

CITY OF CHESTER, SOUTH CAROLINA

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

For the Year Ended June 30, 2012

CITY OF CHESTER, SOUTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chester, South Carolina as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chester, South Carolina's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chester, South Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2013, on our consideration of the City of Chester, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 16 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying supplementary information as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Columbia, South Carolina
January 3, 2013

CITY OF CHESTER, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

INTRODUCTION

This narrative overview gives an analysis of the financial activities of the City of Chester, South Carolina (the City) for the fiscal year ended June 30, 2012. Our purpose is to inform our citizens of the effect of our City's operations and to present our financial position. We ask our citizens to consider the information presented here in conjunction with the financial statements taken as a whole.

FINANCIAL HIGHLIGHTS

The local economy has experienced a severe recession over the last year that is continuing to date. Unemployment in Chester County has been as high as 21% during the last year. Anticipated decreasing revenues have resulted in a strain on the City's financial condition. In spite of poor economic times, overall revenues remained consistent with the prior year. Decreases to business licenses revenue, state aid revenues, charges for services and interest income were offset by increases to grant revenues and property tax collections. During the year ended June 30, 2012, the City's management required department heads to reduce their non-personnel expenditure budgets by 10% in response to projected decreases in revenue. In spite of poor economic conditions, the City has successfully maintained a high level of services provided to the citizens of the City of Chester.

Other key financial aspects were as follows:

- **Net Assets:** The City's governmental activities assets exceeded its liabilities at June 30, 2012 by \$4,804,334, a increase of \$432,721 in net assets during the year. Of this amount, \$1,338,601 is unrestricted net assets. This means that these funds may be used to meet the City's ongoing obligations.
- **Debt:** The City issued a general obligation bond for \$400,000 during the 2011 year and made a principal payment of \$36,609 during the 2012 fiscal year resulting in a balance of \$292,773. The City issued a lease financing purchase for \$87,500 during the 2012 year and made a principal payment of \$13,859 resulting in a balance of \$73,641. The City also has accrued compensated absences of \$70,471.
- **Change in Net Assets:** The City's net assets of its governmental activities were decreased over the course of this year's operations. Net assets of the governmental activities increased \$432,721. The prior year, there was a \$216,019 decrease in net assets.
- **General Fund:** Our principal operating fund is the General Fund. In fiscal year 2011-12, General Fund revenues and other financing sources, which primarily consisted of property taxes, state aid and various charges for services, fines and fees were \$5,110,713, an increase from FY2010-11. Expenditures and Other Financing Sources and Uses in the General Fund were \$4,977,161, a decrease from FY2010-11. This resulted in an increase to the fund balance for the year of \$176,108.
- **Business-type Activities:** There was no business-type activity for the City for the year ended June 30, 2012.
- **General Fund Budget:** The general fund approved budgeted revenues reflect that actual revenues for the year were more than projections by \$147,544. General fund actual expenditures were more than the final approved expenditure budget by \$11,046.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

1. **Statement of Net Assets:** The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
2. **Statement of Activities:** The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

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

1. **Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service and Other Government Funds, all of which are considered to be major funds as defined by GASB Number 34.
2. **Proprietary Funds:** Proprietary (Enterprise) funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that of monitoring the cost of such programs for public policy. The City has no proprietary funds and therefore no statements for such funds are presented in the financial statements.

3. **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the City and are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that of the proprietary funds.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$4,804,334 as of June 30, 2012.

A portion of the City's net assets (59%) or \$2,855,014 reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, furniture and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its City of Chester residents; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City had \$366,414 of such debt as of June 30, 2012.

Additionally, 13% of the City's net assets or \$610,719 is restricted as to its uses by grantor/donors and therefore not available for general use by the City.

\$1,338,601 or 28% of net assets is unrestricted. This means that these funds may be used to meet the City's ongoing general obligations.

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

The following table presents a summary of the City's net assets for the fiscal year ended June 30, 2012 with comparative data for fiscal year ended June 30, 2011:

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | FY2011-12 | FY2010-11 |
| Current and other assets | \$ 3,066,966 | \$ 2,888,964 |
| Capital assets, net | <u>3,147,787</u> | <u>2,570,102</u> |
| Total assets | <u>6,214,753</u> | <u>5,459,066</u> |
| Current liabilities | 973,535 | 699,226 |
| Long term debt outstanding | <u>436,884</u> | <u>398,847</u> |
| Total liabilities | <u>1,410,419</u> | <u>1,098,073</u> |
| Net assets: | | |
| Invested in capital assets - net of related debt | 2,855,014 | 2,240,720 |
| Restricted for general government | 610,719 | 731,558 |
| Unrestricted | <u>1,338,601</u> | <u>1,388,715</u> |
| Total net assets | <u>\$ 4,804,334</u> | <u>\$ 4,360,993</u> |

Changes in net assets: The City's total revenues for the fiscal year ended June 30, 2012, were \$5,814,103. The total cost of all programs and services was \$5,381,382. Therefore, the change in net assets was an increase of \$432,721. The following table presents a summary of the activity that resulted in changes in net assets for the fiscal year ended June 30, 2012 with comparative summary of the activity for the fiscal year ended June 30, 2011:

| | Governmental Activities | | | |
|-----------------------------------|-------------------------|---------------------|-------------------|----------------|
| | FY2011-12 | FY2010-11 | Net Change | % Net Change |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 2,133,754 | \$ 1,993,053 | \$ 140,701 | 7.06% |
| Operating grants/contributions | 98,154 | 141,125 | (42,971) | -30.45% |
| Capital grants/contributions | 577,860 | 65,000 | 512,860 | 789.02% |
| General revenues: | | | | |
| Property taxes | 1,080,330 | 1,168,965 | (88,635) | -7.58% |
| Accommodations tax | 32,875 | 27,464 | 5,411 | 19.70% |
| Interest/investment income | 27,786 | 26,973 | 813 | 3.01% |
| Intergovernmental | 935,253 | 962,861 | (27,608) | -2.87% |
| Franchise fees | 292,970 | 241,508 | 51,462 | 21.31% |
| Business licences | 617,728 | 570,619 | 47,109 | 8.26% |
| Intergovernmental fixed assets | 17,393 | - | 17,393 | 0.00% |
| Total revenues | <u>5,814,103</u> | <u>5,197,568</u> | <u>616,535</u> | <u>11.86%</u> |
| Expenses: | | | | |
| General government | 1,158,033 | 894,901 | 263,132 | 29.40% |
| Public safety | 3,014,669 | 3,312,091 | (297,422) | -8.98% |
| Public works | 924,120 | 900,982 | 23,138 | 2.57% |
| Cultural and recreation | 268,807 | 293,389 | (24,582) | -8.38% |
| Interest and fiscal charges | 15,753 | 12,224 | 3,529 | 28.87% |
| Total expenses | <u>5,381,382</u> | <u>5,413,587</u> | <u>(32,205)</u> | <u>-0.59%</u> |
| Increase (decrease) in net assets | <u>\$ 432,721</u> | <u>\$ (216,019)</u> | <u>\$ 648,740</u> | <u>179.94%</u> |

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

| | Expenses | | Program Revenue | | Net Revenues (Expenses) and Changes in Net Assets | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---|----------------------|
| | FY2011-12 | FY2010-11 | FY2011-12 | FY2010-11 | FY2011-12 | FY2010-11 |
| General government | \$ 1,158,033 | \$ 894,901 | \$ 492,441 | \$ 13,367 | \$ (665,592) | \$ (881,534) |
| Public safety | 3,014,669 | 3,312,091 | 1,662,291 | 1,728,133 | (1,352,378) | (1,583,958) |
| Public works | 924,120 | 900,982 | 559,299 | 413,264 | (364,821) | (487,718) |
| Cultural and recreation | 268,807 | 293,389 | 95,737 | 44,414 | (173,070) | (248,975) |
| Interest and fiscal charges | <u>15,753</u> | <u>12,224</u> | <u>-</u> | <u>-</u> | <u>(15,753)</u> | <u>(12,224)</u> |
| Total expenses | <u>\$ 5,381,382</u> | <u>\$ 5,413,587</u> | <u>\$ 2,809,768</u> | <u>\$ 2,199,178</u> | <u>\$(2,571,614)</u> | <u>\$(3,214,409)</u> |

- The cost of all governmental activities this year was \$5,381,382, an increase from the prior year.
- Net cost of governmental activities was \$(2,571,614) which was financed by general revenues. General revenues consist primarily of property taxes of \$1,080,330 and state aid of \$935,253.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$2,170,389. \$1,559,670 or 72% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remaining fund balance of \$610,719 is reserved or designated to indicate that it is not available for spending because it has already been committed to specific special and capital projects.

- The General Fund is the principal operating fund of the City. The increase in fund balance in the General Fund for the fiscal year was \$176,108.
- The general fund approved budget revenues reflect that actual revenues for the year were over projections by \$147,544.
- General fund actual expenditures were greater than the expenditure budget by \$11,046.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: As of June 30, 2012, the City had \$2,570,102 in capital assets – net of accumulated depreciation, including land, buildings and improvements, vehicles, computers, and other equipment. Capital asset purchases for the year totaled \$384,459. Total depreciation expense for the year was \$228,982.

