	 <u>651,719</u>	 <u>79,839</u>	 <u>2,115,119</u>
 Total Liabilities and Fund Balance	 <u>\$ 2,302,194</u>	 <u>\$ 684,171</u>	 <u>\$ 79,839</u>	 <u>\$ 3,066,204</u>

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, 2011

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes - property	\$ 1,128,131	\$ -	\$ -	\$ 1,128,131
Licenses and permits	812,127	-	-	812,127
Intergovernmental	990,324	248,012	-	1,238,336
Charges for services	1,972,750	15,776	-	1,988,526
Investment earnings	21,520	5,320	132	26,972
Payments in lieu of taxes	34,355	-	-	34,355
Drug forfeitures	-	4,528	-	4,528
	<u>-</u>	<u>4,528</u>	<u>-</u>	<u>4,528</u>
Total Revenues	<u>4,959,207</u>	<u>273,636</u>	<u>132</u>	<u>5,232,975</u>
EXPENDITURES				
Current:				
General government	904,377	47,711	-	952,088
Public safety	2,873,209	133,169	-	3,006,378
Public works	868,405	-	-	868,405
Cultural and recreation	363,393	40,182	-	403,575
Capital outlay	-	271,898	-	271,898
Debt service	-	-	158,806	158,806
	<u>-</u>	<u>-</u>	<u>158,806</u>	<u>158,806</u>
Total Expenditures	<u>5,009,384</u>	<u>492,960</u>	<u>158,806</u>	<u>5,661,150</u>
Excess revenue over (under) expenditures	<u>(50,177)</u>	<u>(219,324)</u>	<u>(158,674)</u>	<u>(428,175)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	<u>(39,363)</u>	<u>39,363</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(39,363)</u>	<u>39,363</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(89,540)</u>	<u>(179,961)</u>	<u>(158,674)</u>	<u>(428,175)</u>
Fund Balance, beginning of year	<u>1,473,101</u>	<u>831,680</u>	<u>238,513</u>	<u>2,543,294</u>
Fund Balance, end of year	<u>\$ 1,383,561</u>	<u>\$ 651,719</u>	<u>\$ 79,839</u>	<u>\$ 2,115,119</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes - property	\$ 1,090,500	\$ 1,090,500	\$ 1,128,131	\$ 37,631
Licenses and permits	789,000	789,000	812,127	23,127
Intergovernmental	864,791	864,791	990,324	125,533
Charges for services	1,947,976	1,947,976	1,972,750	24,774
Investment earnings	10,100	10,100	21,520	11,420
Payments in lieu of taxes	35,000	35,000	34,355	(645)
	<u>4,737,367</u>	<u>4,737,367</u>	<u>4,959,207</u>	<u>221,840</u>
EXPENDITURES				
Current:				
General government	862,952	862,952	904,377	(41,425)
Public safety	2,868,908	2,868,908	2,873,209	(4,301)
Public works	804,841	804,841	868,405	(63,564)
Cultural and recreation	200,666	200,666	363,393	(162,727)
	<u>4,737,367</u>	<u>4,737,367</u>	<u>5,009,384</u>	<u>(272,017)</u>
Excess revenue over (under) expenditures	-	-	(50,177)	(50,177)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	-	-	(39,363)	(39,363)
	<u>-</u>	<u>-</u>	<u>(39,363)</u>	<u>(39,363)</u>
Total Other Financing Sources (Uses)	-	-	(39,363)	(39,363)
Net change in fund balances	-	-	(89,540)	(89,540)
Fund Balance, beginning of year	-	-	1,473,101	1,473,101
Fund Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,383,561</u>	<u>\$ 1,383,561</u>

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, 2011

	<u>Evergreen Cemetery Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 177,621	\$ 132,733
Due from/(to) City of Chester	<u>(1,184)</u>	<u>-</u>
Total Assets	<u><u>\$ 176,437</u></u>	<u><u>\$ 132,733</u></u>
LIABILITIES		
Due to City of Chester	\$ -	\$ 72,967
Due to others	-	2,667
Funds held in trust for others	<u>176,437</u>	<u>57,099</u>
Total Liabilities	<u><u>\$ 176,437</u></u>	<u><u>\$ 132,733</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, 2011

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 the 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, 2011

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 Finance Director 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, 2011

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 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, 2011

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, 2011 (all property owned by taxpayers are assessed as of December 31, 2010), but which were billed in October 2010 to finance fiscal year 2010-11 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, 2011

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, 2011

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 to 50 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, 2011

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, 2011

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, 2011.

