

**CITY OF CHESTER, SOUTH CAROLINA**

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

**For the Year Ended June 30, 2015**

**CITY OF CHESTER, SOUTH CAROLINA**

**Table of Contents**

**June 30, 2015**

Independent Auditors' Report	<u>Page</u> 1
<b>GENERAL PURPOSE FINANCIAL STATEMENTS</b>	
Statement of Net Position	3
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	4
Statement of Activities	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Balance Sheet - Governmental Funds	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Statement of Fiduciary Net Assets	9
Notes to the Financial Statements	10
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison - General Fund	34
Schedule of Funding Progress	35
Schedule of Contributions and Proportionate Share of the Net Pension Liability	36
Notes to Required Supplementary Information	37
<b>SUPPLEMENTARY INFORMATION</b>	
Statement of Revenues - Budget to Actual - General Fund	38
Statement of Expenditures - Budget to Actual - General Fund	39
Combining Balance Sheet - Other Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Other Governmental Funds	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Debt Service Fund	49

**CITY OF CHESTER, SOUTH CAROLINA**

**Table of Contents**

**June 30, 2015**

Combining Statement of Assets and Liabilities - Fiduciary Funds - Agency Funds	<u>Page</u> 50
Combining Statement of Assets and Liabilities - Fiduciary Funds - Trust Funds	52
Schedule of Municipal Court Fees and Fines	53
<b>COMPLIANCE SECTION</b>	
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 <i>Government Auditing Standards</i>	54
Schedule of Findings and Questioned Costs	56
Disposition of Prior Year Findings and Questioned Costs	59
Management's Response	60

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Chester, South Carolina as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Chester, South Carolina as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison on page 28, funding progress information on 29, and net pension liability information on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

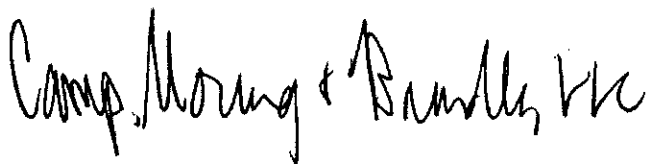
### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chester, South Carolina's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2017, on our consideration of the City Chester, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Chester, South Carolina's internal control over financial reporting and compliance.



Columbia, South Carolina  
March 1, 2017

**CITY OF CHESTER, SOUTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,316,413
Receivables (net of allowance for uncollectibles):	
Property taxes	625,761
Intergovernmental	321,879
Other	52,123
Notes receivable, net	224,080
Due from fiduciary fund	9,088
Prepaid expenses	-
Capital lease receivable	70,327
Capital assets:	
Land	36,000
Buildings and improvements	2,212,548
Improvements, other than buildings	1,607,233
Infrastructure - sidewalks	224,094
Machinery and equipment	3,522,759
Construction in progress	221,360
Accumulated depreciation	(4,419,740)
Total Assets	<u>6,023,925</u>
<b>Deferred Outflow of Resources</b>	
Deferred charges on pension amounts	454,859
<b>LIABILITIES</b>	
Accounts payable	249,437
Accrued expenses	86,330
Deferred revenue	614,514
Other post employment benefits	411,669
Net pension liability	4,507,202
Noncurrent liabilities:	
Due within one year	96,596
Due after one year	346,641
Total Liabilities	<u>6,312,389</u>
<b>Deferred Inflow of Resources</b>	
Deferred charges on pension amounts	468,386
<b>NET POSITION</b>	
Invested in capital assets - net of related debt	3,050,867
Restricted for general government	255,113
Unrestricted	(3,607,971)
Total Net Position	<u>\$ (301,991)</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 POSITION OF GOVERNMENTAL ACTIVITIES**  
**AS OF JUNE 30, 2015**

Total fund balances - governmental funds, June 30, 2015	\$ 1,624,036
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	7,823,994
Accumulated depreciation	(4,419,740)
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	45,355
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	(175,666)
Lease financing	(177,721)
Other post employment benefits	(411,669)
Net pension liability	(4,507,202)
Compensated absences	(89,851)
Deferred outflows and inflows of resources related to pensions are applicable to future period and, therefore, are not reported in the governmental funds balance sheet	
Deferred outflows of resources	454,859
Deferred inflows of resources	(468,386)
Total net position - governmental activities, June 30, 2015	\$ (301,991)

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, 2015**

	Program Revenues			Net Revenue (Expense) and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
General government	\$ 1,203,411	\$ 14,614	\$ 406,793	\$ 60,443	\$ (721,561)
Public safety	3,427,283	1,674,092	33,685	-	(1,719,506)
Public works	1,017,385	486,568	-	-	(530,817)
Cultural and recreation	745,906	36,106	17,656	21,600	(670,544)
Interest and fiscal charges	8,300	-	-	-	(8,300)
Total Governmental	6,402,285	2,211,380	458,134	82,043	(3,650,728)
<b>Business-Type Activities</b>					
None	-	-	-	-	-
Total Primary Government	\$ 6,402,285	\$ 2,211,380	\$ 458,134	\$ 82,043	(3,650,728)
<b>General Revenues</b>					
Property taxes levied for:					
General purposes					1,298,858
Accommodations tax					21,280
Interest/investment income					15,287
Intergovernmental					1,120,489
Franchise fees					284,739
Business licenses					647,610
Contributed capital					92,660
Total general revenues					3,480,923
Changes in net position					(169,805)
Net Position, beginning					4,283,308
Prior Period Adjustments					73,917
Prior Period Adjustments, NPL					(4,489,411)
Net Position, beginning, restated					(132,186)
Net Position, ending					\$ (301,991)

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, 2015**

Change in fund balances - governmental funds, JUNE 30, 2015	\$ (171,594)
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 position, 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.	315,420
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditures in governmental funds.	
	(270,197)
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Issuance of new long-term debt	(59,844)
Principal payments on long-term debt	94,179
Compensated absences	13,850
Other post employment benefits	-
Pension contributions are reported in the City's governmental funds as expenditures. However, the government-wide statement of activities reports the cost of pension benefits earned net of employee contributions as pension expense.	
Pension contributions	331,789
Cost of benefits earned net of employee contributions	(363,107)
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.	
	(60,301)
Change in net position - governmental activities, JUNE 30, 2015	\$ (169,805)

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, 2015**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,058,624	\$ 257,789	\$ -	\$ 1,316,413
Receivables (net of allowance for uncollectibles):				
Taxes	580,409	-	-	580,409
Intergovernmental	289,259	-	-	289,259
Other	84,544	200	-	84,744
Notes receivable, net	-	224,080	-	224,080
Due from other funds	263,286	109,561	-	372,847
Prepaid expenses	-	-	-	-
Capital lease receivable	70,327	-	-	70,327
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 2,346,449</u>	<u>\$ 591,630</u>	<u>\$ -</u>	<u>\$ 2,938,079</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 249,440	\$ -	\$ -	\$ 249,440
Accrued expenses	86,330	-	-	86,330
Deferred revenue	614,514	-	-	614,514
Due to other funds	27,242	336,517	-	363,759
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>977,526</u>	<u>336,517</u>	<u>-</u>	<u>1,314,043</u>
<b>FUND BALANCES</b>				
Fund balances				
Restricted	-	255,113	-	255,113
Unassigned	1,368,923	-	-	1,368,923
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>1,368,923</u>	<u>255,113</u>	<u>-</u>	<u>1,624,036</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 2,346,449</u>	<u>\$ 591,630</u>	<u>\$ -</u>	<u>\$ 2,938,079</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, 2015**

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes - property	\$ 1,302,002	\$ -	\$ -	\$ 1,302,002
Licenses and permits	932,349	-	-	932,349
Federal grants	-	-	-	-
Intergovernmental	1,141,539	540,178	-	1,681,717
Charges for services	2,209,732	-	-	2,209,732
Investment earnings	11,924	5,616	-	17,540
Payments in lieu of taxes	55,136	-	-	55,136
Drug forfeitures	-	1,162	-	1,162
	<u>-</u>	<u>1,162</u>	<u>-</u>	<u>1,162</u>
Total Revenues	<u>5,652,682</u>	<u>546,956</u>	<u>-</u>	<u>6,199,638</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,139,656	30	-	1,139,686
Public safety	3,347,023	7,968	-	3,354,991
Public works	985,313	-	-	985,313
Cultural and recreation	283,115	444,367	-	727,482
Capital outlay	-	213,785	-	213,785
Debt service	-	-	102,479	102,479
	<u>-</u>	<u>-</u>	<u>102,479</u>	<u>102,479</u>
Total Expenditures	<u>5,755,107</u>	<u>666,150</u>	<u>102,479</u>	<u>6,523,736</u>
Excess revenue over (under) expenditures	<u>(102,425)</u>	<u>(119,194)</u>	<u>(102,479)</u>	<u>(324,098)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease financing proceeds	-	-	59,844	59,844
Operating transfers in (out)	(66,268)	116,293	42,635	92,660
	<u>(66,268)</u>	<u>116,293</u>	<u>42,635</u>	<u>92,660</u>
Total Other Financing Sources (Uses)	<u>(66,268)</u>	<u>116,293</u>	<u>102,479</u>	<u>152,504</u>
Net change in fund balances	(168,693)	(2,901)	-	(171,594)
Fund Balance, beginning of year	1,332,982	430,858	-	1,763,840
Prior Period Adjustments	204,634	(172,844)	-	31,790
Fund Balance, beginning of year, restated	<u>1,537,616</u>	<u>258,014</u>	<u>-</u>	<u>1,795,630</u>
Fund Balance, end of year	<u>\$ 1,368,923</u>	<u>\$ 255,113</u>	<u>\$ -</u>	<u>\$ 1,624,036</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, 2015**

	<u>Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash	\$ 461,907	\$ 57,520
Due from/(to) City of Chester	<u>(9,088)</u>	<u>-</u>
Total Assets	<u>\$ 452,819</u>	<u>\$ 57,520</u>
<b>LIABILITIES</b>		
Due to City of Chester	\$ -	\$ 51,923
Due to others	-	20,217
Funds held in trust for others	<u>452,819</u>	<u>(14,620)</u>
Total Liabilities	<u>\$ 452,819</u>	<u>\$ 57,520</u>

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

## CITY OF CHESTER, SOUTH CAROLINA

### Notes to the Financial Statements

June 30, 2015

#### 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, 2015

**C. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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 position 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, 2015

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 position. All internal activity is eliminated on the government-wide statement of activities.