The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2012 with comparative balance for the fiscal year ended June 30, 2011:

| | Governmental Activities | | Net Increase |
|-----------------------------------|-------------------------|---------------------|-------------------|
| | FY2011-12 | FY2010-11 | Over Prior Year |
| Land | \$ 36,000 | \$ 36,000 | |
| Buildings | 2,212,548 | 2,212,548 | - |
| Infrastructure - sidewalks | 572,414 | 435,667 | 136,747 |
| Improvements other than buildings | 224,094 | 224,094 | - |
| Construction in progress | 554,416 | 7,000 | 547,416 |
| Machinery and equipment | 3,163,589 | 3,034,153 | 129,436 |
| | 6,763,061 | 5,949,462 | 813,599 |
| Less accumulated depreciation | 3,615,274 | 3,379,360 | 235,914 |
| | <u>\$ 3,147,787</u> | <u>\$ 2,570,102</u> | <u>\$ 577,685</u> |

Additional information on the City's capital assets can be found in Note 7.

Debt Administration: At June 30, 2012, the City long term debt of \$366,414. The City also has compensated absences of \$70,471.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

The City of Chester is in the mist of a recession as is the entire nation. The unemployment rate for Chester County is approximately 21%. Generally poor economic conditions are expected to continue to impact the City, particularly as are related to intergovernmental aid from the State of South Carolina and specifically, local option sales taxes. Current state projections could reflect a 10% decrease for the year 2011-12. State aid was reduced to FY2005-2006 levels for the year ending June 30, 2011 and this trend is expected to continue.

Some small businesses and a textile manufacturing plants operated by Springs Mill have discontinued operations in recent years. Census information reflects that the population in the City continues to decrease each year. These factors can only have a negative impact on the City's tax base.

South Carolina State government has eliminated or reduced programs that have required City government to assume some of the services. State government has funded programs with non-recurring funds that have caused a financial crisis that will continue for a number of years. We expect more State programs to be shifted to City government.

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,824,342 |
| Receivables (net of allowance for uncollectibles): | |
| Property taxes | 571,545 |
| Intergovernmental | 188,037 |
| Other | 187,733 |
| Notes receivable, net | 224,080 |
| Capital lease receivable | 71,229 |
| Capital assets: | |
| Land | 36,000 |
| Buildings and improvements | 2,212,548 |
| Improvements, other than buildings | 572,414 |
| Infrastructure - sidewalks | 224,094 |
| Machinery and equipment | 3,163,589 |
| Construction in progress | 554,416 |
| Accumulated depreciation | <u>(3,615,274)</u> |
| Total Assets | <u>6,214,753</u> |
| LIABILITIES | |
| Accounts payable | 134,862 |
| Accrued expenses | 100,946 |
| Deferred revenue | 600,504 |
| Other post employment benefits | 137,223 |
| Noncurrent liabilities: | |
| Due within one year | 64,960 |
| Due after one year | <u>371,924</u> |
| Total Liabilities | <u>1,410,419</u> |
| NET ASSETS | |
| Invested in capital assets - net of related debt | 2,855,014 |
| Restricted for general government | 610,719 |
| Unrestricted | <u>1,338,601</u> |
| Total Net Assets | <u><u>\$ 4,804,334</u></u> |

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

CITY OF CHESTER, SOUTH CAROLINA
RECONCILIATION OF TOTAL
GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2012

| | |
|--|----------------------------|
| Total fund balances - governmental funds, June 30, 2012 | \$ 2,170,389 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: | |
| Capital assets | 6,763,061 |
| Accumulated depreciation | (3,615,274) |
| 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 | 60,266 |
| 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 | (292,773) |
| Lease financing | (73,641) |
| Other post employment benefits | (137,223) |
| Compensated absences | (70,471) |
| | <hr/> |
| Total net assets - governmental activities, June 30, 2012 | <u><u>\$ 4,804,334</u></u> |

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

CITY OF CHESTER, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

| | Program Revenues | | | Net Revenue (Expense) and Changes in Net Assets | |
|---------------------------------|------------------|-------------------------|--|--|----------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| PRIMARY GOVERNMENT | | | | | |
| Governmental Activities | | | | | |
| General government | \$ 1,158,033 | \$ 9,630 | \$ 337 | \$ 482,474 | \$ (665,592) |
| Public safety | 3,014,669 | 1,602,272 | 60,019 | - | (1,352,378) |
| Public works | 924,120 | 500,437 | 37,798 | 21,064 | (364,821) |
| Cultural and recreation | 268,807 | 21,415 | - | 74,322 | (173,070) |
| Interest and fiscal charges | 15,753 | - | - | - | (15,753) |
| Total Governmental | 5,381,382 | 2,133,754 | 98,154 | 577,860 | (2,571,614) |
| Business-Type Activities | | | | | |
| None | - | - | - | - | - |
| Total Primary Government | \$ 5,381,382 | \$ 2,133,754 | \$ 98,154 | \$ 577,860 | (2,571,614) |
| | | | General Revenues | | |
| | | | Property taxes levied for: | | |
| | | | General purposes | | 1,080,330 |
| | | | Accommodations tax | | 32,875 |
| | | | Interest/investment income | | 27,786 |
| | | | Intergovernmental | | 935,253 |
| | | | Franchise fees | | 292,970 |
| | | | Business licences | | 617,728 |
| | | | Intergovernmental fixed assets | | 17,393 |
| | | | Total general revenues | | 3,004,335 |
| | | | Changes in net assets | | 432,721 |
| | | | Net Assets, beginning | | 4,371,613 |
| | | | Net Assets, ending | | \$ 4,804,334 |

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, 2012

| | |
|--|------------|
| Change in fund balances - governmental funds, JUNE 30, 2012 | \$ 44,670 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlay as expenditures. In the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. | 813,597 |
| Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditures in governmental funds. | (235,932) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. | |
| Issuance of new long-term debt | (87,500) |
| Principal payments on long-term debt | 50,468 |
| Compensated absences | (1,006) |
| Other post employment benefits | (137,223) |
| 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. | (14,353) |
| Change in net assets - governmental activities, JUNE 30, 2012 | \$ 432,721 |

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, 2012

| | General Fund | Other Governmental Funds | Debt Service Fund | Total Governmental Funds |
|---|-------------------------|---|----------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,493,772 | \$ 330,574 | \$ - | \$ 1,824,346 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 571,545 | - | - | 571,545 |
| Intergovernmental | 145,755 | - | - | 145,755 |
| Other | 156,722 | 73,293 | - | 230,015 |
| Notes receivable, net | - | 224,080 | - | 224,080 |
| Due from other funds | 17,228 | 56,303 | - | 73,531 |
| Prepaid expenses | - | - | - | - |
| Capital lease receivable | 71,229 | - | - | 71,229 |
| Total Assets | \$ 2,456,251 | \$ 684,250 | \$ - | \$ 3,140,501 |
| LIABILITIES AND FUND BALANCES | | | | |
| Accounts payable | 134,866 | \$ - | \$ - | \$ 134,866 |
| Accrued expenses | 100,946 | - | - | 100,946 |
| Deferred revenue | 660,769 | - | - | 660,769 |
| Due to other funds | - | 73,531 | - | 73,531 |
| Total Liabilities | 896,581 | 73,531 | - | 970,112 |
| FUND BALANCES | | | | |
| Fund balances | | | | |
| Reserved | - | 610,719 | - | 610,719 |
| Unreserved | 1,559,670 | - | - | 1,559,670 |
| Total Fund Balances | 1,559,670 | 610,719 | - | 2,170,389 |
| Total Liabilities and Fund Balance | \$ 2,456,251 | \$ 684,250 | \$ - | \$ 3,140,501 |

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, 2012

| | <u>General Fund</u> | <u>Other Governmental Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|----------------------------------|---|
| REVENUES | | | | |
| Taxes - property | \$ 1,060,367 | \$ - | \$ - | \$ 1,060,367 |
| Licenses and permits | 910,698 | - | - | 910,698 |
| Intergovernmental | 966,429 | 677,714 | - | 1,644,143 |
| Charges for services | 2,116,798 | 15,789 | - | 2,132,587 |
| Investment earnings | 22,106 | 5,677 | 3 | 27,786 |
| Payments in lieu of taxes | 34,315 | - | - | 34,315 |
| Drug forfeitures | - | 1,167 | - | 1,167 |
| | <u>-</u> | <u>1,167</u> | <u>-</u> | <u>1,167</u> |
| Total Revenues | <u>5,110,713</u> | <u>700,347</u> | <u>3</u> | <u>5,811,063</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 923,157 | 7,250 | - | 930,407 |
| Public safety | 2,816,575 | 132,898 | - | 2,949,473 |
| Public works | 860,400 | - | - | 860,400 |
| Cultural and recreation | 242,486 | 2,199 | - | 244,685 |
| Capital outlay | 106,765 | 609,599 | 79,842 | 716,364 |
| Debt service | 6,500 | - | 66,222 | 72,722 |
| | <u>6,500</u> | <u>-</u> | <u>66,222</u> | <u>72,722</u> |
| Total Expenditures | <u>4,955,883</u> | <u>751,946</u> | <u>146,064</u> | <u>5,774,051</u> |
| Excess revenue over (under) expenditures | <u>154,830</u> | <u>(51,599)</u> | <u>(146,061)</u> | <u>37,012</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Lease financing proceeds | - | - | 87,500 | 87,500 |
| Operating transfers in (out) | 21,278 | - | (21,278) | - |
| | <u>21,278</u> | <u>-</u> | <u>(21,278)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>21,278</u> | <u>-</u> | <u>66,222</u> | <u>87,500</u> |
| Net change in fund balances | 176,108 | (51,599) | (79,839) | 44,670 |
| Fund Balance, beginning of year | <u>1,383,562</u> | <u>662,318</u> | <u>79,839</u> | <u>2,125,719</u> |
| Fund Balance, end of year | <u>\$ 1,559,670</u> | <u>\$ 610,719</u> | <u>\$ -</u> | <u>\$ 2,170,389</u> |