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:

• City Council	\$ 4,760
• Administration	\$ 36,055
• Human Resources	\$ 3,354
• Fire Department	\$ 12,021
• Public Works	\$ 63,564
• Recreation	\$ 162,727

Expenditures were authorized by City Council; however the budget was not formally amended. The Recreation's unfavorable budget variance was the result of the Council approving \$129,403 of renovations to the pool and Wylie Street sidewalks.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2011

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, 2011, 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 \$1,519,382 and the bank balances were \$1,654,416. Of the bank balances, \$822,598 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, 2011

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2011 including penalties, are as follows:

Real property (2000 - 2011)	\$	663,072
Vehicle taxes (through Chester County)		<u>11,624</u>
		674,696
Less allowance for doubtful accounts		<u>33,154</u>
Total property taxes receivable - net of allowance for uncollectibles	\$	<u>641,542</u>

Intergovernmental receivables at June 30, 2011 are as follows:

State of South Carolina for		
Aid to Local Governments	\$	27,960
Accommodations taxes		20,704
Local Option Sales Taxes		242,290
Chester County		
Payments in lieu of taxes		<u>103</u>
Total intergovernmental receivables	\$	<u>291,057</u>

Other receivables at June 30, 2011 are as follow:

General Fund

Solid waste disposal fees	\$	28,749
Police fines escrow account		72,967
Evergreen Cemetary Trust Fund		7,500
Victim's Assistance		1,431
Other receivables		<u>965</u>
		111,612

Special Revenue

Grants receivable		15,438
Due from citizens		<u>1,300</u>
		16,738

Total other receivables	\$	<u>128,350</u>
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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	\$	589,537
Received but not earned		<u>-</u>
Total deferred revenues related to property taxes		589,537
Deferred revenue - capital lease of sewage plant		<u>71,464</u>

Total deferred revenue	\$	661,001
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CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2011

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2011, is as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 27,592	\$ 146,833
Special Revenue Fund - Community Development	5,441	-
Special Revenue Fund - Sewer Escrow	17,000	-
Special Revenue Fund - Grant Projects	27,867	23,908
Special Revenue Fund - Healthcare Foundation Grant	95	-
Special Revenue Fund - Wylie Park Trails Improvement	20	-
Special Revenue Fund - Wellness Grant	1,528	-
Special Revenue Fund - Artisan and Farmers Market	-	6,500
Capital Projects Fund - Capital Improvement	97,698	-
Total Other Governmental Funds	149,649	30,408
Totals	\$ 177,241	\$ 177,241

	Interfund Transfer In	Interfund Transfers Out
General Fund	\$ -	\$ 39,363
Special Revenue Fund - Community Development	-	4,720
Special Revenue Fund - Grant Projects	-	3,144
Special Revenue Fund - Wylie Park Tennis Court Upgrade	264	-
Special Revenue Fund - Wylie Park Trails Improvement	7,427	-
Special Revenue Fund - Gang Investigator Grant	2,880	-
Special Revenue Fund - Fire Equipment Replacement Fund	36,656	-
Totals	\$ 47,227	\$ 47,227

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2011

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2011 is as follows:

Governmental Activities:	Balance 06/30/10	Additions	Retirements	Balance 06/30/10
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	2,121,283	91,265	-	2,212,548
Improvements other than buildings	351,914	83,753	-	435,667
Infrastructure	42,204	181,890	-	224,094
Construction in progress	7,000	-	-	7,000
Machinery and equipment	3,006,602	27,551	-	3,034,153
Total capital assets, being depreciated	5,529,003	384,459	-	5,913,462
Less accumulated depreciation for:				
Infrastructure	2,110	5,146	-	7,256
Buildings	924,902	45,910	-	970,812
Improvements other than buildings	151,298	10,363	-	161,661
Machinery and equipment	2,072,068	167,563	-	2,239,631
Total accumulated depreciation	3,148,268	228,982	-	3,379,360
Total capital assets, being depreciated, net	2,380,735	155,477	-	2,534,102
Governmental activities capital assets, net	<u>\$ 2,416,735</u>	<u>\$ 155,477</u>	<u>\$ -</u>	<u>\$ 2,570,102</u>

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

Governmental Activities:

General government	\$ 97,249
Public safety	91,760
Public works	19,240
Culture and recreation	<u>20,733</u>
	<u>\$ 228,982</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2011

Note 8 - Long-Term Debt

Long-term liability activity for the year was comprised of obligations for a bond and accrued compensated absences.