**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, 2015

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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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, 2015 (all property owned by taxpayers are assessed as of December 31, 2014), but which were billed in October 2014 to finance fiscal year 2014-15 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, 2015

#### **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 Position, 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, 2015

**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, 2015

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Commission has one item that meets these criterion – pension related deferrals.

**Fund balance**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with reservations indicating those fund balances which do not represent expendable resources and, therefore, are not available for expenditure.

The following classifications describe the relative strength of the spending constraints placed on the purpose for which resources can be used:

- **Non-spendable fund balance** amounts are not in a spendable for (such as inventory or prepaid) or are required to be maintained intact.
- **Restricted fund balance** amounts are constrained to specific purposes by their providers (such as grantors, bondholders, or higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** amounts are constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- **Assigned fund balance** amounts are what the government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned fund balance** amounts are available for any purpose; these amounts are reported only in the general fund.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The City applies uncommitted and unassigned resources when an expense is incurred for purposes for which any unrestricted fund balance is available.

**Net position**

Net position represents the difference between assets and liabilities. Net position 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 improvements of those assets. Restricted net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through restrictions imposed by creditors, grantors, laws, or regulations of other governments. Unrestricted net position represents net position not invested in capital assets or restricted.

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

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**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.

**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.

**Subsequent events**

The City evaluated all events and transactions that occurred after June 30, 2015 through the date these financial statements were available to be issued on March 1, 2017.

**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

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

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, 2015.

#### **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	\$ 44,961
• Finance	\$ 11,173
• Police Department	\$ 95,294
• Fire Department	\$ 83,971
• Public Works	\$ 103,100

#### **DETAILED NOTES ON ALL FUNDS**

##### **Note 2 - Cash and Investments**

The City is authorized by South Carolina State Law to invest in the following types of investments:

1. Obligations of the United States, and its agencies, the principal and interest of which is fully guaranteed by the United States.
2. Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to the refinement or graduation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

3. General obligations of the State of South Carolina or any of its political units; or revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or graduation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
4. Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
5. Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificate of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
6. Repurchase agreements when collateralized by securities as set forth in this section.
7. No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The 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, 2015, the City had investments of \$440,664. Of this amount, \$3,941 is collateralized with securities held by pledging financial institution's trust department or agent in the City's name. The remaining \$436,723 is held in the S.C. Local Government Investment Pool.

*Investment Credit Risk* – The City has no investment policy that limits its investment choices other than the limitation of state law. The S.C. Local Government Investment Pool is run by the State Treasurer's Office and can invest only in the same type of instruments allowed by the City.

*Custodial Credit Risk – Deposits* - At year end, the carrying amount of the City's cash deposits (checking accounts, savings accounts and certificates of deposit), was \$1,398,500 and the bank balances were \$1,478,375. Of the bank balances, all 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 allowance at \$16,080.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 5 - Receivables and Deferred Revenue**

Property taxes receivables at June 30, 2015 including penalties, are as follows:

Real property (2006 - 2015)	\$ 610,957
Vehicle taxes (through Chester County)	16,099
	<hr/> 627,056
Less allowance for doubtful accounts	30,548
Total property taxes receivable - net of allowance for uncollectibles	<hr/> <u>\$ 596,508</u>

Intergovernmental receivables at June 30, 2015 are as follows:

State of South Carolina for	
Local Option Sales Taxes	\$ 181,743
Accommodations Tax	20,321
Chester County	
Payments in lieu of taxes	318
Chester Metropolitan District	46,742
Chester Fire District	1,216
Other receivables	-
Total intergovernmental receivables	<hr/> <u>\$ 250,340</u>

Other receivables at June 30, 2015 are as follow:

General Fund

Police fines escrow account	\$ 51,923
MASC Brokers Tax	18,321
SC MIRF	4,856
Victim's Assistance	6,519
USDA Kitchen Grant	16,300
Other receivables	9,442
	<hr/> 107,361

Special Revenue

Receivables

Total other receivables	<hr/> <u>\$ 107,361</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	\$ 544,187
Received but not earned	-
Total deferred revenues related to property taxes	<hr/> 544,187
Deferred revenue - capital lease of sewage plant	70,327
Total deferred revenue	<hr/> <u>\$ 614,514</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 6 - Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of June 30, 2015, is as follows:

	Interfund Receivables	Interfund Payables	Purpose
General Fund	\$ 255,698	\$ 28,742	
Special Revenue Fund - Fire Equipment Replacement	28,742	-	
Special Revenue Fund - Sewer Escrow Fund	-	1,500	
Special Revenue Fund - Wellness Grant	-	1,200	subsidize program
Special Revenue Fund - Summer Foods Program	-	177,400	subsidize program
Special Revenue Fund - Artisan & Farmers Market	-	112,672	construction
Capital Projects Fund - Capital Improvements	83,519	-	construction
Capital Projects Fund - East Chester Village Renaissance (II)	-	46,445	construction
Trust Funds - Evergreen Cemetery	-	-	subsidize program
Total Other Governmental Funds	112,261	339,217	
Totals	\$ 367,959	\$ 367,959	

	Interfund Transfer Out	Interfund Transfer In	
General Fund	\$ 66,268	\$ -	transfer debt activity
Special Revenue Fund - Sewer Escrow Fund	11,000	-	subsidize program
Special Revenue Fund - Artisan & Farmers Market	-	11,000	subsidize program
Capital Projects Fund - East Chester Village Renaissance (II)	-	23,633	local match
Debt Service Fund	-	42,635	transfer debt activity
	\$ 77,268	\$ 77,268	

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 7 - Capital Assets**

Primary government capital asset activity for the year ended June 30, 2015 is as follows:

	Balance 06/30/14	Additions	Retirements	Balance 06/30/15
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	-	221,360	-	221,360
Total capital assets, not being depreciated	36,000	221,360	-	257,360
Capital assets, being depreciated:				
Buildings	2,212,548	-	-	2,212,548
Improvements other than buildings	1,590,933	16,300	-	1,607,233
Infrastructure	224,094	-	-	224,094
Machinery and equipment	3,402,873	119,885	-	3,522,758
Total capital assets, being depreciated	7,430,448	136,185	-	7,566,633
Less accumulated depreciation for:				
Buildings	1,116,909	48,699	-	1,165,608
Improvements other than buildings	270,831	51,535	-	322,366
Infrastructure	29,666	7,470	-	37,136
Machinery and equipment	2,732,136	162,493	-	2,894,629
Total accumulated depreciation	4,149,542	270,197	-	4,419,739
Total capital assets, being depreciated, net	3,280,906	(134,012)	-	3,146,894
Governmental activities capital assets, net	<u>\$ 3,316,906</u>	<u>\$ 87,348</u>	<u>\$ -</u>	<u>\$ 3,404,254</u>

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

<b>Governmental Activities:</b>	
General government	\$ 103,822
Public safety	82,734
Public works	48,916
Culture and recreation	34,725
	<u>\$ 270,197</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 8 - Long-Term Debt**

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

Activity for the fiscal year is as follows:

	Balance 06/30/14	Increase	Decrease	Balance 06/30/15
General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest (3.34%), due April 2019.	\$ 216,048	\$ -	\$ 40,382	\$ 175,666
Lease purchase. Due in quarterly payments of \$6,060, principal and interest (3.56%), due August 2015.	29,062	-	23,501	5,561
Lease purchase. Due in quarterly payments of \$7,662, principal and interest (1.32%), due August 2015.	37,951	-	30,296	7,655
Lease purchase. Due in annual payments of \$38,502, principal and interest (1.64%), due September 2018.	104,660	59,844	-	164,504
Total general long-term debt	<u>\$ 387,721</u>	<u>\$ 59,844</u>	<u>\$ 94,179</u>	<u>\$ 353,386</u>

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

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 91,451	\$ 5,939	\$ 97,390
2017	79,793	6,301	86,094
2018	81,835	4,259	86,094
2019	100,307	2,159	102,466
2020	-	1,538	1,538
	<u>\$ 353,386</u>	<u>\$ 20,196</u>	<u>\$ 373,582</u>

	Balance 06/30/14	Increase	Decrease	Balance 06/30/15
Accrued compensated absences	\$ 103,701	\$ -	\$ 13,450	\$ 90,251
Total general long-term debt	<u>\$ 103,701</u>	<u>\$ -</u>	<u>\$ 13,450</u>	<u>\$ 90,251</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	\$ 5,145	\$ 5,145
Due after one year	85,106	85,106
	<u>\$ 90,251</u>	<u>\$ 90,251</u>

There was interest expense of \$8,300 for the year related to long-term debt.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 9 - Employee Pension Plans**

The Government Accounting Standards Board (GASB) issued Statement No. 68 entitled Accounting and Financial Reporting for Pension Plans in June 2012. The disclosure requirements applicable to employers participating in the South Carolina Retirement System are prescribed in paragraph 48 through 82 of GASB 68. The following information is provided in order to meet the current disclosure requirements

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustees and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also review certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting the review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and require supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link of PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state

**Plan Description** – The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivision.

The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

**Membership** – membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP – as an alternative to membership is SCRS, newly hired state, public school, and higher education employed and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investments providers. PEBA assumes no liability of State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purpose. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

remittance is also required to SCRS for the remaining portion of the employer contribution (5.57 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

**PORS** – To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

**Benefits** – Benefits terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit term without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit term for each system is presented below.