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

CITY OF CHESTER, SOUTH CAROLINA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--|----------------------------|-------------------------|---------------------|---|
| REVENUES | | | | |
| Taxes - property | \$ 1,117,000 | \$ 1,117,000 | \$ 1,060,367 | \$ (56,633) |
| Licenses and permits | 795,000 | 795,000 | 910,698 | 115,698 |
| Intergovernmental | 883,974 | 883,974 | 966,429 | 82,455 |
| Charges for services | 2,117,895 | 2,117,895 | 2,116,798 | (1,097) |
| Investment earnings | 12,300 | 12,300 | 22,106 | 9,806 |
| Payments in lieu of taxes | 37,000 | 37,000 | 34,315 | (2,685) |
| | | | | |
| Total Revenues | <u>4,963,169</u> | <u>4,963,169</u> | <u>5,110,713</u> | <u>147,544</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 957,971 | 957,971 | 923,157 | 34,814 |
| Public safety | 2,853,912 | 2,853,912 | 2,816,575 | 59,005 |
| Public works | 907,835 | 907,835 | 860,400 | 47,435 |
| Cultural and recreation | 196,951 | 196,951 | 242,486 | (45,535) |
| Capital outlay | - | - | 106,765 | (106,765) |
| Debt service | 30,000 | 30,000 | 6,500 | |
| | | | | |
| Total Expenditures | <u>4,946,669</u> | <u>4,946,669</u> | <u>4,955,883</u> | <u>(11,046)</u> |
| | | | | |
| Excess revenue over (under) expenditures | 16,500 | 16,500 | 154,830 | 136,498 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Lease financing purchase | - | - | - | - |
| Operating transfers in (out) | - | - | 21,278 | 21,278 |
| | | | | |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>21,278</u> | <u>21,278</u> |
| | | | | |
| Net change in fund balances | 16,500 | 16,500 | 176,108 | 159,608 |
| | | | | |
| Fund Balance, beginning of year | <u>-</u> | <u>-</u> | <u>1,383,562</u> | <u>1,383,562</u> |
| | | | | |
| Fund Balance, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,559,670</u> | <u>\$ 1,543,170</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, 2012

| | Trust Funds | Agency Funds |
|--------------------------------|-----------------------------|-----------------------------|
| | <hr/> | <hr/> |
| ASSETS | | |
| Cash | \$ 325,392 | \$ 112,920 |
| Due from/(to) City of Chester | <hr/> - | <hr/> - |
| Total Assets | <hr/> \$ 325,392 | <hr/> \$ 112,920 |
| LIABILITIES | | |
| Due to City of Chester | \$ - | \$ 55,566 |
| Due to others | - | 22,640 |
| Funds held in trust for others | <hr/> 325,392 | <hr/> 34,714 |
| Total Liabilities | <hr/> \$ 325,392 | <hr/> \$ 112,920 |

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

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule of Funding Progress

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

History of Net OPEB Obligation

| Fiscal Year Ended | Annual OPEB Cost | Age Adjusted Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------------------|---------------------------------|--|---|------------------------------------|
| 6/30/2012 | \$ 202,478 | \$ 65,255 | 32.00% | \$ 137,223 |

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements

June 30, 2012

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, 2012

C. Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

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

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

Proprietary fund types

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

Fiduciary fund types

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

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

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

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

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

D. Measurement Focus

Government-wide financial statements

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

Fund financial statements

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

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

Fiduciary funds are reported using the economic measurement focus.

E. Basis of Accounting

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

Revenues – exchange and non-exchange transactions

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

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

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

Deferred revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012 (all property owned by taxpayers are assessed as of December 31, 2011), but which were billed in October 2011 to finance fiscal year 2011-12 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, 2012

Expenses/expenditures

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

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

F. Assets, Liabilities and Equity

Cash and investments

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

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

Receivables and payables

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

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

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

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

Interfund receivables and payables

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

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, 2012

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:

- **Nonspendable fund balance** amounts are not in a spendable for (such as inventory or prepaids) 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 resourced when an expense is incurred for purposes for which any unrestricted fund balance is available.

Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition construction or improvements of those net assets. Restricted net assets are 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 assets represent net assets 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 assets are available.

G. Revenues, Expenditures and Expenses

Property taxes

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

Operating revenues and expenses

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

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, 2012 through the date these financial statements were available to be issued on January 3, 2013. No subsequent events were identified.

H. Stewardship, Compliance and Accountability

Budgetary information

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

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, 2012.

Budget Basis of Accounting

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

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

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

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

| | |
|-------------------|-----------|
| • City Council | \$ 4,017 |
| • Human Resources | \$ 5,295 |
| • Recreation | \$ 45,535 |

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

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.
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.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

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, 2012, the City had no investments.

At year end, the carrying amount of the City's cash deposits (checking accounts, savings accounts and certificates of deposit), was \$1,824,346 and the bank balances were \$1,686,814. Of the bank balances, \$822,598 was covered by federal depository insurance (FDIC). The bank balances are classified in three categories of credit risk. Category 1 includes deposits that are insured or collateralized with securities held by the City or by its agent in the City's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes deposits that are uncollateralized. All cash is in either Category 1 or 2; the City has no cash in Category 3.

Note 3- Capital Lease Receivable and Sewer Escrow

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

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

Note 4- Notes Receivable and Allowance for Doubtful Accounts

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

Four of the City's Rehabilitation Notes Receivable are doubtful as to whether they can be collected. The notes receivable in the special revenue fund is shown net of a \$16,080 allowance.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2012 including penalties, are as follows:

| | | |
|---|----|----------------|
| Real property (2000 - 2012) | \$ | 590,138 |
| Vehicle taxes (through Chester County) | | 10,914 |
| | | <u>601,052</u> |
| Less allowance for doubtful accounts | | 29,507 |
| Total property taxes receivable - net of allowance for uncollectibles | \$ | <u>571,545</u> |

Intergovernmental receivables at June 30, 2012 are as follows:

| | | |
|-------------------------------------|----|----------------|
| State of South Carolina for | | |
| Aid to Local Governments | \$ | 26,163 |
| Accommodations taxes | | 22,880 |
| Local Option Sales Taxes | | 40,210 |
| Insurance Tax Collections | | 44,952 |
| Chester County | | |
| Payments in lieu of taxes | | <u>11,550</u> |
| Total intergovernmental receivables | \$ | <u>145,755</u> |

Other receivables at June 30, 2012 are as follow:

General Fund

| | | |
|-----------------------------|----|--------------|
| Solid waste disposal fees | \$ | 38,972 |
| Police fines escrow account | | 55,566 |
| Grants receivable | | 6,485 |
| Duke Energy | | 45,932 |
| Other receivables | | <u>9,767</u> |
| | | 156,722 |

Special Revenue

| | | |
|-------------------|--|----------|
| Grants receivable | | 73,293 |
| Due from citizens | | <u>-</u> |
| | | 73,293 |

| | | |
|-------------------------|----|----------------|
| Total other receivables | \$ | <u>230,015</u> |
|-------------------------|----|----------------|

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

| | | |
|---|----|---------------|
| Delinquent property taxes | \$ | 589,540 |
| Received but not earned | | <u>-</u> |
| Total deferred revenues related to property taxes | | 589,540 |
| Deferred revenue - capital lease of sewage plant | | <u>71,229</u> |

| | | |
|------------------------|----|----------------|
| Total deferred revenue | \$ | <u>660,769</u> |
|------------------------|----|----------------|

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2012, is as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> | <u>Purpose</u> |
|--|-----------------------------------|----------------------------------|------------------------|
| General Fund | \$ 17,228 | \$ - | |
| Special Revenue Fund - Grant Projects | - | 7,674 | subsidize program |
| Special Revenue Fund - Healthcare Foundation Grant | 45 | - | subsidize program |
| Special Revenue Fund - Wylie Park Trails Improvement | 20 | - | subsidize program |
| Special Revenue Fund - Justice Assistance Grant | 2,057 | - | subsidize program |
| Special Revenue Fund - Wellness Grant | 824 | - | subsidize program |
| Special Revenue Fund - Artisan & Farmers Market | - | 65,857 | construction |
| Capital Projects Fund - Capital Improvement | <u>53,357</u> | <u>-</u> | construction |
| Total Other Governmental Funds | <u>56,303</u> | <u>73,531</u> | |
| Totals | <u>\$ 73,531</u> | <u>\$ 73,531</u> | |
| | <u>Interfund Transfer Out</u> | <u>Interfund Transfer In</u> | |
| General Fund | \$ - | \$ 21,278 | transfer debt activity |
| Debt Service Fund | <u>21,278</u> | <u>-</u> | transfer debt activity |
| | <u>\$ 21,278</u> | <u>\$ 21,278</u> | |

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2012 is as follows:

| | Balance 06/30/11 | Additions | Retirements | Balance 06/30/12 |
|--|---------------------|-------------------|-----------------|---------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 36,000 | \$ - | \$ - | \$ 36,000 |
| Construction in progress | <u>7,000</u> | <u>554,416</u> | <u>7,000</u> | <u>554,416</u> |
| Total capital assets, not being depreciated | 43,000 | 554,416 | 7,000 | 590,416 |
| Capital assets, being depreciated: | | | | |
| Buildings | 2,212,548 | - | - | 2,212,548 |
| Improvements other than buildings | 435,667 | 129,747 | - | 565,414 |
| Infrastructure | 224,094 | - | - | 224,094 |
| Machinery and equipment | <u>3,034,156</u> | <u>129,434</u> | <u>-</u> | <u>3,163,590</u> |
| Total capital assets, being depreciated | 5,906,465 | 259,181 | - | 6,165,646 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 7,256 | 7,470 | - | 14,726 |
| Buildings | 970,812 | 48,699 | - | 1,019,511 |
| Improvements other than buildings | 161,661 | 16,334 | - | 177,995 |
| Machinery and equipment | <u>2,239,612</u> | <u>163,429</u> | <u>-</u> | <u>2,403,041</u> |
| Total accumulated depreciation | 3,379,341 | 235,932 | - | 3,615,273 |
| Total capital assets, being depreciated, net | <u>2,527,124</u> | <u>23,249</u> | <u>-</u> | <u>2,550,373</u> |
| Governmental activities capital assets, net | <u>\$ 2,570,124</u> | <u>\$ 577,665</u> | <u>\$ 7,000</u> | <u>\$ 3,140,789</u> |