Activity for the fiscal year is as follows:

	Balance 06/30/10	Increase	Decrease	Balance 06/30/11
General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest, due April 2019.	\$ 364,750	\$ -	\$ 35,368	\$ 329,382
Total general long-term debt	<u>\$ 364,750</u>	<u>\$ -</u>	<u>\$ 35,368</u>	<u>\$ 329,382</u>

The bond payable is reflected in the Statement of Net Assets based on the maturity of the debt as follow:

Year ended	Principal	Interest	Total
2012	\$ 36,592	\$ 11,000	\$ 47,592
2013	37,814	9,778	47,592
2014	39,077	8,515	47,592
2015	40,382	7,210	47,592
2016	41,731	5,861	47,592
After 2016	<u>133,786</u>	<u>9,032</u>	<u>142,818</u>
	<u>\$ 329,382</u>	<u>\$ 51,396</u>	<u>\$ 380,778</u>

	Balance 06/30/10	Increase	Decrease	Balance 06/30/11
Accrued compensated absences	\$ 84,295	\$ -	\$ 14,830	\$ 69,465
Total general long-term debt	<u>\$ 84,295</u>	<u>\$ -</u>	<u>\$ 14,830</u>	<u>\$ 69,465</u>

Accrued compensated absences are reflected in the Statement of Net Assets based on the maturity of the debt as follow:

	Accrued Compensated Absences	Total
Due within one year	\$ 13,893	\$ 13,893
Due after one year	<u>55,572</u>	<u>55,572</u>
	<u>\$ 69,465</u>	<u>\$ 69,465</u>

There was no interest expense for the year related to long-term debt.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2011

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 9.24% during the year ended June 30, 2011. 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 11.13% for the year ended June 30, 2011. 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 age 55 or with 25 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 8.0% 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, 2010 for SCRS was \$10,964 and for PORS was \$956.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2011

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, 2010 (latest data available), the unfunded liability liquidation period in years for SCRS was 29 years and for PORS was 30 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, 2011 (includes group life insurance for both plans and accidental death insurance for the Police Plan) with comparative data at June 30, 2010 and 2009.

<u>Year Ended</u> <u>June 30,</u>	<u>Plan</u>	<u>Employee</u> <u>Contributions</u>	<u>Employer</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2011	Regular	\$ 60,910	\$ 88,344	\$ 149,254
	Police	113,702	179,873	293,575
2010	Regular	60,824	87,868	148,692
	Police	107,204	182,245	289,449
2009	Regular	63,189	89,826	153,015
	Police	111,106	182,044	293,150

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, 2011 and June 30, 2010, the City paid \$67,882 and \$68,474, 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 \$1,510,328 for the period July 1, 2010 through June 30, 2011.

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, 2011

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, pays 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.