**SCRS** – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

**PORS** – A Class Two member what has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipts of a benefit on July 1 of the preceding year are eligible to receive the increase.

**Contributions** – Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase or more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rate last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rate in equal percentage amount for the employer and

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

The following table presents the required contributions (including group life insurance) to the SCRS and PORS by the City for the years ended June 30, 2015, 2014 and 2013:

Year Ending June 30,	Covered <u>Salaries</u>	Employee <u>Contribution</u>	Employer <u>Contribution</u>	Total <u>Contributions</u>
2015 Regular	\$ 885,590	\$ 70,847	\$ 95,201	\$ 166,048
Police	1,750,294	218,047	227,713	445,760
2014 Regular	892,215	66,916	94,575	161,491
Police	1,768,626	138,660	227,092	365,752
2013 Regular	838,418	62,655	94,876	157,531
Police	1,741,916	117,969	207,288	325,257

SCRS and ORP - Employer contribution rates were 10.75%, 10.45% and 10.6% for the years ended June 30, 2015, 2014 and 2013, respectively. Employee contribution rates were 8.00%, 7.50% and 7.00% for the years ended June 30, 2015, 2014 and 2013, respectively.

PORS - Employer contribution rates were 13.01%, 12.84% and 11.9% for the years ended June 30, 2015, 2014 and 2013, respectively. Employee contribution rates were 8.41%, 7.84% and 7.00% for the years ended June 30, 2015, 2014 and 2013, respectively.

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions*** - At June 30, 2015, the City reported a liability of \$4,507,202 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportion was 0.009828% for SCRS and 0.147050% for PORS.

For the year ended June 30, 2015, the City recognized pension expense of \$363,107. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 468,386
Liability experience	123,070	-
Contributions subsequent to the measurement date	331,789	-
	<u>\$ 454,859</u>	<u>\$ 468,386</u>

The \$331,789 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

Year Ending June 30,	<u>SCRS</u>	<u>PORS</u>
2016	\$ (20,833)	\$ (61,951)
2017	(20,833)	(61,951)
2018	(20,833)	(61,951)
2019	(32,208)	(64,756)
Total	<u>\$ (94,707)</u>	<u>\$ (250,609)</u>

**Actuarial Assumptions and Methods** -- Actuarial valuations involve estimates of the reported amount and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013 valuations for SCRS.

<u>Actuarial cost method</u>	<u>SCRS</u>	<u>PORS</u>
Actuarial assumptions:	<u>Entry age</u>	<u>Entry age</u>
Investment rate of return	7.5%	7.5%
Projected salary increase	Levels off at 3.5%	Levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	Lessor of 1% or \$500	Lessor of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. The assumption includes base rates which are automatically adjusted for future improvement in mortality using RP-2000 Mortality Table (White Collar Adjustment of Educators), Projected at Scale AA for Year 2000.

**Long-Term Expected Rate of Return** -- The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return of each major asset class and were developed in coordination with the investment consultant for Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the following table. For actuarial purposes, the 7.50% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.75% inflation component.

The target allocation and best estimates of real rates of return of each major asset class are summarized in the following table:

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
<b>Short-term</b>	<b>5.00%</b>		
Cash	2.00%	1.90%	0.04%
Short duration	3.00%	2.00%	0.06%
<b>Domestic fixed income</b>	<b>31.00%</b>		
Core fixed income	7.00%	2.70%	0.19%
Mixed credit	6.00%	3.80%	0.23%
<b>Global fixed income</b>	<b>9.00%</b>		
Global fixed income	3.00%	2.80%	0.08%
Emerging Market Debt	6.00%	5.10%	0.31%
<b>Global public equity</b>	<b>31.00%</b>	<b>7.10%</b>	<b>2.30%</b>
<b>Global tactical asset allocation</b>	<b>10.00%</b>	<b>4.90%</b>	<b>0.49%</b>
<b>Alternatives</b>	<b>35.00%</b>		
Hedge funds (low beta)	8.00%	4.30%	0.34%
Private debt	7.00%	9.90%	0.69%
Private equity	9.00%	9.90%	0.89%
Real estate (broad market)	5.00%	6.00%	0.30%
Commodities	3.00%	5.90%	0.18%
Total Expected Rate of Return	100.00%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

**Discount Rate** – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to change in the discount rate.

	<u>Discount Rate</u>	<u>SCRS Proportionate Share of Net Pension Liability</u>	<u>PORS Proportionate Share of Net Pension Liability</u>
1% decrease	6.50%	\$ 2,189,625	\$ 3,934,094
Current discount rate	7.50%	\$ 1,692,056	\$ 2,815,146
1% increase	8.50%	\$ 1,276,940	\$ 1,889,310

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

***Pension Plan Fiduciary Net Position*** – Detailed information regarding the fiduciary net position of the plans administration by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

**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 12 eligible participants receiving benefits. During the years ended June 30, 2015 and June 30, 2014, the City paid \$62,119 and \$68,739, 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 \$1,609,818 for the period July 1, 2014 through June 30, 2015.

**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.

**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 12). 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.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

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

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

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

**Note 15 – Other Post-Employment Benefits**

The City has implemented GASB 45, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. This standard required the City to recognize post-employment benefits, mainly health insurance, when earned rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the government-wide statement of activities when a future retiree earns their post-employment benefit, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the government-wide statement of net position over time.

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the City has autonomy in establishing retiree and post-employment benefits. The City provides certain health care benefits to certain active and retired employees. Regular full-time City employees, who were employed prior to June 18, 2004, who retire from City service with full service retirement benefits under the State or Police Retirement System, are eligible to continue under the City's group health insurance plan.

Calculation of Net OPEB Obligation

*Annual Required Contribution (ARC):* The ARC is the employer's periodic required contribution to a defined benefit OPEB plan. The ARC is the sum of two parts: (1) the Normal cost, which is the cost for OPEB benefits attributable to the current year of service, and (2) an Amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the amortization period. Under GASB 45, it is not required that entities actually pay the ARC each year, but it does need to be calculated and disclosed in the public employer's annual financial statements.

*Interest on Net OPEB Obligation (NOO):* An adjustment to the prior year financial statement's Net OPEB Obligation (NOO) to reflect interest on the obligation over the past year. It is calculated as  $(\text{Prior year NOO}) \times (\text{Discount rate})$ . This is one of two adjustments made to the prior year NOO when deriving the current year's NOO. The other calculation is the Adjustment to the Annual Required Contribution.

*Adjustment to Annual Required Contribution (ARC):* An adjustment to the prior year financial statement's Net OPEB Obligation (NOO) to approximate the amount included in the ARC for amortization of past contributions in excess of, or less than, then ARC. It is removed from the ARC via this adjustment, so that the current ARC will not be over/under-stated due to past over-contributions or contribution deficiencies. This is one of two adjustments made to the prior year NOO when deriving the current year's NOO. The other calculation is the Interest on Net OPEB Obligation.

*Annual OPEB Cost (Expense):* A measure of the annual cost of an OPEB plan, under accrual accounting guidelines. It is calculated as the ARC plus the interest on the NOO plus the adjustment to the ARC.

*Age Adjusted Contributions Made:* Contributions made for OPEB in relation to the employer's Annual Required Contribution (ARC), adjusted to include the effect of any implicit subsidy inherent in the retiree premiums. This age adjusted contribution may differ from the actual contribution made, because, if premiums for retiree OPEB are not representative of the true cost of their benefits, GASB 45 methodology require that the premiums be adjusted to better reflect those true cost levels.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

*Change in Net OPEB Obligation (NOO):* The change in the value of the NOO from the beginning of the report period to the end of the reporting period. It is calculated as the difference between the OPEB Cost, which is the accrual-based cost of the OPEB plan for the current period, and the age adjusted contribution toward OPEB made during the same period. It serves as a measure of how much the NOO will move up or down during the current period; contributions in excess of cost will reduce the NOO, whereas contributions less than cost will increase the NOO.

*Net OPEB Obligation (NOO) -- Beginning of Year:* The NOO is the cumulative difference between the annual OPEB cost and the actual contributions made by the employer. At an entity's transition to GASB 45 accounting, the NOO may be set to zero. For any accounting period, the Beginning NOO is the NOO from the prior period's financial statements.

*Net OPEB Obligation (NOO) -- End of Year:* The Ending NOO is derived by adjusting the beginning NOO by the calculated Change in NOO. See above definition for Change in NOO.

*Actual Contribution, or Contribution:* Contributions made for OPEB in relation to the employer's Annual Required Contribution (ARC) include: (1) payments of benefits directly to or on behalf of a retiree or beneficiary, (2) premium payments to an insurer, or (3) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer or plan administrator. Revocable assets that are set aside for future benefits do not qualify as OPEB assets according to GASB 45.