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

| | |
|---------------------------------|-------------------|
| Governmental Activities: | |
| General government | \$ 88,951 |
| Public safety | 102,991 |
| Public works | 19,421 |
| Culture and recreation | <u>24,121</u> |
| | <u>\$ 235,484</u> |

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

Note 8 - Long-Term Debt

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

Activity for the fiscal year is as follows:

| | Balance 06/30/11 | Increase | Decrease | Balance 06/30/12 |
|---|---------------------|------------------|------------------|---------------------|
| General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest (3.34%), due April 2019. | \$ 329,382 | \$ - | \$ 36,609 | \$ 292,773 |
| Lease purchase. Due in quarterly payments of \$6,060, principal and interest (3.56%), due August 2015. | <u>-</u> | <u>87,500</u> | <u>13,859</u> | <u>73,641</u> |
| Total general long-term debt | <u>\$ 329,382</u> | <u>\$ 87,500</u> | <u>\$ 50,468</u> | <u>\$ 366,414</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> |
|-------------------|-------------------|------------------|-------------------|
| 2013 | \$ 59,940 | \$ 11,891 | \$ 71,831 |
| 2014 | 61,983 | 9,848 | 71,831 |
| 2015 | 64,094 | 7,737 | 71,831 |
| 2016 | 47,022 | 5,806 | 52,828 |
| 2017 | 43,186 | 4,406 | 47,592 |
| After 2017 | <u>90,189</u> | <u>4,501</u> | <u>94,690</u> |
| | <u>\$ 366,414</u> | <u>\$ 44,189</u> | <u>\$ 410,603</u> |

| | Balance 06/30/11 | Increase | Decrease | Balance 06/30/12 |
|------------------------------|---------------------|-----------------|-------------|---------------------|
| Accrued compensated absences | \$ 69,465 | \$ 1,006 | \$ - | \$ 70,471 |
| Total general long-term debt | <u>\$ 69,465</u> | <u>\$ 1,006</u> | <u>\$ -</u> | <u>\$ 70,471</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 | <u>65,326</u> | <u>65,326</u> |
| | <u>\$ 70,471</u> | <u>\$ 70,471</u> |

There was interest expense of \$15,753 for the year related to long-term debt.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

Note 9 - Employee Pension Plans

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

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

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

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

SCRS is a cost-sharing multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions, such as municipalities. Membership is required as a condition of employment. Both employers and employees must contribute. Employees contributed at 6.5% and employers at 9.24% during the year ended June 30, 2012. In addition to the above rates, participating employers of SCRS contribute .15% of payroll to provide group life insurance benefit for their participants. Benefits vest after five years of service. Vested members, who retire at age sixty-five or with twenty-eight years of service at any age, receive an annual benefit, payable for life. The benefit is based on length of service and on average final compensation, an annualized average of the employee's highest twelve consecutive quarters of compensation. The annual benefit amount is 1.82% of average final compensation times years of credited service. Reduced benefits are payable as early as age sixty with 5% reduction for each year under age 65 and at age 55 with 25 years of service, reduced by 4% for each year of service under 28 years.

PORS is a cost-sharing multiple employer pension system that benefits all full-time City employees whose principal duties are the preservation of public order, protection, or prevention and control of property destruction by fire. Membership is required as a condition of employment. Both employers and employees must contribute. Employees contributed at 6.5% and employers at 11.13% for the year ended June 30, 2012. In addition to the above rates, participating employers of PORS contribute .20% of payroll to provide a group life insurance benefit and another .20% to provide accidental death coverage for their participants. Employees who retire at age 55 or with 25 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 2.14% of average final compensation multiplied by the number of years of credited service. Benefits fully vest on reaching 5 years of service. PORS has no provision for early retirement.

C. Funding Status and Progress -- The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits (adjusted for the effects of projected salary increases and step-rate benefits) estimated to be payable in the future as a result of employee service to date. The State discloses this measure to help users of these financial statements to: (1) assess the system's funding status on a going-concern basis, (2) assess progress toward accumulating sufficient assets to pay benefits when due, and (3) compare various public employee retirement systems and employers. The measure is the actuarial present value of credited projected benefits. This method is independent of the funding methods the State's consulting actuary uses to determine contributions to the system. A 8.0% interest rate (compounded annually) was used to compute the pension benefit obligation.

The South Carolina Retirement System (SCRS) and the South Carolina Police Officers' Retirement System (PORS) do not separately measure assets and pension benefit obligations for individual employers. The total unfunded accrued liability obligation expressed in millions at July 1, 2010 for SCRS was \$14,441 and for PORS was \$956.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

D. Contributions Required and Contributions Made -- The State's consulting actuary determines employer contributions for all four systems. The systems use the projected benefit method with entry age normal cost and benefits and allocate pension cost to each year as a level percentage of salary. In determining funding requirements, the actuary uses the same actuarial assumptions as those used to calculate the pension benefit obligation, with the following assumptions: (1) post-retirement benefit increases were projected for retired members and members eligible to retire (2) net assets attributable to group life insurance were excluded. At July 1, 2011 (latest data available), the unfunded liability liquidation period in years for SCRS was 29 years and for PORS was 30 years.

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

The following provides a summary of the City's retirement Plan Contributions at June 30, 2012 (includes group life insurance for both plans and accidental death insurance for the Police Plan) with comparative data at June 30, 2011 and 2010.

| <u>Year Ended</u> <u>June 30,</u> | <u>Plan</u> | <u>Employee</u> <u>Contributions</u> | <u>Employer</u> <u>Contributions</u> | <u>Total</u> <u>Contributions</u> |
|--------------------------------------|-------------|---|---|--------------------------------------|
| 2012 | Regular | \$ 56,284 | \$ 81,265 | \$ 137,549 |
| | Police | 105,527 | 184,477 | 290,004 |
| 2011 | Regular | 60,910 | 88,344 | 149,254 |
| | Police | 113,702 | 179,873 | 293,575 |
| 2010 | Regular | 60,824 | 87,868 | 148,692 |
| | Police | 107,204 | 182,245 | 289,449 |

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

Note 10 – Post-Employment Benefits

The City policy is to provide postretirement health care benefits to all employees who are eligible to retire from the South Carolina Retirement System (SCRS) and who have 20 years of credited service with the City of Chester and who have at least 10 years of medical coverage with the South Carolina Local Government Assurance Group. Currently, there are 14 eligible participants receiving benefits. During the years ended June 30, 2012 and June 30, 2011, the City paid \$61,503 and \$67,882, 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 \$1,506,845 for the period July 1, 2011 through June 30, 2012.

Note 12 - Contingent Liability - Self Insured Unemployment Claims

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

Note 13 – Contingent Liability – Legal Claims

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2012

Note 14 – Risk Management

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

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

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

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

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

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

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

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 assets 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.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

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 (Prior year NOO) x (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.

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 | \$ 202,478 |
| Interest on Net OPEB Obligation | - |
| Adjustment to Annual Required Contribution | - |
| Annual OPEB Cost (Expense) | 202,478 |
| Age Adjusted Contributions Made | (65,255) |
| Change in Net OPEB Obligation | <u>\$ 137,223</u> |
| Net OPEB Obligation - Beginning of Year | \$ - |
| Net OPEB Obligation - End of Year | <u>\$ 137,223</u> |

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

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.

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.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2012

| <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 Method | Level Percent of Payroll Amortization |

Note 16 – Prior Period Adjustment

During the fiscal year ended June 30, 2012, it was discovered that two Federal grants were being maintained by the Catawba Regional Council on Government but were not being reflected in the City's financial statements. As a result, \$10,603 was added to the Capital Projects Funds fund balance to account for fiscal year end 2011 activity.