SUPPLEMENTARY INFORMATION

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<u>REVENUES</u>				
TAXES:				
Property taxes - current	\$ 905,000	\$ 905,000	\$ 884,384	\$ (20,616)
Property taxes - delinquent	185,500	185,500	243,747	58,247
	<u>1,090,500</u>	<u>1,090,500</u>	<u>1,128,131</u>	<u>37,631</u>
LICENSES, FINES, FEES AND PERMITS:				
Business licenses	589,000	589,000	570,619	(18,381)
Franchise fees	200,000	200,000	241,508	41,508
	<u>789,000</u>	<u>789,000</u>	<u>812,127</u>	<u>23,127</u>
INTERGOVERNMENTAL:				
State shared revenues:				
Local government revenue	150,791	150,791	129,164	(21,627)
Local option sales tax	490,000	490,000	619,785	129,785
Homestead exemption	170,000	170,000	177,907	7,907
Accommodations tax	19,000	19,000	27,464	8,464
Merchant's inventory tax	34,000	34,000	34,567	567
Manufacturing depreciation tax	1,000	1,000	1,437	437
	<u>864,791</u>	<u>864,791</u>	<u>990,324</u>	<u>125,533</u>
CHARGES FOR SERVICES:				
Chester Fire District contract	1,510,328	1,510,328	1,510,328	-
Police fines and fees	58,300	58,300	81,834	23,534
Solid waste fees - commercial	-	-	123	123
Solid waste fees - residential	357,110	357,110	347,708	(9,402)
Public Works fees	1,000	1,000	433	(567)
Cemetery fees	8,200	8,200	13,079	4,879
Recreation Department fees	13,038	13,038	19,245	6,207
	<u>1,947,976</u>	<u>1,947,976</u>	<u>1,972,750</u>	<u>24,774</u>
INVESTMENT EARNINGS:				
Interest income	5,000	5,000	8,639	3,639
Lease income	5,000	5,000	5,500	500
Other income	100	100	7,381	7,281
	<u>10,100</u>	<u>10,100</u>	<u>21,520</u>	<u>11,420</u>
PAYMENTS IN LIEU OF TAXES:				
Payments in lieu of taxes	35,000	35,000	34,355	(645)
TOTAL REVENUES	<u><u>\$ 4,737,367</u></u>	<u><u>\$ 4,737,367</u></u>	<u><u>\$ 4,959,207</u></u>	<u><u>\$ 221,840</u></u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT:				
CITY COUNCIL				
Salaries	\$ 51,700	\$ 51,700	\$ 51,693	\$ 7
Payroll taxes	3,955	3,955	3,858	97
Retirement	4,855	4,855	4,963	(108)
Employee insurance and benefits	22,728	22,728	20,439	2,289
Mayor's meeting expenses	1,000	1,000	631	369
Council conferences and travel	3,900	3,900	11,376	(7,476)
Tourism and accommodations	6,000	6,000	5,500	500
Supplies and materials	300	300	310	(10)
Municipal elections	4,000	4,000	3,946	54
Agency support expenses	1,050	1,050	1,532	(482)
	<u>99,488</u>	<u>99,488</u>	<u>104,248</u>	<u>(4,760)</u>
ADMINISTRATION				
Salaries	153,392	153,392	156,896	(3,504)
Payroll taxes	11,735	11,735	11,914	(179)
Retirement	14,404	14,404	14,847	(443)
Employee insurance and benefits	34,240	34,240	31,818	2,422
Supplies and materials	750	750	1,234	(484)
Uniforms	180	180	365	(185)
Postage	350	350	593	(243)
Travel and training	6,400	6,400	3,853	2,547
Dues and subscriptions	3,870	3,870	4,245	(375)
Auto repairs and maintenance	2,985	2,985	4,174	(1,189)
Advertising and printing	1,345	1,345	1,913	(568)
Utilities	141,200	141,200	152,341	(11,141)
Repairs and maintenance	17,100	17,100	29,290	(12,190)
Communications	12,215	12,215	14,231	(2,016)
General and miscellaneous	2,575	2,575	5,522	(2,947)
Contracted services	1,500	1,500	405	1,095
Insurance	5,800	5,800	5,102	698
Juror's fees	11,000	11,000	15,761	(4,761)
Bond retirement	45,000	45,000	47,592	(2,592)
	<u>466,041</u>	<u>466,041</u>	<u>502,096</u>	<u>(36,055)</u>
FINANCE				
Salaries	115,715	115,715	117,480	(1,765)
Payroll taxes	8,853	8,853	8,983	(130)
Retirement	10,866	10,866	11,148	(282)
Employee insurance and benefits	24,339	24,339	24,314	25
Supplies and materials	3,685	3,685	4,101	(416)
Postage	3,635	3,635	3,570	65
Travel and training	1,180	1,180	1,463	(283)