Annual Required Contribution	\$ -
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	-
Age Adjusted Contributions Made	-
Change in Net OPEB Obligation	\$ -
Net OPEB Obligation - Beginning of Year	\$ 411,669
Net OPEB Obligation - End of Year	\$ 411,669

Summary of Inputs

*Actual Contribution:* see definition above.

*Age Adjusted Contribution:* see definition above.

*Age Adjustment Factor:* The factor applied to premiums during the valuation process to better approximate the actual cost associated with retiree benefits in situations where blended premiums are charged to actives and retirees. This factor is used in the financial reporting process to similarly adjust the contribution made toward OPEB.

*Annual Required Contribution (ARC):* see definition above.

*Payroll Growth Rate:* The expected future annual salary change for a typical employee (e.g., 5% increase).

*Discount Rate:* The discount rate is used to adjust for the time value of money when the future value of an investment is assumed and the present value is being calculated. Actuarial assumptions regarding discount rates are used in estimating the present value of the cost of future benefits payable.

*Net OPEB Obligation (NOO):* see definition above.

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

*Actuarial Value of Assets:* The AVA is the value of cash, investments, other assets and property belonging to an OPEB trust, pension fund, or similar entity, as used by the actuary for the purpose of actuarial valuation. Smoothing of investment gains and losses often make the actuarial value of assets different from the market value of assets.

*Amortization Period:* The Amortization Period is the number of years over which the unfunded actuarial accrued liability is spread. Per GASB 45, the maximum amortization period allowable is 30 years.

*Actuarial Accrued Liability (AAL):* The AAL is the present value of projected benefits (other than pension benefits, or OPEB) for retirees plus a portion of expected OPEB for active members that have been earned but are not going to be paid in the current year. The AAL is calculated using one of six Actuarial cost methods acceptable under GASB 45. The retiree portion of the AAL consists of the current year OPEB and the present value of future OPEB payments. The active member portion of the AAL consists of the present value of expected future benefit payments attributable to prior service, excluding payment of active member benefits for the current year. The AAL does not include future benefit payments for future service.

*Fiscal Year End Date:* The Fiscal Year End Date is the last day of the fiscal year for which you are preparing financial statements.

*Valuation Date:* The valuation date is the last day of the fiscal year for which an entity is performing the valuation.

*Amortization Method:* Under GASB 45, there are two acceptable accounting methods for amortizing the present value of future benefit costs over a period of time. The methods are: (1) Level Dollar, which amortizes the cost into equal dollar amounts to be paid over a given number of years, and (2) Level Percentage of Payroll, which calculates amortization payments as a constant percentage of projected payroll over a given number of years. Level Dollar amortization generally results in decreasing inflation-adjusted payments over time, whereas Level Percentage of Payroll amortization generally results in level inflation-adjusted payments over time.

<u>Description</u>	<u>Value</u>
Actual Contribution	\$ -
Total OPEB Retiree Premium	\$ 61,503
Age Adjustment Factor	2.061
Annual Required Contribution	\$ 202,478
Payroll Growth Rate	2.90%
Discount Rate	2.50%
Net OPEB Obligation	\$ -
Actuarial Value of Assets	\$ -
Amortization Period	30 years
Actuarial Accrued Liability	\$ 1,963,677
Fiscal Year End Date	6/30/2012
Valuation Date	6/30/2012
Amortization Methods	Level Percent of Payroll Amortization

**CITY OF CHESTER, SOUTH CAROLINA**  
Notes to the Financial Statements -- continued  
June 30, 2015

**Note 16 – Subsequent Events**

As of the date these financial statements were available to be issued, subsequent events that provide evidence about conditions of the City that did not exist as of June 30, 2015 but arose after the year end (non-recognized subsequent events) occurred.

During October 2015, the finance director of the City resigned. As of the date these financial statements were available to be issued, the City has not hired a full-time employee to fill the finance director position.

As a result of not meeting the annual South Carolina State law requirement that all municipalities submit a financial audit to the State Treasurer within thirteen months of the fiscal year end, the City has had its state payments withheld. As of August 2016, the City has not received their Local Government Funds, Local Option Sales Tax and Accommodations payments.

As a result of funding being withheld, the City cashed in four certificates of deposit totaling \$391,993.

October 31, 2016	\$ 28,004
November 28, 2016	101,630
December 16, 2016	132,378
December 16, 2016	<u>129,981</u>
	<u>\$ 391,993</u>

**Note 17 – Prior Period Adjustment**

During the audit, it was discovered that prior period adjustments were necessary. A prior period adjustment of \$172,844 was made to move the Summer Foods Program from the General Fund into a Special Revenue Fund. A prior period adjustment of \$23,671 was made to correct the beginning accounts receivable balance. A prior period adjustment of \$8,119 was made to correct the beginning cash balance. The General Fund fund balance increased \$204,634 to \$1,537,616 and the Special Revenue fund balance decreased \$172,844 to \$258,014.

An additional prior period adjustment of \$42,125 was made to the beginning net position to correct the beginning construction in progress balance. This adjustment, in addition to the \$31,792 net mentioned above, increased the beginning net position to \$4,357,225.

The City implemented GASB 68 during the year ending June 30, 2015. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pension that are provided by other entities. As a result, the City is required to record the beginning balance of their proportionate share of the net pension liability as an adjustment to beginning net position.

Beginning net pension liability (measurement date)	\$ (4,811,078)
Deferred outflows (contributions during prior year)	<u>321,667</u>
Prior period adjustment for pensions	<u>\$ (4,489,411)</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Taxes - property	\$ 1,177,855	\$ 1,177,855	\$ 1,302,002	\$ 124,147
Licenses and permits	841,543	841,543	932,349	90,806
Grants	234,500	234,500	-	(234,500)
Intergovernmental	815,141	815,141	1,141,539	326,398
Charges for services	2,206,875	2,206,875	2,209,732	2,857
Investment earnings	12,335	12,335	11,924	(411)
Payments in lieu of taxes	35,301	35,301	55,136	19,835
	<u>5,323,550</u>	<u>5,323,550</u>	<u>5,652,682</u>	<u>329,132</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,090,823	1,090,823	1,139,656	(48,833)
Public safety	3,167,758	3,167,758	3,347,023	(179,265)
Public works	882,213	882,213	985,313	(103,100)
Cultural and recreation	397,805	397,805	283,115	114,690
Capital outlay	-	-	-	-
Debt service	54,900	54,900	-	54,900
	<u>5,593,499</u>	<u>5,593,499</u>	<u>5,755,107</u>	<u>(161,608)</u>
Total Expenditures				
Excess revenue over (under) expenditures	(269,949)	(269,949)	(102,425)	167,524
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease financing purchase	-	-	-	-
Operating transfers in (out)	(6,905)	(6,905)	(66,268)	(73,173)
	<u>(6,905)</u>	<u>(6,905)</u>	<u>(66,268)</u>	<u>(73,173)</u>
Total Other Financing Sources (Uses)				
Net change in fund balances	(276,854)	(276,854)	(168,693)	108,161
Fund Balance, beginning of year	-	-	1,537,616	1,537,616
Fund Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,368,923</u>	<u>\$ 1,645,777</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll c</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
6/30/2012	\$ -	\$ 1,963,677	\$ 1,963,677	0.00%	\$ 1,053,207	186.45%
6/30/2013	-	1,963,677	1,963,677	0.00%	1,053,207	186.45%
6/30/2014	-	1,963,677	1,963,677	0.00%	1,053,207	186.45%

**History of Net OPEB Obligation**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Age Adjusted Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/2012	\$ 202,478	\$ 65,255	32.00%	\$ 137,223
6/30/2013	202,478	65,255	32.00%	137,223
6/30/2014	202,478	65,255	32.00%	137,223
				<u>\$ 411,669</u>

\*\* There was no change for the year ending June 30, 2015. See Finding #15-5

**CITY OF CHESTER, SOUTH CAROLINA**

**SCHEDULE OF CONTRIBUTIONS AND  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

June 30, 2015

	<u>SCRS</u>	<u>PORS</u>
Statutorily Required Contributions	\$ 96,529	\$ 234,714
Contributions in Relation to Statutorily Required Contributions	<u>96,529</u>	<u>234,714</u>
Contributions Excess/(Deficiency)	<u>-</u>	<u>-</u>
 City's Covered Employee Payroll	 \$ 885,590	 \$ 1,750,294
 Contributions as a Percentage of Covered Employee Payroll	 10.90%	 13.41%
  City's Proportionate Share of Net Pension Liability (%)	  0.009828%	  0.147080%
City's Proportionate Share of Net Pension Liability	\$ 1,692,056	\$ 2,815,146
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294
City's Proportionate Share of Net Pension Liability as a Percentage of Its Covered Employee Payroll (%)	191.07%	160.84%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.90%	67.50%

\*\* Until a full ten year trend is compiled, the City will present information for those years which information is available.

**CITY OF CHESTER, SOUTH CAROLINA**  
**Notes to Required Supplementary Information**  
**June 30, 2015**

**NOTE 1 – VALUATION DATE**

Actuarially determined contribution rates are calculated as of July 1 one year prior to the end of the fiscal year in which contributions are reported.

**NOTE 2 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	25 Years, Open
Asset Valuation Method	5 Year Smoothing Market
Inflation	2.75%
Salary Increase	Levels off at 3.5%
Investment Return	7.5%, Net of Plan Investment Expense, RP-2000 Mortality Table Projected at Scale AA from Year 2000

**NOTE 3 – CHANGES IN BENEFITS**

No changes were noted for the current year ending.

**NOTE 4 – CHANGES IN ASSUMPTIONS**

No changes were noted for the current year ending.