SUPPLEMENTARY INFORMATION

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual | Variance With Final Budget Favorable (Unfavorable) |
|---|----------------------------|----------------------------|----------------------------|---|
| <u>REVENUES</u> | | | | |
| TAXES: | | | | |
| Property taxes - current | \$ 905,000 | \$ 905,000 | \$ 794,699 | \$ (110,301) |
| Property taxes - delinquent | 212,000 | 212,000 | 265,668 | 53,668 |
| | <u>1,117,000</u> | <u>1,117,000</u> | <u>1,060,367</u> | <u>(56,633)</u> |
| LICENSES, FINES, FEES AND PERMITS: | | | | |
| Business licenses | 570,000 | 570,000 | 617,728 | 47,728 |
| Franchise fees | <u>225,000</u> | <u>225,000</u> | <u>292,970</u> | <u>67,970</u> |
| | <u>795,000</u> | <u>795,000</u> | <u>910,698</u> | <u>115,698</u> |
| INTERGOVERNMENTAL: | | | | |
| State shared revenues: | | | | |
| Local government revenue | 104,674 | 104,674 | 102,525 | (2,149) |
| Local option sales tax | 550,000 | 550,000 | 617,695 | 67,695 |
| Homestead exemption | 175,000 | 175,000 | 177,324 | 2,324 |
| Accommodations tax | 19,000 | 19,000 | 32,875 | 13,875 |
| Merchant's inventory tax | 34,000 | 34,000 | 34,567 | 567 |
| Manufacturing depreciation tax | <u>1,300</u> | <u>1,300</u> | <u>1,443</u> | <u>143</u> |
| | <u>883,974</u> | <u>883,974</u> | <u>966,429</u> | <u>82,455</u> |
| CHARGES FOR SERVICES: | | | | |
| Chester Fire District contract | 1,506,845 | 1,506,845 | 1,506,845 | - |
| Police fines and fees | 72,500 | 72,500 | 78,471 | 5,971 |
| Solid waste fees - commercial | - | - | - | - |
| Solid waste fees - residential | 510,750 | 510,750 | 481,404 | (29,346) |
| Public Works fees | 1,000 | 1,000 | 19,033 | 18,033 |
| Cemetery fees | 7,700 | 7,700 | 9,630 | 1,930 |
| Recreation Department fees | <u>19,100</u> | <u>19,100</u> | <u>21,415</u> | <u>2,315</u> |
| | <u>2,117,895</u> | <u>2,117,895</u> | <u>2,116,798</u> | <u>(1,097)</u> |
| INVESTMENT EARNINGS: | | | | |
| Interest income | 7,000 | 7,000 | 5,749 | (1,251) |
| Lease income | 5,000 | 5,000 | 4,500 | (500) |
| Other income | <u>300</u> | <u>300</u> | <u>11,857</u> | <u>11,557</u> |
| | <u>12,300</u> | <u>12,300</u> | <u>22,106</u> | <u>9,806</u> |
| PAYMENTS IN LIEU OF TAXES: | | | | |
| Payments in lieu of taxes | <u>37,000</u> | <u>37,000</u> | <u>34,315</u> | <u>(2,685)</u> |
| TOTAL REVENUES | <u><u>\$ 4,963,169</u></u> | <u><u>\$ 4,963,169</u></u> | <u><u>\$ 5,110,713</u></u> | <u><u>\$ 147,544</u></u> |

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual | Variance With Final Budget Favorable (Unfavorable) |
|---------------------------------|----------------------------|-------------------------|----------------|---|
| <u>EXPENDITURES</u> | | | | |
| GENERAL GOVERNMENT: | | | | |
| CITY COUNCIL | | | | |
| Salaries | \$ 51,700 | \$ 51,700 | \$ 51,749 | \$ (49) |
| Payroll taxes | 3,955 | 3,955 | 3,865 | 90 |
| Retirement | 4,929 | 4,929 | 5,055 | (126) |
| Employee insurance and benefits | 19,684 | 19,684 | 23,698 | (4,014) |
| Mayor's meeting expenses | 1,000 | 1,000 | - | 1,000 |
| Council conferences and travel | 12,275 | 12,275 | 14,026 | (1,751) |
| Tourism and accommodations | 6,000 | 6,000 | 5,500 | 500 |
| Supplies and materials | 300 | 300 | 148 | 152 |
| Agency support expenses | 11,800 | 11,800 | 11,619 | 181 |
| Capital expenditures | - | - | - | - |
| | <u>111,643</u> | <u>111,643</u> | <u>115,660</u> | <u>(4,017)</u> |
| ADMINISTRATION | | | | |
| Salaries | 157,600 | 157,600 | 162,361 | (4,761) |
| Payroll taxes | 12,056 | 12,056 | 12,230 | (174) |
| Retirement | 15,027 | 15,027 | 14,983 | 44 |
| Employee insurance and benefits | 32,868 | 32,868 | 26,246 | 6,622 |
| Supplies and materials | 850 | 850 | 1,099 | (249) |
| Uniforms | 350 | 350 | 395 | (45) |
| Postage | 350 | 350 | 181 | 169 |
| Travel and training | 6,250 | 6,250 | 7,107 | (857) |
| Dues and subscriptions | 3,500 | 3,500 | 3,676 | (176) |
| Auto repairs and maintenance | 5,175 | 5,175 | 5,437 | (262) |
| Advertising and printing | 1,200 | 1,200 | 1,599 | (399) |
| Utilities | 149,500 | 149,500 | 170,516 | (21,016) |
| Repairs and maintenance | 52,250 | 52,250 | 56,231 | (3,981) |
| Communications | 12,100 | 12,100 | 13,525 | (1,425) |
| General and miscellaneous | 3,800 | 3,800 | 3,387 | 413 |
| Contracted services | 30,865 | 30,865 | 35,079 | (4,214) |
| Insurance | 4,950 | 4,950 | 4,325 | 625 |
| Juror's fees | 13,000 | 13,000 | 1,930 | 11,070 |
| Bond retirement | 48,000 | 48,000 | - | 48,000 |
| | <u>549,691</u> | <u>549,691</u> | <u>520,307</u> | <u>29,384</u> |
| FINANCE | | | | |
| Salaries | 114,125 | 114,125 | 104,963 | 9,162 |
| Payroll taxes | 8,731 | 8,731 | 7,967 | 764 |
| Retirement | 10,884 | 10,884 | 10,025 | 859 |
| Employee insurance and benefits | 23,300 | 23,300 | 21,134 | 2,166 |
| Supplies and materials | 5,295 | 5,295 | 6,283 | (988) |
| Postage | 3,650 | 3,650 | 2,048 | 1,602 |
| Travel and training | 1,630 | 1,630 | 1,490 | 140 |

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual | Variance With Final Budget Favorable (Unfavorable) |
|---------------------------------|----------------------------|-------------------------|------------------|---|
| Dues and subscriptions | 250 | 250 | 100 | 150 |
| Advertising and printing | 8,600 | 8,600 | 10,437 | (1,837) |
| Repairs and maintenance | 20,885 | 20,885 | 19,335 | 1,550 |
| Communications | 840 | 840 | 840 | - |
| General and miscellaneous | 900 | 900 | 522 | 378 |
| Contracted services | 22,535 | 22,535 | 22,538 | (3) |
| Insurance | 6,600 | 6,600 | 5,801 | 799 |
| | <u>228,225</u> | <u>228,225</u> | <u>213,483</u> | <u>14,742</u> |
| HUMAN RESOURCES | | | | |
| Salaries | 45,123 | 45,123 | 45,692 | (569) |
| Payroll taxes | 3,452 | 3,452 | 3,389 | 63 |
| Retirement | 4,302 | 4,302 | 4,357 | (55) |
| Employee insurance and benefits | 5,950 | 5,950 | 6,124 | (174) |
| Supplies and materials | 895 | 895 | 877 | 18 |
| Postage | 120 | 120 | 38 | 82 |
| Travel and training | 1,250 | 1,250 | 863 | 387 |
| Printing | - | - | 687 | (687) |
| Municipal expense | 1,900 | 1,900 | 3,832 | (1,932) |
| Dues and subscriptions | 465 | 465 | 715 | (250) |
| Repairs and maintenance | 4,475 | 4,475 | 5,073 | (598) |
| Contracted services | | | 1,500 | (1,500) |
| Communications | 480 | 480 | 560 | (80) |
| | <u>68,412</u> | <u>68,412</u> | <u>73,707</u> | <u>(5,295)</u> |
| Total General Government | <u>957,971</u> | <u>957,971</u> | <u>923,157</u> | <u>34,814</u> |
| PUBLIC SAFETY: | | | | |
| POLICE DEPARTMENT | | | | |
| Salaries | 807,829 | 807,829 | 759,228 | 48,601 |
| Payroll taxes | 61,799 | 61,799 | 56,679 | 5,120 |
| Retirement | 95,025 | 95,025 | 87,861 | 7,164 |
| Employee insurance and benefits | 205,554 | 205,554 | 196,421 | 9,133 |
| Supplies and materials | 10,985 | 10,985 | 18,617 | (7,632) |
| Postage | 500 | 500 | 427 | 73 |
| Travel and training. | 6,200 | 6,200 | 4,547 | 1,653 |
| Dues and subscriptions | 1,000 | 1,000 | 861 | 139 |
| Auto repairs and maintenance | 97,746 | 97,746 | 102,952 | (5,206) |
| Advertising and printing | 2,400 | 2,400 | 1,791 | 609 |
| Utilities | 5,000 | 5,000 | 6,022 | (1,022) |
| Repairs and maintenance | 6,330 | 6,330 | 7,127 | (797) |
| Communications | 22,600 | 22,600 | 28,174 | (5,574) |
| General and miscellaneous | 4,300 | 4,300 | 3,684 | 616 |
| Uniforms | 10,050 | 10,050 | 27,603 | (17,553) |
| Contracted services | 37,850 | 37,850 | 32,000 | 5,850 |
| Insurance | 28,000 | 28,000 | 22,641 | 5,359 |
| Capital expenditures | 26,500 | 26,500 | 21,668 | 4,832 |
| | <u>1,403,168</u> | <u>1,403,168</u> | <u>1,378,303</u> | <u>46,533</u> |