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Dues and subscriptions	250	250	120	130
Advertising and printing	8,600	8,600	8,996	(396)
Repairs and maintenance	24,607	24,607	19,908	4,699
Communications	480	480	480	-
General and miscellaneous	600	600	367	233
Contracted services	21,780	21,780	21,780	-
Insurance	7,700	7,700	6,836	864
	<u>232,290</u>	<u>232,290</u>	<u>229,546</u>	<u>2,744</u>
HUMAN RESOURCES				
Salaries	45,123	45,123	45,813	(690)
Payroll taxes	3,452	3,452	3,420	32
Retirement	4,237	4,237	4,335	(98)
Employee insurance and benefits	6,406	6,406	6,810	(404)
Supplies and materials	550	550	1,140	(590)
Postage	120	120	145	(25)
Travel and training	1,250	1,250	972	278
Dues and subscriptions	325	325	340	(15)
Repairs and maintenance	3,190	3,190	4,992	(1,802)
Communications	480	480	520	(40)
	<u>65,133</u>	<u>65,133</u>	<u>68,487</u>	<u>(3,354)</u>
Total General Government	<u>862,952</u>	<u>862,952</u>	<u>904,377</u>	<u>(41,425)</u>
PUBLIC SAFETY:				
POLICE DEPARTMENT				
Salaries	834,707	834,707	829,958	4,749
Payroll taxes	63,855	63,855	62,535	1,320
Retirement	96,242	96,242	96,293	(51)
Employee insurance and benefits	222,073	222,073	201,931	20,142
Supplies and materials	12,853	12,853	13,985	(1,132)
Postage	500	500	414	86
Travel and training	5,500	5,500	4,075	1,425
Dues and subscriptions	1,000	1,000	793	207
Auto repairs and maintenance	55,000	55,000	83,843	(28,843)
Advertising and printing	2,260	2,260	2,241	19
Utilities	5,000	5,000	5,071	(71)
Repairs and maintenance	8,380	8,380	4,740	3,640
Communications	22,600	22,600	22,488	112
General and miscellaneous	6,800	6,800	6,773	27
Uniforms	6,700	6,700	9,712	(3,012)
Contracted services	38,210	38,210	32,013	6,197
Insurance	33,000	33,000	30,095	2,905
	<u>1,414,680</u>	<u>1,414,680</u>	<u>1,406,960</u>	<u>7,720</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
FIRE DEPARTMENT				
Salaries	870,153	870,153	871,126	(973)
Payroll taxes	65,802	65,802	65,432	370
Retirement	99,174	99,174	101,639	(2,465)
Employee insurance and benefits	211,130	211,130	207,169	3,961
Supplies and materials	32,700	32,700	36,350	(3,650)
Postage	400	400	216	184
Travel and training	8,700	8,700	8,706	(6)
Dues and subscriptions	1,900	1,900	2,045	(145)
Auto repairs and maintenance	36,250	36,250	38,175	(1,925)
Advertising and printing	600	600	582	18
Utilities	23,300	23,300	25,600	(2,300)
Repairs and maintenance	16,950	16,950	16,948	2
Communications	8,000	8,000	8,532	(532)
General and miscellaneous	5,500	5,500	6,115	(615)
Uniforms	14,469	14,469	24,694	(10,225)
Contracted services	29,900	29,900	26,848	3,052
Insurance	29,300	29,300	26,072	3,228
	<u>1,454,228</u>	<u>1,454,228</u>	<u>1,466,249</u>	<u>(12,021)</u>
Total Public Safety	<u>2,868,908</u>	<u>2,868,908</u>	<u>2,873,209</u>	<u>(4,301)</u>
PUBLIC WORKS:				
PUBLIC WORKS - COMMERCIAL				
Salaries	418,375	418,375	414,037	4,338
Payroll taxes	32,006	32,006	30,976	1,030
Retirement	37,815	37,815	36,302	1,513
Employee insurance and benefits	102,901	102,901	100,999	1,902
Supplies and materials	16,170	16,170	25,057	(8,887)
Postage	1,200	1,200	1,692	(492)
Travel and training	430	430	331	99
Dues and subscriptions	150	150	143	7
Auto repairs and maintenance	63,154	63,154	92,898	(29,744)
Advertising and printing	360	360	336	24
Utilities	4,450	4,450	5,357	(907)
Repairs and maintenance	2,350	2,350	2,513	(163)
Communications	4,830	4,830	5,469	(639)
Contracted services	1,650	1,650	1,232	418
Insurance	14,000	14,000	13,292	708
Solid waste - yard	30,000	30,000	60,596	(30,596)
Solid waste - commercial	75,000	75,000	77,175	(2,175)
	<u>804,841</u>	<u>804,841</u>	<u>868,405</u>	<u>(63,564)</u>
Total Public Works	<u>804,841</u>	<u>804,841</u>	<u>868,405</u>	<u>(63,564)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
CULTURE AND RECREATION:				
RECREATION DEPARTMENT				
Salaries	105,970	105,970	106,531	(561)
Payroll taxes	8,107	8,107	8,076	31
Retirement	7,650	7,650	7,617	33
Employee insurance and benefits	18,327	18,327	19,707	(1,380)
Supplies and materials	5,800	5,800	4,677	1,123
Postage	200	200	297	(97)
Travel and training	232	232	175	57
Dues and subscriptions	400	400	433	(33)
Auto repairs and maintenance	4,950	4,950	9,801	(4,851)
Advertising and printing	50	50	281	(231)
Utilities	25,500	25,500	35,334	(9,834)
Repairs and maintenance	13,350	13,350	110,943	(97,593)
Communications	2,220	2,220	2,611	(391)
General and miscellaneous	860	860	802	58
Uniforms	900	900	971	(71)
Contracted services	1,500	1,500	1,482	18
Insurance	1,600	1,600	1,453	147
Programs and services	3,050	3,050	2,853	197
Grant match	-	-	49,349	(49,349)
	<u>200,666</u>	<u>200,666</u>	<u>363,393</u>	<u>(162,727)</u>
Total Culture and Recreation	200,666	200,666	363,393	(162,727)
OTHER FINANCING (SOURCES) USES				
Transfer in (out)	-	-	39,363	(39,363)
Total Other Financing (Sources) Uses	-	-	39,363	(39,363)
TOTAL EXPENDITURES	<u>\$ 4,737,367</u>	<u>\$ 4,737,367</u>	<u>\$ 5,048,747</u>	<u>\$ (311,380)</u>
EXCESS EXPENDITURES OVER REVENUES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (89,540)</u>	<u>\$ (89,540)</u>

COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Special Projects	Community Development	McAliley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow
ASSETS							
Cash	\$ 14,623	\$ 2,584	\$ -	\$ 10,163	\$ 23,783	\$ 112,843	\$ 83,903
Receivable - other	1,300	-	-	15,438	-	-	-
Notes receivable, net	-	16,080	208,000	-	-	-	-
Due from other funds	-	5,441	-	27,867	-	-	17,000
Total Assets	<u>\$ 15,923</u>	<u>\$ 24,105</u>	<u>\$ 208,000</u>	<u>\$ 53,468</u>	<u>\$ 23,783</u>	<u>\$ 112,843</u>	<u>\$ 100,903</u>
LIABILITIES AND FUND BALANCE							
Accounts payable	\$ -	\$ -	\$ -	\$ 2,044	\$ -	\$ -	\$ -
Due to other funds	-	-	-	23,908	-	-	-
Fund balance	15,923	24,105	208,000	27,516	23,783	112,843	100,903
Total Liabilities and Fund Balance	<u>\$ 15,923</u>	<u>\$ 24,105</u>	<u>\$ 208,000</u>	<u>\$ 53,468</u>	<u>\$ 23,783</u>	<u>\$ 112,843</u>	<u>\$ 100,903</u>

CITY OF CHESTER, SOUTH CAROLINA
 COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
 AS OF JUNE 30, 2011

SPECIAL REVENUE FUNDS

	SC MIT Safety Grant	COPS Hiring Recovery	Healthcare Foundation Grant	Wylie Park Tennis Court Upgrade	Wylie Park Trails Improvement	Water Works Fund	Justice Assistance Grant (JAG)
ASSETS							
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,406	\$ -
Receivable - other	-	-	-	-	-	-	-
Notes receivable, net	-	-	-	-	-	-	-
Due from other funds	-	-	95	-	20	-	-
Total Assets	\$ -	\$ -	\$ 95	\$ -	\$ 20	\$ 25,406	\$ -
LIABILITIES AND FUND BALANCE							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Fund balance	-	-	95	-	20	25,406	-
Total Liabilities and Fund Balance	\$ -	\$ -	\$ 95	\$ -	\$ 20	\$ 25,406	\$ -

COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

	SPECIAL REVENUE FUNDS					CAPITAL PROJECTS		
	Wellness Grant	Gang Investigator Grant	Victim Advocate	Police Benevolent Fund	T Harrison Memorial Fund	Artisan & Farmers Market	Capital Improvement Fund	Totals
ASSETS								
Cash	\$ -	\$ -	\$ 12,775	\$ 198	\$ -	\$ 1,296	\$ 6,130	\$ 293,704
Receivable - other	-	-	-	-	-	-	-	16,738
Notes receivable, net	-	-	-	-	-	-	-	224,080
Due from other funds	1,528	-	-	-	-	-	97,698	149,649
Total Assets	<u>\$ 1,528</u>	<u>\$ -</u>	<u>\$ 12,775</u>	<u>\$ 198</u>	<u>\$ -</u>	<u>\$ 1,296</u>	<u>\$ 103,828</u>	<u>\$ 684,171</u>
LIABILITIES AND FUND BALANCE								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,044
Due to other funds	-	-	-	-	-	6,500	-	30,408
Fund balance	1,528	-	12,775	198	-	(5,204)	103,828	651,719
Total Liabilities and Fund Balance	<u>\$ 1,528</u>	<u>\$ -</u>	<u>\$ 12,775</u>	<u>\$ 198</u>	<u>\$ -</u>	<u>\$ 1,296</u>	<u>\$ 103,828</u>	<u>\$ 684,171</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Special Projects	Community Development	McAliley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow
REVENUES							
Intergovernmental:							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-	-
Local sources	288	-	-	-	-	4,303	-
Charges for services	-	-	-	-	-	-	-
Investment earnings	12	-	-	5	14	358	4,803
Drug forfeitures	-	-	-	-	4,528	-	-
Total Revenues	300	-	-	5	4,542	4,661	4,803
EXPENDITURES							
General government	13,163	100	-	1,577	-	-	-
Public safety	-	-	-	-	2,753	-	-
Cultural and recreation	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	179,347	-
Total Expenditures	13,163	100	-	1,577	2,753	179,347	-
Excess (deficiency) of revenues over expenditures	(12,863)	(100)	-	(1,572)	1,789	(174,686)	4,803
Other financing sources							
Transfers in	-	-	-	-	-	36,656	-
Transfers (out)	-	(4,720)	-	(3,144)	-	-	-
	-	4,720	-	(3,144)	-	36,656	-
Excess (deficiency) of revenues and other financing sources over expenditures	(12,863)	(4,820)	-	(4,716)	1,789	(138,030)	4,803
Fund Balance, June 30, 2010	28,786	28,925	208,000	32,232	21,994	250,873	96,100
Fund Balance, JUNE 30, 2011	\$ 15,923	\$ 24,105	\$ 208,000	\$ 27,516	\$ 23,783	\$ 112,843	\$ 100,903