**CITY OF CHESTER, SOUTH CAROLINA**  
**DETAILED BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<b>TAXES:</b>				
Property taxes - current	\$ 943,943	\$ 943,943	\$ 1,002,099	\$ 58,156
Property taxes - delinquent	233,912	233,912	299,903	65,991
	<u>1,177,855</u>	<u>1,177,855</u>	<u>1,302,002</u>	<u>124,147</u>
<b>LICENSES, FINES, FEES AND PERMITS:</b>				
Business licenses	600,960	600,960	647,610	46,650
Franchise fees	240,583	240,583	284,739	44,156
	<u>841,543</u>	<u>841,543</u>	<u>932,349</u>	<u>90,806</u>
<b>GRANTS:</b>				
State grants	135,000	135,000	-	(135,000)
Federal grants	99,500	99,500	-	(99,500)
<b>INTERGOVERNMENTAL:</b>				
State shared revenues:				
Local government revenue	109,588	109,588	196,486	86,898
Local option sales tax	463,216	463,216	710,734	247,518
Homestead exemption	176,000	176,000	178,440	2,440
Accommodations tax	30,170	30,170	21,280	(8,890)
Merchant's inventory tax	34,567	34,567	34,567	-
Manufacturing depreciation tax	1,600	1,600	32	(1,568)
	<u>815,141</u>	<u>815,141</u>	<u>1,141,539</u>	<u>326,398</u>
<b>CHARGES FOR SERVICES:</b>				
Chester Fire District contract	1,609,818	1,609,818	1,609,332	(486)
Police fines and fees	80,699	80,699	63,112	(17,587)
Solid waste fees - commercial	-	-	60	60
Solid waste fees - residential	471,137	471,137	477,746	6,609
Public Works fees	11,090	11,090	8,762	(2,328)
Cemetery fees	7,000	7,000	14,614	7,614
Recreation Department fees	27,131	27,131	36,106	8,975
	<u>2,206,875</u>	<u>2,206,875</u>	<u>2,209,732</u>	<u>2,857</u>
<b>INVESTMENT EARNINGS:</b>				
Interest income	6,800	6,800	2,253	(4,547)
Lease income	5,000	5,000	5,000	-
Other income	535	535	4,671	4,136
	<u>12,335</u>	<u>12,335</u>	<u>11,924</u>	<u>(411)</u>
<b>PAYMENTS IN LIEU OF TAXES:</b>				
Payments in lieu of taxes	35,301	35,301	55,136	19,835
<b>TOTAL REVENUES</b>	<u>\$ 5,323,550</u>	<u>\$ 5,323,550</u>	<u>\$ 5,652,682</u>	<u>\$ 329,132</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**DETAILED BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b><u>EXPENDITURES</u></b>				
<b>GENERAL GOVERNMENT:</b>				
CITY COUNCIL				
Salaries	\$ 51,693	\$ 51,693	\$ 44,892	\$ 6,801
Payroll taxes	3,955	3,955	3,694	261
Retirement	5,601	5,601	5,494	107
Employee insurance and benefits	28,128	28,128	36,961	(8,833)
Dues and subscriptions	-	-	-	-
Mayor's meeting expenses	500	500	128	372
Council conferences and travel	6,250	6,250	10,861	(4,611)
Tourism and accommodations	6,000	6,000	6,050	(50)
Supplies and materials	330	330	413	(83)
Municipal elections	-	-	11,160	(11,160)
Agency support expenses	7,000	7,000	34,765	(27,765)
Capital expenditures	-	-	25,491	(25,491)
	<u>109,457</u>	<u>109,457</u>	<u>179,909</u>	<u>(44,961)</u>
ADMINISTRATION				
Salaries	183,866	183,866	171,701	12,165
Payroll taxes	13,377	13,377	13,081	296
Retirement	18,536	18,536	15,872	2,664
Employee insurance and benefits	24,529	24,529	18,679	5,850
Supplies and materials	4,500	4,500	8,738	(4,238)
Uniforms	150	150	-	150
Postage	350	350	3,053	(2,703)
Travel and training	10,000	10,000	8,852	1,148
Dues and subscriptions	3,700	3,700	4,108	(408)
Auto repairs and maintenance	3,000	3,000	1,403	1,597
Advertising and printing	16,430	16,430	11,543	4,887
Utilities	159,900	159,900	184,407	(24,507)
Repairs and maintenance	38,216	38,216	41,496	(3,280)
Communications	15,300	15,300	18,950	(3,650)
General and miscellaneous	12,450	12,450	15,422	(2,972)
Contracted services	50,476	50,476	51,700	(1,224)
Insurance	4,100	4,100	7,372	(3,272)
Juror's fees	-	-	-	-
Bond retirement	47,600	47,600	-	47,600
	<u>606,480</u>	<u>606,480</u>	<u>576,377</u>	<u>30,103</u>
FINANCE				
Salaries	94,153	94,153	91,069	3,084
Payroll taxes	7,203	7,203	6,744	459
Retirement	9,980	9,980	9,857	123
Employee insurance and benefits	24,499	24,499	25,382	(883)
Supplies and materials	4,300	4,300	5,323	(1,023)
Postage	7,500	7,500	6,408	1,092
Travel and training	1,100	1,100	836	264

**CITY OF CHESTER, SOUTH CAROLINA**  
**DETAILED BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Favorable (Unfavorable)</b>
Dues and subscriptions	185	185	68	117
Advertising and printing	3,500	3,500	2,894	606
Repairs and maintenance	19,870	19,870	16,602	3,268
Communications	480	480	480	-
General and miscellaneous	9,503	9,503	17,561	(8,058)
Contracted services	30,770	30,770	37,365	(6,595)
Insurance	5,200	5,200	8,827	(3,627)
	<u>218,243</u>	<u>218,243</u>	<u>229,416</u>	<u>(11,173)</u>
<b>HUMAN RESOURCES</b>				
Salaries	92,858	92,858	91,833	1,025
Payroll taxes	7,104	7,104	6,812	292
Retirement	9,805	9,805	10,013	(208)
Employee insurance and benefits	22,244	22,244	21,616	628
Supplies and materials	2,300	2,300	2,079	221
Postage	50	50	13	37
Travel and training	4,050	4,050	3,253	797
Printing	2,800	2,800	1,079	1,721
Municipal expense	-	-	-	-
Dues and subscriptions	600	600	333	267
Repairs and maintenance	3,608	3,608	5,803	(2,195)
Contracted services	10,424	10,424	10,291	133
Communications	800	800	829	(29)
	<u>156,643</u>	<u>156,643</u>	<u>153,954</u>	<u>2,689</u>
<b>Total General Government</b>	<u>1,090,823</u>	<u>1,090,823</u>	<u>1,139,656</u>	<u>(23,342)</u>
<b>PUBLIC SAFETY:</b>				
<b>POLICE DEPARTMENT</b>				
Salaries	882,000	882,000	900,520	(18,520)
Payroll taxes	62,000	62,000	65,960	(3,960)
Retirement	117,500	117,500	118,931	(1,431)
Employee insurance and benefits	282,706	282,706	245,895	36,811
Supplies and materials	15,700	15,700	33,915	(18,215)
Postage	600	600	-	600
Travel and training	6,300	6,300	4,287	2,013
Dues and subscriptions	1,000	1,000	471	529
Auto repairs and maintenance	65,000	65,000	60,903	4,097
Advertising and printing	11,000	11,000	7,851	3,149
Utilities	5,000	5,000	5,329	(329)
Repairs and maintenance	6,708	6,708	7,903	(1,195)
Communications	33,000	33,000	34,994	(1,994)
General and miscellaneous	6,905	6,905	3,532	3,373
Uniforms	14,000	14,000	12,381	1,619
Contracted services	76,976	76,976	108,847	(31,871)
Insurance	27,645	27,645	37,771	(10,126)
Capital expenditures	-	-	59,844	(59,844)
	<u>1,614,040</u>	<u>1,614,040</u>	<u>1,709,334</u>	<u>(95,294)</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**DETAILED BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>FIRE DEPARTMENT</b>				
Salaries	917,000	917,000	965,076	(48,076)
Payroll taxes	69,400	69,400	70,989	(1,589)
Retirement	112,468	112,468	127,525	(15,057)
Employee insurance and benefits	255,500	255,500	268,020	(12,520)
Supplies and materials	8,300	8,300	10,460	(2,160)
Postage	350	350	-	350
Travel and training	34,600	34,600	27,653	6,947
Dues and subscriptions	2,700	2,700	2,806	(106)
Auto repairs and maintenance	-	-	-	-
Advertising and printing	7,000	7,000	5,908	1,092
Utilities	27,500	27,500	27,850	(350)
Repairs and maintenance	14,700	14,700	13,237	1,463
Communications	9,400	9,400	9,351	49
General and miscellaneous	1,000	1,000	-	1,000
Uniforms	28,000	28,000	30,898	(2,898)
Contracted services	44,800	44,800	44,276	524
Insurance	21,000	21,000	33,640	(12,640)
	<u>1,553,718</u>	<u>1,553,718</u>	<u>1,637,689</u>	<u>(83,971)</u>
<b>Total Public Safety</b>	<u>3,167,758</u>	<u>3,167,758</u>	<u>3,347,023</u>	<u>(179,265)</u>
<b>PUBLIC WORKS:</b>				
<b>PUBLIC WORKS - COMMERCIAL</b>				
Salaries	416,000	416,000	411,044	4,956
Payroll taxes	25,216	25,216	30,426	(5,210)
Retirement	39,720	39,720	42,487	(2,767)
Employee insurance and benefits	127,700	127,700	156,640	(28,940)
Supplies and materials	22,169	22,169	28,071	(5,902)
Postage	400	400	-	400
Travel and training	400	400	330	70
Dues and subscriptions	100	100	91	9
Auto repairs and maintenance	50,000	50,000	54,631	(4,631)
Advertising and printing	300	300	271	29
Utilities	5,750	5,750	7,569	(1,819)
Repairs and maintenance	2,058	2,058	2,275	(217)
Communications	3,800	3,800	3,922	(122)
Contracted services	74,600	74,600	90,985	(16,385)
Insurance	10,000	10,000	17,146	(7,146)
Solid waste - yard	29,000	29,000	35,767	(6,767)
Solid waste - commercial	75,000	75,000	103,658	(28,658)
	<u>882,213</u>	<u>882,213</u>	<u>985,313</u>	<u>(103,100)</u>
<b>Total Public Works</b>	<u>882,213</u>	<u>882,213</u>	<u>985,313</u>	<u>(103,100)</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**DETAILED BUDGETARY COMPARISON - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<b>CULTURE AND RECREATION:</b>				
<b>RECREATION DEPARTMENT</b>				
Salaries	130,048	130,048	132,364	(2,316)
Payroll taxes	8,817	8,817	9,918	(1,101)
Retirement	4,600	4,600	1,746	2,854
Employee insurance and benefits	14,750	14,750	20,120	(5,370)
Supplies and materials	13,650	13,650	8,980	4,670
Postage	100	100	106	(6)
Travel and training	4,450	4,450	2,329	2,121
Dues and subscriptions	100	100	191	(91)
Auto repairs and maintenance	1,200	1,200	526	674
Advertising and printing	3,000	3,000	2,977	23
Utilities	32,100	32,100	30,206	1,894
Repairs and maintenance	22,308	22,308	18,216	4,092
Communications	4,200	4,200	4,440	(240)
General and miscellaneous	-	-	141	(141)
Uniforms	750	750	216	534
Contracted services	9,232	9,232	7,642	1,590
Insurance	1,100	1,100	1,870	(770)
Minor equipment	92,000	92,000	-	92,000
Programs and services	20,400	20,400	41,127	(20,727)
Grant match	-	-	-	-
	<u>362,805</u>	<u>362,805</u>	<u>283,115</u>	<u>79,690</u>
<b>SUMMER FOOD PROGRAM</b>				
Salaries	7,513	7,513	-	7,513
Payroll taxes	625	625	-	625
Supplies and materials	26,862	26,862	-	26,862
Travel and training	-	-	-	-
	<u>35,000</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
<b>Total Culture and Recreation</b>	<b>397,805</b>	<b>397,805</b>	<b>283,115</b>	<b>114,690</b>
<b>DEBT SERVICE</b>				
Debt service	54,900	54,900	-	54,900
<b>OTHER FINANCING (SOURCES) USES</b>				
Transfer in (out)	<u>(6,905)</u>	<u>(6,905)</u>	<u>66,268</u>	<u>(73,173)</u>
<b>Total Other Financing (Sources) Uses</b>	<b>(6,905)</b>	<b>(6,905)</b>	<b>66,268</b>	<b>(73,173)</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,586,594</b>	<b>\$ 5,586,594</b>	<b>\$ 5,821,375</b>	<b>\$ (209,290)</b>
<b>EXCESS EXPENDITURES OVER REVENUES</b>	<b>\$ (263,044)</b>	<b>\$ (263,044)</b>	<b>\$ (168,693)</b>	<b>\$ 119,842</b>