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | Original Budget | Final Budget | Actual | Variance With Final Budget Favorable (Unfavorable) |
|----------------------------------|----------------------------|-------------------------|------------------|---|
| FIRE DEPARTMENT | | | | |
| Salaries | 870,500 | 870,500 | 871,408 | (908) |
| Payroll taxes | 66,516 | 66,516 | 64,191 | 2,325 |
| Retirement | 102,279 | 102,279 | 101,821 | 458 |
| Employee insurance and benefits | 211,954 | 211,954 | 210,032 | 1,922 |
| Supplies and materials | 30,800 | 30,800 | 24,573 | 6,227 |
| Postage | 350 | 350 | 187 | 163 |
| Travel and training | 7,975 | 7,975 | 11,611 | (3,636) |
| Dues and subscriptions | 2,000 | 2,000 | 2,974 | (974) |
| Auto repairs and maintenance | 32,150 | 32,150 | 41,469 | (9,319) |
| Advertising and printing | 700 | 700 | 631 | 69 |
| Utilities | 23,300 | 23,300 | 25,243 | (1,943) |
| Repairs and maintenance | 14,470 | 14,470 | 10,711 | 3,759 |
| Communications | 7,800 | 7,800 | 7,508 | 292 |
| General and miscellaneous | 6,250 | 6,250 | 6,052 | 198 |
| Uniforms | 14,800 | 14,800 | 15,363 | (563) |
| Contracted services | 29,900 | 29,900 | 22,389 | 7,511 |
| Insurance | 29,000 | 29,000 | 22,109 | 6,891 |
| | <u>1,450,744</u> | <u>1,450,744</u> | <u>1,438,272</u> | <u>12,472</u> |
| Total Public Safety | <u>2,853,912</u> | <u>2,853,912</u> | <u>2,816,575</u> | <u>59,005</u> |
| PUBLIC WORKS: | | | | |
| PUBLIC WORKS - COMMERCIAL | | | | |
| Salaries | 413,930 | 413,930 | 380,013 | 33,917 |
| Payroll taxes | 31,665 | 31,665 | 28,571 | 3,094 |
| Retirement | 36,233 | 36,233 | 33,950 | 2,283 |
| Employee insurance and benefits | 98,350 | 98,350 | 100,732 | (2,382) |
| Supplies and materials | 61,755 | 61,755 | 71,817 | (10,062) |
| Postage | 1,200 | 1,200 | 932 | 268 |
| Travel and training | 1,200 | 1,200 | 119 | 1,081 |
| Dues and subscriptions | 150 | 150 | 60 | 90 |
| Auto repairs and maintenance | 119,047 | 119,047 | 98,060 | 20,987 |
| Advertising and printing | 1,330 | 1,330 | 1,301 | 29 |
| Utilities | 4,400 | 4,400 | 5,561 | (1,161) |
| Repairs and maintenance | 3,300 | 3,300 | 4,617 | (1,317) |
| Communications | 5,500 | 5,500 | 4,696 | 804 |
| Contracted services | 2,025 | 2,025 | 1,546 | 479 |
| Insurance | 12,750 | 12,750 | 11,267 | 1,483 |
| Solid waste - yard | 35,000 | 35,000 | 33,555 | 1,445 |
| Solid waste - commercial | 80,000 | 80,000 | 83,603 | (3,603) |
| | <u>907,835</u> | <u>907,835</u> | <u>860,400</u> | <u>47,435</u> |
| Total Public Works | <u>907,835</u> | <u>907,835</u> | <u>860,400</u> | <u>47,435</u> |

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| CULTURE AND RECREATION: | | | | |
| RECREATION DEPARTMENT | | | | |
| Salaries | 104,340 | 104,340 | 121,698 | (17,358) |
| Payroll taxes | 5,852 | 5,852 | 9,126 | (3,274) |
| Retirement | 7,294 | 7,294 | 7,202 | 92 |
| Employee insurance and benefits | 19,050 | 19,050 | 20,579 | (1,529) |
| Supplies and materials | 2,850 | 2,850 | 3,327 | (477) |
| Postage | 200 | 200 | 170 | 30 |
| Travel and training | 110 | 110 | 268 | (158) |
| Dues and subscriptions | 500 | 500 | 410 | 90 |
| Auto repairs and maintenance | 8,170 | 8,170 | 8,081 | 89 |
| Advertising and printing | 50 | 50 | 661 | (611) |
| Utilities | 19,550 | 19,550 | 28,632 | (9,082) |
| Repairs and maintenance | 21,400 | 21,400 | 31,658 | (10,258) |
| Communications | 480 | 480 | 2,040 | (1,560) |
| General and miscellaneous | 700 | 700 | 729 | (29) |
| Uniforms | 805 | 805 | 1,787 | (982) |
| Contracted services | 1,500 | 1,500 | 648 | 852 |
| Insurance | 1,400 | 1,400 | 1,229 | 171 |
| Programs and services | 2,700 | 2,700 | 4,241 | (1,541) |
| Grant match | - | - | - | - |
| | <u>196,951</u> | <u>196,951</u> | <u>242,486</u> | <u>(45,535)</u> |
| Total Culture and Recreation | 196,951 | 196,951 | 242,486 | (45,535) |
| CAPITAL OUTLAY | | | | |
| Capital expenditures | <u>-</u> | <u>-</u> | <u>106,765</u> | <u>(106,765)</u> |
| Total Capital Outlay | - | - | 106,765 | (106,765) |
| DEBT SERVICE | | | | |
| Debt service | 30,000 | 30,000 | 6,500 | 23,500 |
| OTHER FINANCING (SOURCES) USES | | | | |
| Transfer in (out) | <u>-</u> | <u>-</u> | <u>(21,278)</u> | <u>21,278</u> |
| Total Other Financing (Sources) Uses | <u>-</u> | <u>-</u> | <u>(21,278)</u> | <u>21,278</u> |
| TOTAL EXPENDITURES | <u>\$ 4,946,669</u> | <u>\$ 4,946,669</u> | <u>\$ 4,934,605</u> | <u>\$ 33,732</u> |
| EXCESS EXPENDITURES OVER REVENUES | | | | |
| | <u>\$ 16,500</u> | <u>\$ 16,500</u> | <u>\$ 176,108</u> | <u>\$ 181,276</u> |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

SPECIAL REVENUE FUNDS

| | Special Projects | Community Development | McAiley Project | Grant Projects | Drug Fund | Fire Equipment Replacement | Sewer Escrow |
|---|-----------------------------|----------------------------------|----------------------------|---------------------------|----------------------|---------------------------------------|-------------------------|
| ASSETS | | | | | | | |
| Cash | \$ 8,173 | \$ 2,875 | \$ - | \$ 27,432 | \$ 22,936 | \$ 95,694 | \$ 106,197 |
| Receivable - other | 500 | - | - | 9,447 | - | - | - |
| Notes receivable, net | - | 16,080 | 208,000 | - | - | - | - |
| Due from other funds | - | - | - | - | - | - | - |
| Total Assets | \$ 8,673 | \$ 18,955 | \$ 208,000 | \$ 36,879 | \$ 22,936 | \$ 95,694 | \$ 106,197 |
| LIABILITIES AND FUND BALANCE | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due to other funds | - | - | - | 7,674 | - | - | - |
| Fund balance | 8,673 | 18,955 | 208,000 | 29,205 | 22,936 | 95,694 | 106,197 |
| Total Liabilities and Fund Balance | \$ 8,673 | \$ 18,955 | \$ 208,000 | \$ 36,879 | \$ 22,936 | \$ 95,694 | \$ 106,197 |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

| SPECIAL REVENUE FUNDS | | | | | | |
|---|-----------------------------------|-------------------------------------|------------------------|--------------------------------------|-------------------|-------------------------------|
| COPS Hiring Recovery | Healthcare Foundation Grant | Wylie Park Trails Improvement | Water Works Fund | Justice Assistance Grant (JAG) | Wellness Grant | Gang Investigator Grant |
| \$ - | \$ - | \$ - | \$ 25,480 | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | 45 | 20 | - | 2,057 | 824 | - |
| Total Assets | \$ 45 | \$ 20 | \$ 25,480 | \$ 2,057 | \$ 824 | \$ - |
| LIABILITIES AND FUND BALANCE | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due to other funds | - | - | - | - | - | - |
| Fund balance | 45 | 20 | 25,480 | 2,057 | 824 | - |
| Total Liabilities and Fund Balance | \$ 45 | \$ 20 | \$ 25,480 | \$ 2,057 | \$ 824 | \$ - |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

| | SPECIAL REVENUE FUNDS | | | | | CAPITAL PROJECTS FUNDS | | | |
|-------------------------------------|-----------------------|------------------------|--------------------------|--------------------------|----------------------------------|-------------------------------|--------|---------|--|
| | Victim Advocate | Police Benevolent Fund | Artisan & Farmers Market | Capital Improvement Fund | East Chester Village Renaissance | Pinckney Street Water Upgrade | Totals | | |
| ASSETS | | | | | | | | | |
| Cash | \$ 11,133 | \$ 206 | \$ 1,651 | \$ 23,608 | \$ 100 | \$ 5,089 | \$ | 330,574 | |
| Receivable - other | - | - | 42,282 | 21,064 | - | - | | 73,293 | |
| Notes receivable, net | - | - | - | - | - | - | | 224,080 | |
| Due from other funds | - | - | - | 53,357 | - | - | | 56,303 | |
| Total Assets | \$ 11,133 | \$ 206 | \$ 43,933 | \$ 98,029 | \$ 100 | \$ 5,089 | \$ | 684,250 | |
| LIABILITIES AND FUND BALANCE | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ | - | |
| Due to other funds | - | - | 65,857 | - | - | - | | 73,531 | |
| Fund balance | 11,133 | 206 | (21,924) | 98,029 | 100 | 5,089 | | 610,719 | |
| Total Liabilities and Fund Balance | \$ 11,133 | \$ 206 | \$ 43,933 | \$ 98,029 | \$ 100 | \$ 5,089 | \$ | 684,250 | |