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS							
	SC MIT Safety Grant	COPS Hiring Recovery	Healthcare Foundation Grant	Wylie Park Tennis Court Upgrade	Wylie Park Trails Improvement	Water Works Fund	Justice Assistance Grant (JAG)
REVENUES							
Intergovernmental:							
Federal sources	\$ -	\$ 41,886	\$ -	\$ -	\$ -	\$ -	\$ 12,635
State sources	308	-	-	5,480	14,400	-	-
Local sources	-	-	2,000	1,510	-	-	-
Charges for services	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	94	-
Drug forfeitures	-	-	-	-	-	-	-
Total Revenues	308	41,886	2,000	6,990	14,400	94	12,635
EXPENDITURES							
General government	-	-	-	-	-	-	-
Public safety	308	41,886	-	-	-	-	12,635
Cultural and recreation	-	-	1,905	7,254	21,807	-	-
Capital outlay	-	-	-	-	-	-	-
Total Expenditures	308	41,886	1,905	7,254	21,807	-	12,635
Excess (deficiency) of revenues over expenditures	-	-	95	(264)	(7,407)	94	-
Other financing sources							
Transfers in	-	-	-	264	7,427	-	-
Transfers (out)	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	264	7,427	-	-
Fund Balance, June 30, 2010	-	-	95	-	20	94	-
Fund Balance, JUNE 30, 2011	\$ -	\$ -	\$ 95	\$ -	\$ 20	\$ 25,406	\$ -

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS							CAPITAL PROJECTS	
								FUND	
	Wellness Grant	Gang Investigator Grant	Victim Advocate	Police Benevolent Fund	T Harrison Memorial Fund	Artisan & Farmers Market	Capital Improvement Fund	Totals	
REVENUES									
Intergovernmental:									
Federal sources	\$ -	\$ 83,645	\$ -	\$ -	\$ -	\$ -	\$ -	\$	\$ 138,166
State sources	-	-	-	-	-	-	-	-	20,188
Local sources	1,780	-	-	92	14,685	-	65,000	-	89,658
Charges for services	-	-	15,776	-	-	-	-	-	15,776
Investment earnings	-	-	8	-	15	-	11	-	5,320
Drug forfeitures	-	-	-	-	-	-	-	-	4,528
Total Revenues	1,780	83,645	15,784	92	14,700	-	65,011	-	273,636
EXPENDITURES									
General government	-	-	-	-	29,796	-	3,075	-	47,711
Public safety	-	58,974	16,449	164	-	-	-	-	133,169
Cultural and recreation	252	-	-	-	-	8,964	-	-	40,182
Capital outlay	-	27,551	-	-	-	-	65,000	-	271,898
Total Expenditures	252	86,525	16,449	164	29,796	8,964	68,075	-	492,960
Excess (deficiency) of revenues over expenditures	1,528	(2,880)	(665)	(72)	(15,096)	(8,964)	(3,064)	-	(219,324)
Other financing sources									
Transfers in	-	2,880	-	-	-	-	-	-	47,227
Transfers (out)	-	-	-	-	-	-	-	-	(7,864)
	-	2,880	-	-	-	-	-	-	39,363
Excess (deficiency) of revenues and other financing sources over expenditures	1,528	-	(665)	(72)	(15,096)	(8,964)	(3,064)	-	(179,961)
Fund Balance, June 30, 2010	-	-	13,440	270	15,096	3,760	106,892	-	831,680
Fund Balance, JUNE 30, 2011	\$ 1,528	\$ -	\$ 12,775	\$ 198	\$ -	\$ (5,204)	\$ 103,828	\$	651,719