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2014**

SPECIAL REVENUE FUNDS							
	Special Projects	Community Development	McAlley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow
<b>ASSETS</b>							
Cash	\$ -	\$ -	\$ -	\$ -	\$ 6,770	\$ 95,217	\$ 110,910
Receivable - other	200	-	-	-	-	-	-
Notes receivable, net	-	16,080	208,000	-	-	-	-
Due from other funds	-	-	-	-	-	28,742	(1,500)
Total Assets	\$ 200	\$ 16,080	\$ 208,000	\$ -	\$ 6,770	\$ 123,959	\$ 109,410
<b>LIABILITIES AND FUND BALANCE</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Fund balance	200	16,080	208,000	-	6,770	123,959	109,410
Total Liabilities and Fund Balance	\$ 200	\$ 16,080	\$ 208,000	\$ -	\$ 6,770	\$ 123,959	\$ 109,410

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2014**

		SPECIAL REVENUE FUNDS						
	COPS Hiring Recovery	Healthcare Foundation Grant	Wylie Park Trails Improvement	Water Works Fund	Justice Assistance Grant (JAG)	Wellness Grant	Summer Foods Program	Gang Investigator Grant
<b>ASSETS</b>								
Cash	\$ -	\$ -	\$ -	\$ 25,643	\$ -	\$ -	\$ -	\$ -
Receivable - other	-	-	-	-	-	-	-	-
Notes receivable, net	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	(1,200)	-	-
Total Assets	\$ -	\$ -	\$ -	\$ 25,643	\$ -	\$ (1,200)	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCE</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	177,400	-
Fund balance	-	-	-	25,643	-	(1,200)	(177,400)	-
Total Liabilities and Fund Balance	\$ -	\$ -	\$ -	\$ 25,643	\$ -	\$ (1,200)	\$ -	\$ -

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2014**

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUNDS				Totals
	Victim Advocate	Police Benevolent Fund	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	1% Sales & Use Tax	Other Capital Projects Funds		
ASSETS									
Cash	\$ -	\$ -	\$ 14,864	\$ 1,990	\$ 2,206	\$ -	\$ 189	\$ 257,789	
Receivable - other	-	-	-	-	-	-	-	200	
Notes receivable, net	-	-	-	-	-	-	-	224,080	
Due from other funds	-	-	-	83,519	-	-	-	109,561	
Total Assets	\$ -	\$ -	\$ 14,864	\$ 85,509	\$ 2,206	\$ -	\$ 189	\$ 591,630	
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Due to other funds	-	-	112,672	-	46,445	-	-	336,517	
Fund balance	-	-	(97,808)	85,509	(44,239)	-	189	255,113	
Total Liabilities and Fund Balance	\$ -	\$ -	\$ 14,864	\$ 85,509	\$ 2,206	\$ -	\$ 189	\$ 591,630	

**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, 2015**

SPECIAL REVENUE FUNDS							
	Special Projects	Community Development	McAiley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Escrow
<b>REVENUES</b>							
Intergovernmental:							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	33,685	-
Charges for services	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-	-
Drug forfeitures	-	-	-	-	-	290	5,267
Total Revenues	-	-	-	-	1,162	-	-
					1,162	33,975	5,267
<b>EXPENDITURES</b>							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	1,042	6,926	-
Cultural and recreation	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	34,550	-
Total Expenditures	-	-	-	-	1,042	41,476	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	120	(7,501)	5,267
Other financing sources							
Other financing sources	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	(11,000)
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	-	-	-	(11,000)
Fund Balance, June 30, 2014	200	16,080	208,000	-	6,650	(7,501)	(5,733)
						131,460	115,143
Fund Balance, JUNE 30, 2015	\$ 200	\$ 16,080	\$ 208,000	\$ -	\$ 6,770	\$ 123,959	\$ 109,410

**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, 2015**

	SPECIAL REVENUE FUNDS							
	COPS Hiring Recovery	Healthcare Foundation Grant	Wylie Park Trails Improvement	Water Works Fund	Justice Assistance Grant (JAG)	Wellness Grant	Summer Foods Program	Gang Investigator Grant
REVENUES								
Intergovernmental:								
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406,793	\$ -
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	-	-	15,500	-
Charges for services	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	59	-	-	-	-
Drug forfeitures	-	-	-	-	-	-	-	-
Total Revenues	-	-	-	59	-	-	422,293	-
EXPENDITURES								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Cultural and recreation	-	-	-	-	-	-	427,850	-
Capital outlay	-	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	427,850	-
Excess (deficiency) of revenues over expenditures	-	-	-	59	-	-	(5,557)	-
Other financing sources								
Other financing sources	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	59	-	-	(5,557)	-
Fund Balance, June 30, 2014	-	-	-	25,584	-	(1,200)	(171,843)	-
Fund Balance, JUNE 30, 2015	\$ -	\$ -	\$ -	\$ 25,643	\$ -	\$ (1,200)	\$ (177,400)	\$ -

**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, 2015**

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS				Totals
	Victim Advocate	Police Benevolent Fund	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	1% Sales & Use Tax	Other Capital Projects Funds	
REVENUES								
Intergovernmental:								
Federal sources	\$ -	\$ -	\$ 21,600	\$ -	\$ 60,443	\$ -	\$ -	\$ 488,836
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	2,157	-	-	-	-	51,342
Charges for services	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-	-	5,616
Drug forfeitures	-	-	-	-	-	-	-	1,162
Total Revenues	-	-	23,757	-	60,443	-	-	546,956
EXPENDITURES								
General government	-	-	-	30	-	-	-	30
Public safety	-	-	-	-	-	-	-	7,968
Cultural and recreation	-	-	16,517	-	-	-	-	444,367
Capital outlay	-	-	-	-	86,575	92,660	-	213,785
Total Expenditures	-	-	16,517	30	86,575	92,660	-	666,150
Excess (deficiency) of revenues over expenditures	-	-	7,240	(30)	(26,132)	(92,660)	-	(119,194)
Other financing sources								
Other financing sources	-	-	-	-	-	92,660	-	92,660
Transfers in	-	-	11,000	-	23,633	-	-	34,633
Transfers (out)	-	-	-	-	-	-	-	(11,000)
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	11,000	-	23,633	92,660	-	116,293
Fund Balance, June 30, 2014	-	-	18,240	(30)	(2,499)	-	-	(2,901)
Fund Balance, JUNE 30, 2015	\$ -	\$ -	\$ (97,808)	\$ 85,539	\$ (44,239)	\$ -	\$ 189	\$ 255,113