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, 2012

| SPECIAL REVENUE FUNDS | | | | | | | |
|---|------------------|-----------------------|------------------|----------------|-----------|----------------------------|--------------|
| | Special Projects | Community Development | McAliley Project | Grant Projects | Drug Fund | Fire Equipment Replacement | Sewer Escrow |
| REVENUES | | | | | | | |
| Intergovernmental: | | | | | | | |
| Federal sources | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| State sources | - | - | - | - | - | - | - |
| Local sources | - | 100 | - | 1,700 | - | 5,511 | - |
| Charges for services | - | - | - | - | - | - | - |
| Investment earnings | 1 | - | - | 1 | 1 | 303 | 5,295 |
| Drug forfeitures | - | - | - | - | 1,167 | - | - |
| Total Revenues | 1 | 100 | - | 1,701 | 1,168 | 5,814 | 5,295 |
| EXPENDITURES | | | | | | | |
| General government | 7,250 | - | - | - | - | - | - |
| Public safety | - | - | - | 12 | 2,014 | 22,963 | - |
| Cultural and recreation | - | - | - | - | - | - | - |
| Capital outlay | - | 5,250 | - | - | - | - | - |
| Total Expenditures | 7,250 | 5,250 | - | 12 | 2,014 | 22,963 | - |
| Excess (deficiency) of revenues over expenditures | (7,249) | (5,150) | - | 1,689 | (846) | (17,149) | 5,295 |
| Other financing sources | | | | | | | |
| Transfers in | - | - | - | - | - | - | - |
| Transfers (out) | - | - | - | - | - | - | - |
| Excess (deficiency) of revenues and other financing sources over expenditures | (7,249) | (5,150) | - | 1,689 | (846) | (17,149) | 5,295 |
| Fund Balance, June 30, 2011 | 15,922 | 24,105 | 208,000 | 27,516 | 23,782 | 112,843 | 100,902 |
| Fund Balance, JUNE 30, 2012 | \$ 8,673 | \$ 18,955 | \$ 208,000 | \$ 29,205 | \$ 22,936 | \$ 95,694 | \$ 106,197 |

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, 2012

| | SPECIAL REVENUE FUNDS | | | | | | |
|---|----------------------------|-----------------------------------|-------------------------------------|------------------------|--------------------------------------|-------------------|-------------------------------|
| | COPS Hiring Recovery | Healthcare Foundation Grant | Wylie Park Trails Improvement | Water Works Fund | Justice Assistance Grant (JAG) | Wellness Grant | Gang Investigator Grant |
| REVENUES | | | | | | | |
| Intergovernmental: | | | | | | | |
| Federal sources | \$ 37,798 | \$ - | \$ - | \$ - | \$ 10,449 | \$ - | \$ 44,051 |
| State sources | - | - | - | - | - | - | - |
| Local sources | - | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - |
| Investment earnings | - | - | - | 74 | - | - | - |
| Drug forfeitures | - | - | - | - | - | - | - |
| Total Revenues | 37,798 | - | - | 74 | 10,449 | - | 44,051 |
| EXPENDITURES | | | | | | | |
| General government | - | - | - | - | - | - | - |
| Public safety | 37,798 | - | - | - | 8,392 | - | 44,051 |
| Cultural and recreation | - | 50 | - | - | - | 704 | - |
| Capital outlay | - | - | - | - | - | - | - |
| Total Expenditures | 37,798 | 50 | - | - | 8,392 | 704 | 44,051 |
| Excess (deficiency) of revenues over expenditures | - | (50) | - | 74 | 2,057 | (704) | - |
| Other financing sources | | | | | | | |
| Transfers in | - | - | - | - | - | - | - |
| Transfers (out) | - | - | - | - | - | - | - |
| Excess (deficiency) of revenues and other financing sources over expenditures | - | (50) | - | 74 | 2,057 | (704) | - |
| Fund Balance, June 30, 2011 | - | 95 | 20 | 25,406 | - | 1,528 | - |
| Fund Balance, JUNE 30, 2012 | \$ - | \$ 45 | \$ 20 | \$ 25,480 | \$ 2,057 | \$ 824 | \$ - |

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, 2012

| | SPECIAL REVENUE FUNDS | | | | CAPITAL PROJECTS FUNDS | | | |
|---|-----------------------|------------------------|--------------------------|--------------------------|----------------------------------|-------------------------------|------------|--|
| | Victim Advocate | Police Benevolent Fund | Artisan & Farmers Market | Capital Improvement Fund | East Chester Village Renaissance | Pinckney Street Water Upgrade | Totals | |
| | | | | | | | | |
| REVENUES | | | | | | | | |
| Intergovernmental: | | | | | | | | |
| Federal sources | \$ - | \$ - | \$ 74,322 | \$ - | \$ 17,656 | \$ 340,418 | \$ 524,694 | |
| State sources | - | - | - | - | - | - | - | |
| Local sources | 237 | 8 | - | 21,064 | - | 124,400 | 153,020 | |
| Charges for services | 15,789 | - | - | - | - | - | 15,789 | |
| Investment earnings | 1 | - | - | 1 | - | - | 5,677 | |
| Drug forfeitures | - | - | - | - | - | - | 1,167 | |
| Total Revenues | 16,027 | 8 | 74,322 | 21,065 | 17,656 | 464,818 | 700,347 | |
| EXPENDITURES | | | | | | | | |
| General government | - | - | - | - | - | - | 7,250 | |
| Public safety | 17,668 | - | - | - | - | - | 132,898 | |
| Cultural and recreation | - | - | 1,445 | - | - | - | 2,199 | |
| Capital outlay | - | - | 89,597 | 26,864 | 23,069 | 464,819 | 609,599 | |
| Total Expenditures | 17,668 | - | 91,042 | 26,864 | 23,069 | 464,819 | 751,946 | |
| Excess (deficiency) of revenues over expenditures | (1,641) | 8 | (16,720) | (5,799) | (5,413) | (1) | (51,599) | |
| Other financing sources | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | |
| Transfers (out) | - | - | - | - | - | - | - | |
| Excess (deficiency) of revenues and other financing sources over expenditures | (1,641) | 8 | (16,720) | (5,799) | (5,413) | (1) | (51,599) | |
| Fund Balance, June 30, 2011 | 12,774 | 198 | (5,204) | 103,828 | 5,513 | 5,090 | 662,318 | |
| Fund Balance, JUNE 30, 2012 | \$ 11,133 | \$ 206 | \$ (21,924) | \$ 98,029 | \$ 100 | \$ 5,089 | \$ 610,719 | |

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Debt Service</u> |
|---|----------------------------------|
| REVENUES | |
| Intergovernmental: | |
| Investment earnings | \$ 3 |
| Total Revenues | <u>3</u> |
| EXPENDITURES | |
| Capital outlay | 79,842 |
| Principal and interest | <u>66,222</u> |
| Total Expenditures | <u>146,064</u> |
| Excess (deficiency) of revenues over expenditures | (146,061) |
| Other financing sources | |
| Bond proceeds | 87,500 |
| Transfers (out) | <u>(21,278)</u> |
| | <u>66,222</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures | (79,839) |
| Fund Balance, June 30, 2011 | <u>79,839</u> |
| Fund Balance, JUNE 30, 2012 | <u><u>\$ -</u></u> |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---------------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| <u>Tax Sale Escrow Fund</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 47,791 | \$ 40,693 | \$ 66,419 | \$ 22,065 |
| Total Assets | <u>\$ 47,791</u> | <u>\$ 40,693</u> | <u>\$ 66,419</u> | <u>\$ 22,065</u> |
| LIABILITIES | | | | |
| Funds held in trust for others | \$ 47,791 | \$ 40,693 | \$ 66,419 | \$ 22,065 |
| Total Liabilities | <u>\$ 47,791</u> | <u>\$ 40,693</u> | <u>\$ 66,419</u> | <u>\$ 22,065</u> |
| <u>Fireman's Fund</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 13,757 | \$ 33,515 | \$ 27,599 | \$ 19,673 |
| Total Assets | <u>\$ 13,757</u> | <u>\$ 33,515</u> | <u>\$ 27,599</u> | <u>\$ 19,673</u> |
| LIABILITIES | | | | |
| Funds held in trust for others | \$ 13,757 | \$ 33,515 | \$ 27,599 | \$ 19,673 |
| Total Liabilities | <u>\$ 13,757</u> | <u>\$ 33,515</u> | <u>\$ 27,599</u> | <u>\$ 19,673</u> |
| <u>Police Fines Escrow</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 70,382 | \$ 244,554 | \$ 243,754 | \$ 71,182 |
| Total Assets | <u>\$ 70,382</u> | <u>\$ 244,554</u> | <u>\$ 243,754</u> | <u>\$ 71,182</u> |
| LIABILITIES | | | | |
| Due to City of Chester | \$ 72,966 | \$ - | \$ 17,400 | \$ 55,566 |
| Due to SC State | - | - | - | - |
| Due to others | 2,667 | 22,640 | 2,667 | 22,640 |
| Funds held in trust for others | <u>(5,251)</u> | <u>221,914</u> | <u>223,687</u> | <u>(7,024)</u> |
| Total Liabilities | <u>\$ 70,382</u> | <u>\$ 244,554</u> | <u>\$ 243,754</u> | <u>\$ 71,182</u> |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2012</u> |
|---|---------------------------------|-------------------|-------------------|----------------------------------|
| <u>Totals - All Agency Funds</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 131,930 | \$ 318,762 | \$ 337,772 | \$ 112,920 |
| Total Assets | <u>\$ 131,930</u> | <u>\$ 318,762</u> | <u>\$ 337,772</u> | <u>\$ 112,920</u> |
| LIABILITIES | | | | |
| Due to City of Chester | \$ 72,966 | \$ - | \$ 17,400 | \$ 55,566 |
| Due to SC State | - | - | - | - |
| Due to others | 2,667 | 22,640 | 2,667 | 22,640 |
| Funds held in trust for others | <u>56,297</u> | <u>296,122</u> | <u>317,705</u> | <u>34,714</u> |
| Total Liabilities | <u>\$ 131,930</u> | <u>\$ 318,762</u> | <u>\$ 337,772</u> | <u>\$ 112,920</u> |