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Debt Service</u>
REVENUES	
Intergovernmental:	
Investment earnings	\$ 132
Total Revenues	<u>132</u>
EXPENDITURES	
General government	7,597
Capital outlay	151,209
Total Expenditures	<u>158,806</u>
Excess (deficiency) of revenues over expenditures	(158,674)
Excess (deficiency) of revenues and other financing sources over expenditures	(158,674)
Fund Balance, June 30, 2010	<u>238,513</u>
Fund Balance, JUNE 30, 2011	<u><u>\$ 79,839</u></u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
<u>Tax Sale Escrow Fund</u>				
ASSETS				
Cash	\$ 11,161	\$ 36,631	\$ -	\$ 47,792
Total Assets	<u>\$ 11,161</u>	<u>\$ 36,631</u>	<u>\$ -</u>	<u>\$ 47,792</u>
LIABILITIES				
Funds held in trust for others	\$ 11,161	\$ 36,631	\$ -	\$ 47,792
Total Liabilities	<u>\$ 11,161</u>	<u>\$ 36,631</u>	<u>\$ -</u>	<u>\$ 47,792</u>
 <u>Fireman's Fund</u>				
ASSETS				
Cash	\$ 11,633	\$ 26,445	\$ 24,321	\$ 13,757
Total Assets	<u>\$ 11,633</u>	<u>\$ 26,445</u>	<u>\$ 24,321</u>	<u>\$ 13,757</u>
LIABILITIES				
Funds held in trust for others	\$ 11,633	\$ 26,445	\$ 24,321	\$ 13,757
Total Liabilities	<u>\$ 11,633</u>	<u>\$ 26,445</u>	<u>\$ 24,321</u>	<u>\$ 13,757</u>
 <u>Police Fines Escrow</u>				
ASSETS				
Cash	\$ 84,161	\$ 221,829	\$ 234,806	\$ 71,184
Total Assets	<u>\$ 84,161</u>	<u>\$ 221,829</u>	<u>\$ 234,806</u>	<u>\$ 71,184</u>
LIABILITIES				
Due to City of Chester	\$ 78,441	\$ -	\$ 5,474	\$ 72,967
Due to SC State	8,460	-	8,460	-
Due to others	-	2,667	-	2,667
Funds held in trust for others	(2,740)	219,162	220,872	(4,450)
Total Liabilities	<u>\$ 84,161</u>	<u>\$ 221,829</u>	<u>\$ 234,806</u>	<u>\$ 71,184</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Totals - All Agency Funds</u>				
ASSETS				
Cash	\$ 106,955	\$ 284,905	\$ 259,127	\$ 132,733
Total Assets	<u>\$ 106,955</u>	<u>\$ 284,905</u>	<u>\$ 259,127</u>	<u>\$ 132,733</u>
LIABILITIES				
Due to City of Chester	\$ 78,441	\$ -	\$ 5,474	\$ 72,967
Due to SC State	8,460	-	8,460	-
Due to others	-	2,667	-	2,667
Funds held in trust for others	<u>20,054</u>	<u>282,238</u>	<u>245,193</u>	<u>57,099</u>
Total Liabilities	<u>\$ 106,955</u>	<u>\$ 284,905</u>	<u>\$ 259,127</u>	<u>\$ 132,733</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
EVERGREEN CEMETERY TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
ASSETS				
Cash	\$ 174,906	\$ 2,715	\$ -	\$ 177,621
Due from (to) City of Chester	<u>6,316</u>	<u>-</u>	<u>7,500</u>	<u>(1,184)</u>
Total Assets	<u><u>\$ 181,222</u></u>	<u><u>\$ 2,715</u></u>	<u><u>\$ 7,500</u></u>	<u><u>\$ 176,437</u></u>
LIABILITIES				
Funds held in trust for others	<u>\$ 181,222</u>	<u>\$ 2,715</u>	<u>\$ 7,500</u>	<u>\$ 176,437</u>
Total Liabilities	<u><u>\$ 181,222</u></u>	<u><u>\$ 2,715</u></u>	<u><u>\$ 7,500</u></u>	<u><u>\$ 176,437</u></u>

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2011

AMOUNT RETAINED BY CITY OF CHESTER

Fines	\$ 50,857
Fees	30,472
	<hr/>
Total retained by City of Chester	81,329
	<hr/> <hr/>

AMOUNT REMITTED TO STATE TREASURER

Assessments	89,958
Surcharges	29,081
	<hr/>
Total remitted to State Treasurer	119,039
	<hr/> <hr/>

AMOUNT ALLOCATED TO VICTIM'S SERVICES

Court Assessments	10,201
Court Surcharges	5,575
	<hr/>
Total allocated to Victim's Services	\$ 15,776
	<hr/> <hr/>

COMPLIANCE SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

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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 the City of Chester, South Carolina as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 31, 2011. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described previously and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City in a separate letter dated October 31, 2011.

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

Camp, Moring & Cannon, LLC

Columbia, South Carolina
October 31, 2011

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

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 discloses no 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 to be a low risk auditee.

Generally Accepted *Governmental Auditing Standards* Findings and Questioned Costs:

NONE

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2011, we investigated the disposition of the findings for the year ended June 30, 2010. We determined that corrective action had been taken for each finding as follows:

There were no prior year findings and questioned costs.