**CITY OF CHESTER, SOUTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Debt Service</u>
<b>REVENUES</b>	
Intergovernmental:	
Investment earnings	\$ -
Total Revenues	<u>-</u>
<b>EXPENDITURES</b>	
Capital outlay	-
Principal and interest	102,479
Total Expenditures	<u>102,479</u>
Excess (deficiency) of revenues over expenditures	(102,479)
Other financing sources	
Bond proceeds	59,844
Transfers in (out)	42,635
	<u>102,479</u>
Excess (deficiency) of revenues and other financing sources over expenditures	-
Fund Balance, June 30, 2014	<u>-</u>
Fund Balance, JUNE 30, 2015	<u>\$ -</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
<b><u>Tax Sale Escrow Fund</u></b>				
<b>ASSETS</b>				
Cash	\$ 12,805	\$ 14,717	\$ 2,131	\$ 25,391
Total Assets	<u>\$ 12,805</u>	<u>\$ 14,717</u>	<u>\$ 2,131</u>	<u>\$ 25,391</u>
<b>LIABILITIES</b>				
Funds held in trust for others	\$ 12,805	\$ 14,717	\$ 2,131	\$ 25,391
Total Liabilities	<u>\$ 12,805</u>	<u>\$ 14,717</u>	<u>\$ 2,131</u>	<u>\$ 25,391</u>
<b><u>Fireman's Fund</u></b>				
<b>ASSETS</b>				
Cash	\$ 14,189	\$ 27,897	\$ 28,234	\$ 13,852
Total Assets	<u>\$ 14,189</u>	<u>\$ 27,897</u>	<u>\$ 28,234</u>	<u>\$ 13,852</u>
<b>LIABILITIES</b>				
Funds held in trust for others	\$ 14,189	\$ 27,897	\$ 28,234	\$ 13,852
Total Liabilities	<u>\$ 14,189</u>	<u>\$ 27,897</u>	<u>\$ 28,234</u>	<u>\$ 13,852</u>
<b><u>Police Fines Escrow</u></b>				
<b>ASSETS</b>				
Cash	\$ 30,805	\$ 184,822	\$ 197,350	\$ 18,277
Total Assets	<u>\$ 30,805</u>	<u>\$ 184,822</u>	<u>\$ 197,350</u>	<u>\$ 18,277</u>
<b>LIABILITIES</b>				
Due to City of Chester	\$ 47,967	\$ 3,956	\$ -	\$ 51,923
Due to SC State	-	-	-	-
Due to others	19,372	34,142	33,297	20,217
Funds held in trust for others	<u>(36,534)</u>	<u>146,724</u>	<u>164,053</u>	<u>(53,863)</u>
Total Liabilities	<u>\$ 30,805</u>	<u>\$ 184,822</u>	<u>\$ 197,350</u>	<u>\$ 18,277</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
<b><u>Totals - All Agency Funds</u></b>				
<b>ASSETS</b>				
Cash	\$ 57,799	\$ 227,436	\$ 227,715	\$ 57,520
Total Assets	<u>\$ 57,799</u>	<u>\$ 227,436</u>	<u>\$ 227,715</u>	<u>\$ 57,520</u>
<b>LIABILITIES</b>				
Due to City of Chester	\$ 47,967	\$ 3,956	\$ -	\$ 51,923
Due to others	19,372	34,142	33,297	20,217
Funds held in trust for others	<u>(9,540)</u>	<u>189,338</u>	<u>194,418</u>	<u>(14,620)</u>
Total Liabilities	<u>\$ 57,799</u>	<u>\$ 227,436</u>	<u>\$ 227,715</u>	<u>\$ 57,520</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b><u>Evergreen Cemetery Trust Fund</u></b>				
<b>ASSETS</b>				
Cash	\$ 177,990	\$ 616	\$ 3,000	\$ 175,606
Due from (to) City of Chester	(6,088)	(3,000)	-	(9,088)
Total Assets	<u>\$ 171,902</u>	<u>\$ (2,384)</u>	<u>\$ 3,000</u>	<u>\$ 166,518</u>
<b>LIABILITIES</b>				
Funds held in trust for others	\$ 171,902	\$ (2,384)	\$ 3,000	\$ 166,518
Total Liabilities	<u>\$ 171,902</u>	<u>\$ (2,384)</u>	<u>\$ 3,000</u>	<u>\$ 166,518</u>
<b><u>Healthcare Trust Fund</u></b>				
<b>ASSETS</b>				
Cash	\$ 137,984	\$ 792,923	\$ 644,606	\$ 286,301
Due from (to) Others	-	-	-	-
Total Assets	<u>\$ 137,984</u>	<u>\$ 792,923</u>	<u>\$ 644,606</u>	<u>\$ 286,301</u>
<b>LIABILITIES</b>				
Funds held in trust for others	\$ 137,984	\$ 792,923	\$ 644,606	\$ 286,301
Total Liabilities	<u>\$ 137,984</u>	<u>\$ 792,923</u>	<u>\$ 644,606</u>	<u>\$ 286,301</u>
<b><u>Totals - All Trust Funds</u></b>				
<b>ASSETS</b>				
Cash	\$ 315,974	\$ 793,539	\$ 647,606	\$ 461,907
Due from (to) City/Others	(6,088)	(3,000)	-	(9,088)
Total Assets	<u>\$ 309,886</u>	<u>\$ 790,539</u>	<u>\$ 647,606</u>	<u>\$ 452,819</u>
<b>LIABILITIES</b>				
Funds held in trust for others	\$ 309,886	\$ 790,539	\$ 647,606	\$ 452,819
Total Liabilities	<u>\$ 309,886</u>	<u>\$ 790,539</u>	<u>\$ 647,606</u>	<u>\$ 452,819</u>

**CITY OF CHESTER, SOUTH CAROLINA**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF MUNICIPAL COURT FEES AND FINES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**COURT FINES**

Collected	\$	-
Retained by City		-
		<hr/>
		-

**COURT ASSESSMENTS**

Collected	59,759
Retained by City	7,507
	<hr/>
	67,266

**COURT SURCHARGES**

Collected	25,730
Retained by City	4,797
	<hr/>
	30,527

**AMOUNT ALLOCATED TO VICTIM'S SERVICES**

Court Assessments	7,507
Court Surcharges	4,797
	<hr/>
Total allocated to Victim's Services	<hr/> <hr/>
	\$ 12,304

# CAMP, MORING & BRENDLE, L.L.C.

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

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City Chester, South Carolina as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Chester, South Carolina's basic financial statements and have issued our report thereon dated March 1, 2017.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Chester, South Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Chester, South Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: Findings #15-1 through #15-7.

**Compliance and Other Matters**

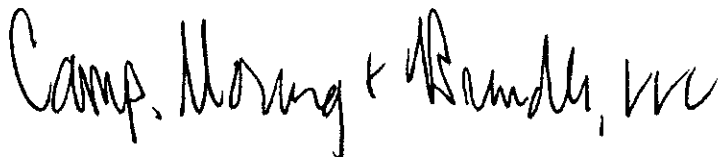
As part of obtaining reasonable assurance about whether City of Chester, South Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items Finding 15-4 and 15-5.

**City of Chester, South Carolina's Response to Findings**

City of Chester, South Carolina's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Chester, South Carolina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina  
March 1, 2017

**CITY OF CHESTER, SOUTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2015**

**Summary of Auditors' Results:**

1. Summary of the auditors' results
  - a. Financial Statements
    - i. Type of auditors' report issued : Unmodified
    - ii. Internal control over financial reporting:
      1. Material weakness(es) identified? No
      2. Significant deficiency(s) identified that are not considered to be material weaknesses? Seven
      3. Noncompliance material to the financial statements. N/A
  - b. Dollar threshold used to distinguish between type A and type B programs: \$750,000
  - c. Auditee qualified as low-risk? No

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

**Finding #15-1: Trial Balance Funds Did Not Balance**

*Condition:* While the overall general ledger was in balance before audit fieldwork began, three internal funds, including the general fund, were out of balance.

*Criteria:* 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.

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year which lead to conflicting procedures and priorities as well as duplication of effort. Transactions and journal entries were erroneously made between funds resulting in individual funds being out of balance at various times throughout the fiscal year.

*Recommendation:* All of the City's revenue and expenditure transactions should be recorded in the financial statements accurately, to include the proper fund. And, any variances or out of balance funds should be investigated immediately. The City Administrator and/or City Council should also regularly review the funds on an individual basis for proper accounting.

**Finding #15-2: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis**

*Condition:* The City's bank accounts were not timely reconciled. A majority of the bank reconciliations for the June 30, 2015 fiscal year were not performed until an outside consultant was brought in during the June 30, 2017 fiscal year. At this time, it was also discovered that several transactions were not properly accounted for in the general ledger. For example, a new bank account was opened for the Narcotics Seizure Account in April 2015 but none of the transactions had been recorded in the general ledger.

Revenue reconciliations were not timely performed either. It was discovered during the bank and revenue confirmation reconciliation processes that several deposits were not recorded in the City's general ledger at the time they were made into the bank accounts and were not recorded into the proper revenue account once they were recorded. Furthermore, deposits were not made on a daily or timely basis resulting in checks/receipts not being deposited until up to months after they had been received.