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---|---------------------------------|-------------------|-------------------|----------------------------------|
| <u>Evergreen Cemetery Trust Fund</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 176,437 | \$ 1,767 | \$ 2,000 | \$ 176,204 |
| Due from (to) City of Chester | - | - | - | - |
| Total Assets | <u>\$ 176,437</u> | <u>\$ 1,767</u> | <u>\$ 2,000</u> | <u>\$ 176,204</u> |
| LIABILITIES | | | | |
| Funds held in trust for others | \$ 176,437 | \$ 1,767 | \$ 2,000 | \$ 176,204 |
| Total Liabilities | <u>\$ 176,437</u> | <u>\$ 1,767</u> | <u>\$ 2,000</u> | <u>\$ 176,204</u> |
| <u>Healthcare Trust Fund</u> | | | | |
| ASSETS | | | | |
| Cash | \$ - | \$ 691,984 | \$ 542,796 | \$ 149,188 |
| Due from (to) City of Chester | - | - | - | - |
| Total Assets | <u>\$ -</u> | <u>\$ 691,984</u> | <u>\$ 542,796</u> | <u>\$ 149,188</u> |
| LIABILITIES | | | | |
| Funds held in trust for others | \$ - | \$ 691,984 | \$ 542,796 | \$ 149,188 |
| Total Liabilities | <u>\$ -</u> | <u>\$ 691,984</u> | <u>\$ 542,796</u> | <u>\$ 149,188</u> |
| <u>Totals - All Trust Funds</u> | | | | |
| ASSETS | | | | |
| Cash | \$ 176,437 | \$ 693,751 | \$ 544,796 | \$ 325,392 |
| Due from (to) City of Chester | - | - | - | - |
| Total Assets | <u>\$ 176,437</u> | <u>\$ 693,751</u> | <u>\$ 544,796</u> | <u>\$ 325,392</u> |
| LIABILITIES | | | | |
| Funds held in trust for others | \$ 176,437 | \$ 693,751 | \$ 544,796 | \$ 325,392 |
| Total Liabilities | <u>\$ 176,437</u> | <u>\$ 693,751</u> | <u>\$ 544,796</u> | <u>\$ 325,392</u> |

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2012

COURT FINES

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

COURT ASSESSMENTS

| | |
|------------------|--------------|
| Collected | 75,991 |
| Retained by City | 9,482 |
| | <hr/> 85,473 |

COURT SURCHARGES

| | |
|------------------|--------------|
| Collected | 35,122 |
| Retained by City | 6,306 |
| | <hr/> 41,428 |

AMOUNT ALLOCATED TO VICTIM'S SERVICES

| | |
|--------------------------------------|------------------------------|
| Court Assessments | 9,483 |
| Court Surcharges | 6,306 |
| | <hr/> |
| Total allocated to Victim's Services | <hr/> \$ 15,789 <hr/> |

COMPLIANCE SECTION

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

| FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE | Federal CFDA Number | Grantor Number | Award Amount | Total Expenditures |
|---|------------------------------------|---------------------------|-------------------------|-------------------------------|
| U.S. Department of Justice | | | | |
| Passed through S.C. Department of Public Safety | | | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | 2009-RK-WX-0745 | 128,415 | 37,798 |
| Edward Byrne Memorial Justice Assistance Grant Program Clu | 16.738 | 2011-DJ-BX-2131 | 10,449 | 10,449 |
| Edward Byrne Memorial Justice Assistance Grant Program Clu | 16.738 | 1G11004 | 49,880 | <u>44,051</u> |
| | | | | 92,298 |
| U.S. Department of Agriculture | | | | |
| Passed through S.C. Department of Agriculture - Rural Development | | | | |
| Rural Business Enterprise Grant | 10.769 | | 125,000 | 74,322 |
| U.S. Department of Housing and Urban Development | | | | |
| Passed through S.C. Department of Commerce | | | | |
| Community Development Block Grants/State's Program | 14.228 | 4-CI-10-005 | 500,000 | 340,418 |
| Community Development Block Grants/State's Program | 14.228 | 4-V-10-005 | 25,000 | <u>17,656</u> |
| | | | | <u>358,074</u> |
| Total Expenditures of Federal Awards | | | | \$ <u>524,694</u> |

CITY OF CHESTER, SOUTH CAROLINA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

NOTE 1. DESCRIPTION

City of Chester, South Carolina has adopted the Federal Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, (revised July 1998) whereby the Single Audit Act of 1984 (with amendment in 2004) was adopted to fulfill the financial and compliance audit requirements of federal grantor agencies. For purposes of implementing OMB Circular A-133, Federal grant awards were made susceptible to audit and are included in the Schedule of Expenditures of Federal Awards.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial activity shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the City during its fiscal year July 1, 2011 through June 30, 2012, and accordingly, does not include a full year's financial activity for grants awarded or terminated on dates not coinciding with the fiscal year.

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

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S.C. ASSOCIATION
OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Chester, South Carolina as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 3, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Chester, South Carolina, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Chester, South Carolina's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinions on the financial statements but not to express an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Chester's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described previously and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding #12-1 to be a material weakness.

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.

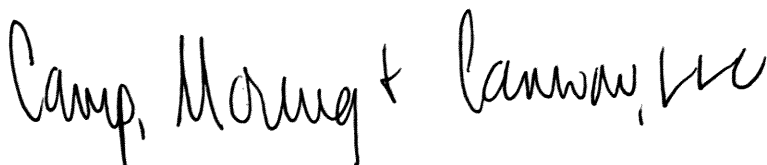
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chester, South Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding #12-1.

We noted certain other matters that we reported to management of the City in a separate letter dated January 3, 2013.

The City's response to the finding identified in our audit is described in the accompanying management's response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the City, City Council of City of Chester, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Columbia, South Carolina
January 3, 2013

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

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MEMBERS:
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S.C. ASSOCIATION
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Chester (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Chester's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclose one instance of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding #12-1.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The City's response to the finding identified in our audit is described in the accompanying management's response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Camp, Moring & Ranney, LLC

Columbia, South Carolina
January 3, 2012

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Summary of Auditors' Results:

1. The audit report issued on the financial statements was unqualified.
2. The audit disclosed one significant deficiency in internal control related to the financial statements which was reported in the report on compliance and other matters and on internal control over financial reporting required by *Government Auditing Standards*.
3. One instance of noncompliance material to the financial statements was disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal award programs was reported in the report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 was unqualified.
6. The audit disclosed one audit finding specifically related to major programs.
7. The City's major programs are:
 - a. Community Development Block Grant – East Chester Village Renaissance Phase I Plan (14.228)
 - b. Community Development Block Grant – Pinckney Street Water Upgrade (14.228)
8. \$300,000 was used as the threshold amount to distinguish between Type A and Type B programs.
9. City of Chester did qualify as a low risk auditee.

Generally Accepted Governmental Auditing Standards Findings and Questioned Costs:

Finding #12-1: Failure to Record Federal Grants in City's Financial Statements

Condition: During the audit, it was discovered that two Federal grants from the Department of Commerce were not recorded in the City's financial statements. The Pinckney Street Water Upgrade grant for \$500,000 and the East Chester Village Renaissance Phase I grant for \$25,000 were properly maintained by the Catawba Regional Council of Government. However, the grants were awarded to the City of Chester. Therefore, all the revenue and expenditure transactions should be reflected in the City's financial statements.

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

Cause: The Catawba Regional Council of Government was contracted to administer the Pinckney Street Water Upgrade and East Chester Village Renaissance Phase I grants. Therefore, the Catawba Regional COG maintained the accounting records for each grant and the City failed to record the information in their financial statements. However, the grants should have been reflected in the City's financial statements as information was provided to them by the COG.

Recommendation: All of the City's revenue and expenditure transactions should be recorded in the financial statements in a timely manner to reflect accurate financial statements.

Federal Awards Findings and Questioned Costs:

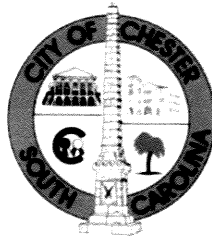
Finding #12-1: Failure to Record Federal Grants in City's Financial Statements

Same as above.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2012, we investigated the disposition of the findings for the year ended June 30, 2011. We determined that corrective action had been taken for each finding as follows:

There were no prior year findings and questioned costs.



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MANAGEMENT'S RESPONSE

City of Chester understands and agrees with the following audit findings for the year ended June 30, 2012:

Finding #12-1: Failure to Record Federal Grants in City's Financial Statements

Condition: During the audit, it was discovered that two Federal grants from the Department of Commerce were not recorded in the City's financial statements. The Pinckney Street Water Upgrade grant for \$500,000 and the East Chester Village Renaissance Phase I grant for \$25,000 were properly maintained by the Catawba Regional Council of Government. However, the grants were awarded to the City of Chester. Therefore, all the revenue and expenditure transactions should be reflected in the City's financial statements.

Corrective Action Taken: The City will continue to have the Catawba Regional Council of Government handle the financial activities of the Department of Commerce grants. However, in the future, any financial information provided to the finance director will be recorded in the City's financial statements in a timely manner to ensure complete financial statements.

Sincerely,

Mayor Stringfellow