The untimely reconciliations and deposits made tracing deposits from the accounting system to the supporting documentation and bank statements extremely difficult.

*Criteria:* Timely and accurate recording of all revenue and expenditure transactions is necessary if there is to be meaningful financial statement reporting and budget comparisons. Mistakes and errors could have been corrected in a timelier manner if monthly and/or regular reconciliations are being performed.

**CITY OF CHESTER, SOUTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2015

**Finding #15-2: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis-(continued)**

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year which lead to conflicting procedures and priorities as well as duplication of effort.

*Recommendation:* All of the City's revenue and expenditure transactions should be recorded in the financial statements as they occur to reflect accurate financial statements. And, all of the City's bank accounts should be reconciled monthly with any variances being investigated immediately. The City Administrator and/or City Council should also regularly review revenue accounts and investigate any inconsistencies or variances.

**Finding #15-3: Deposits Made and Checks Written on Wrong Accounts**

*Condition:* Several instances were noted where deposits were made to and checks were written from the wrong bank account. For example, \$15,422 in taxes received from Chester County for the Chester Fire District were deposited into the City's general fund account rather than the Fire District's bank account, resulting in an accounts payable to the District at year end.

*Criteria:* Timely and accurate recording of all revenue and expenditure transactions is necessary if there is to be meaningful financial statement reporting and budget comparisons. And, all deposits and checks should be accounted for in the proper fund and bank account.

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year which lead to conflicting procedures and priorities as well as duplication of effort.

*Recommendation:* All of the City's revenue and expenditure transactions should be recorded in the proper bank account and general ledger fund to reflect accurate financial statements. And, all of the City's bank accounts, as well as revenue receipts, should be reconciled in a timely manner with any variances being investigated immediately. The City Administrator and/or City Council should also regularly review revenue accounts and investigate any inconsistencies or variances.

**Finding #15-4: Failure to Record Federal Grant in the City's Financial Statements**

*Condition:* A federal grant from the Department of Commerce was not recorded in the City's financial statements. The East Chester Village Renaissance Phase II grant was properly maintained by the Catawba Regional Council of Government. However, the grant was awarded to the City so all the revenue and expenditure transactions should be reflected in the City's financial statements. As a result, over \$60,000 in federal funds was not recorded during the fiscal year.

*Criteria:* Timely and accurate recording of all revenue and expenditure transactions is necessary if there is to be meaningful financial statement reporting.

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year which lead to conflicting procedures and priorities as well as duplication of effort. The City failed to record the grant information in their financial statements as it was provided by the Catawba COG.

*Recommendation:* All of the City's revenue and expenditure transactions, including those maintained by an outside organization, should be recorded in the financial statements in a timely manner to reflect accurate financial statements.

**Finding #15-5: Other Post-Employment Benefits Actuarial Valuation Not Performed**

*Condition:* An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again as of June 30, 2015.

**CITY OF CHESTER, SOUTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2015**

**Finding #15-5: Other Post-Employment Benefits Actuarial Valuation Not Performed-(continued)**

*Criteria:* GASB 45 requires that actuarial valuations are to be performed "at least triennially" for OPEB plans with less than 200 members.

*Cause:* As this is not an annual requirement, it was overlooked by management. The City's Finance and Administration Departments had turnover, as well as vacancies, during the year which lead to conflicting procedures and priorities as well as duplication of effort.

*Recommendation:* We recommend the City have an actuarial valuation performed on their OPEB plan every three years to stay in compliance with GASB 45 requirements. Furthermore, the Finance Director and City Administrator should be aware of all audit and compliance requirements effecting the City.

**Finding #15-6: Financial Statement Presentation**

*Condition:* Management relied on the auditor to prepare the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2015 fiscal year financial statements.

*Criteria:* *Government Auditing Standards* independence requirements include management's ability to effectively oversee the nonaudit services, such as financial statement preparation, including whether management possesses suitable skills, knowledge, or experience to do so.

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year. The City's Finance Director's position is still vacant as of this time.

*Recommendation:* The City should hire, train and retain competent financial and administrative personnel. While the City has been using an outside consultant to assist with the June 30, 2015 financial statements, a full-time employee with governmental accounting experience is recommended.

**Finding #15-7: Budget Oversight**

*Condition:* The City overspent its budget in several departments. However, there is no record of Management or Council addressing the problem or making budgetary adjustments as necessary to prevent overspending or to ratify the overspending.

*Criteria:* Sound financial management required that budget be measured carefully against actual results and variance, especially overspending, be investigated to ensure adequate funds are available to carry out the mission of the City.

*Cause:* The City's Finance and Administration Departments had turnover, as well as vacancies, during the year. The City's Finance Director's position is still vacant as of this time. Council was not being given timely, accurate financial statements so that the budget could be managed.

*Recommendation:* Management and Council need to establish formal budget procedures for timely, accurate review and amendments, where necessary, should be made.

**Federal Awards Findings and Questioned Costs:**

**Finding #15-4: Failure to Record Federal Grant in the City's Financial Statements**

Same as above.

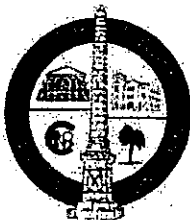
**CITY OF CHESTER, SOUTH CAROLINA**  
**DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2015**

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2015, we investigated the disposition of the findings for the year ended June 30, 2014. We determined that corrective action had been taken for each finding as follows:

**Finding #14-1: Cash and Revenue Reconciliations**

*Condition:* During the audit, it was discovered that several deposits were not recorded in the City's general ledger at the time the deposit was made to the bank account. As a result, a journal entry was made to reconcile the bank account several months later; however, the variances were not investigated and the correct revenue accounts were not credited.

*Corrective Action Taken:* No corrective action was taken. See Finding #15-2.



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Camp, Moring & Brendle, LLC  
1418 Laurel Street  
Columbia, SC 29201

**Re: CORRECTIVE ACTION PLAN – FINANCIAL STATEMENT AUDIT**

City of Chester concurs with the audit finding and respectfully submits the following corrective action plan for the year ending June 30, 2015.

The following from June 30, 2015 schedule of findings and questioned costs are described below:

**COMMENTS ON FINDINGS AND RECOMMENDATIONS**

**Finding #15-1: Trial Balance Funds Did Not Balance**

*Condition:* While the overall general ledger was in balance before audit fieldwork began, three internal funds, including the general fund, were out of balance.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-2: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis**

*Condition:* The City's bank accounts were not timely reconciled. A majority of the bank reconciliations for the June 30, 2015 fiscal year were not performed until an outside consultant was brought in during the June 30, 2017 fiscal year. At this time, it was also discovered that several transactions were not properly accounted for in the general ledger. For example, a new bank account was opened for the Narcotics Seizure Account in April 2015 but none of the transactions had been recorded in the general ledger.

Revenue reconciliations were not timely performed either. It was discovered during the bank and revenue confirmation reconciliation processes that several deposits were not recorded in the City's general ledger at the time they were made into the bank accounts and were not recorded into the proper revenue account once they were recorded. Furthermore, deposits were not made on a daily or timely basis resulting in checks/receipts not being deposited until up to months after they had been received.

The untimely reconciliations and deposits made tracing deposits from the accounting system to the supporting documentation and bank statements extremely difficult.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-3: Deposits Made and Checks Written on Wrong Accounts**

*Condition:* Several instances were noted where deposits were made to and checks were written from the wrong bank account. For example, \$15,422 in taxes received from Chester County for the Chester Fire District were deposited into the City's general fund account rather than the Fire District's bank account, resulting in an accounts payable to the District at year end.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-4: Failure to Record Federal Grant in the City's Financial Statements**

*Condition:* A federal grant from the Department of Commerce was not recorded in the City's financial statements. The East Chester Village Renaissance Phase II grant was properly maintained by the Catawba Regional Council of Government. However, the grant was awarded to the City so all the revenue and expenditure transactions should be reflected in the City's financial statements. As a result, over \$60,000 in federal funds was not recorded during the fiscal year.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-5: Other Post-Employment Benefits Actuarial Valuation Not Performed**

*Condition:* An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again as of June 30, 2015.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-6: Financial Statement Presentation**

*Condition:* Management relied on the auditor to prepare the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2015 fiscal year financial statements.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

**Finding #15-7: Budget Oversight**

*Condition:* The City overspent its budget in several departments. However, there is no record of Management or Council addressing the problem or making budgetary adjustments as necessary to prevent overspending or to ratify the overspending.

**Action taken or planned:**

*Corrective Action Plan:* The City has hired an outside CPA to help reconcile the financial records and bring them up-to-date as well as address all audit findings.

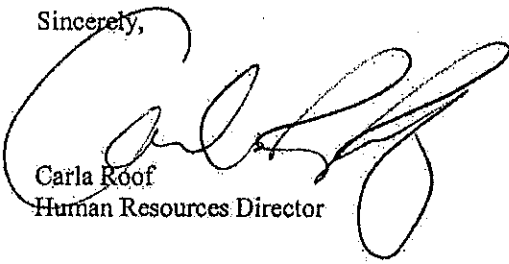
**STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS**

**Finding #14-1: Cash and Revenue Reconciliations**

*Condition:* During the audit, it was discovered that several deposits were not recorded in the City's general ledger at the time the deposit was made to the bank account. As a result, a journal entry was made to reconcile the bank account several months later; however, the variances were not investigated and the correct revenue accounts were not credited.

*Corrective Action Taken:* No corrective action was taken. See Finding #15-2.

Sincerely,



Carla Roof  
Human Resources Director