

CITY OF CHESTER, SOUTH CAROLINA

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

For the Year Ended June 30, 2016

CITY OF CHESTER, SOUTH CAROLINA

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June 30, 2016

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CITY OF CHESTER, SOUTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Chester, South Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Basis for Disclaimer of Opinion

As disclosed in Note 17 to the financial statements, we were unable to reconcile the monthly reports of the Police Fines Escrow Agency Fund to the bank account during the June 30, 2016 fiscal year. Therefore, sufficient appropriate audit evidence could not be obtained relating to the cash and revenue balances in this fund as well as the supplementary information schedule of municipal court fees and fines. We were not able to satisfy ourselves by other auditing procedures either.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison on page 28, funding progress information on 29, and net pension liability information on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained of the basic financial statements we were engaged to audit. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

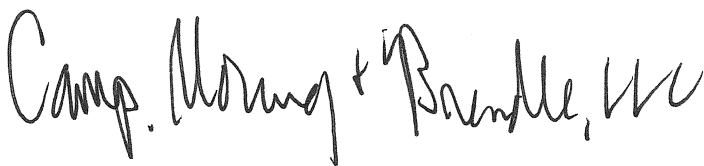
Other Information

We were engaged to conduct an audit for the purpose of forming opinions on the financial statements that collectively comprise the City of Chester, South Carolina's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We were unable to apply certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America as described in Note 17 to the financial statements. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, on our consideration of the City Chester, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Chester, South Carolina's internal control over financial reporting and compliance.



Columbia, South Carolina
November 8, 2017

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,316,995
Receivables (net of allowance for uncollectibles):	
Property taxes	524,675
Intergovernmental	416,248
Other	127,204
Notes receivable, net	224,080
Due from fiduciary funds	22,439
Prepaid expenses	-
Capital lease receivable	69,941
Capital assets:	
Land	36,000
Buildings and improvements	2,212,548
Improvements, other than buildings	1,664,009
Infrastructure - sidewalks	224,094
Machinery and equipment	3,527,415
Construction in progress	1,042,425
Accumulated depreciation	(4,468,657)
Total Assets	<u>6,939,416</u>
Deferred Outflow of Resources	
Deferred charges on pension amounts	479,642
LIABILITIES	
Accounts payable	457,741
Accrued expenses	80,264
Deferred revenue	340,128
Due to Fire District	285,132
Other post employment benefits	411,669
Net pension liability	4,867,348
Noncurrent liabilities:	
Due within one year	91,193
Due after one year	265,995
Total Liabilities	<u>6,799,470</u>
Deferred Inflow of Resources	
Deferred charges on pension amounts	153,989
NET POSITION	
Invested in capital assets - net of related debt	3,925,741
Restricted for general government	209,552
Unrestricted	(3,669,694)
Total Net Position	<u>\$ 465,599</u>

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

CITY OF CHESTER, SOUTH CAROLINA
RECONCILIATION OF TOTAL
GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2016

Total fund balances - governmental funds, June 30, 2016	\$ 1,264,316
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	8,706,491
Accumulated depreciation	(4,468,657)
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	274,000
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	(133,935)
Lease financing	(178,158)
Other post employment benefits	(411,669)
Net pension liability	(4,867,348)
Compensated absences	(45,095)
Deferred outflows and inflows of resources related to pensions are applicable to future period and, therefore, are not reported in the governmental funds balance sheet	
Deferred outflows of resources	479,642
Deferred inflows of resources	(153,989)
Total net position - governmental activities, June 30, 2016	\$ 465,598

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, 2016

	Program Revenues			Net Revenue (Expense) and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT					
Governmental Activities					
General government	\$ 1,283,436	\$ 15,604	\$ 497,511	\$ 50,000	\$ (720,321)
Public safety	3,726,615	1,788,293	6,050	-	(1,932,272)
Public works	892,774	500,528	-	-	(392,246)
Cultural and recreation	945,269	92,502	81,296	32,568	(738,903)
Interest and fiscal charges	163,688	-	-	-	(163,688)
Total Governmental	<u>7,011,782</u>	<u>2,396,927</u>	<u>584,857</u>	<u>82,568</u>	<u>(3,947,430)</u>
Business-Type Activities					
None	-	-	-	-	-
Total Primary Government	<u>\$ 7,011,782</u>	<u>\$ 2,396,927</u>	<u>\$ 584,857</u>	<u>\$ 82,568</u>	<u>(3,947,430)</u>
			General Revenues		
			Property taxes levied for:		
			General purposes		1,389,705
			Accommodations tax		21,546
			Interest/investment income		85,488
			Intergovernmental		1,194,241
			Franchise fees		324,568
			Business licenses		689,318
			Tax anticipation note		150,024
			Contributed capital		821,065
			Transfer to trust fund		60,000
			Total general revenues		<u>4,735,955</u>
			Changes in net position		788,525
			Net Position, beginning		(301,991)
			Prior Period Adjustments		(20,935)
			Net Position, beginning, restated		(322,926)
			Net Position, ending		<u>\$ 465,599</u>

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, 2016

Change in fund balances - governmental funds, JUNE 30, 2016	\$	(339,185)
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Amounts reported for governmental activities in
the statement of activities are different because:

Governmental funds report capital outlay as expenditures.

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

1,118,583

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

(285,003)

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

Issuance of new long-term debt		(52,811)
Principal payments on long-term debt		94,104
Compensated absences		45,156
Other post employment benefits		-

Pension contributions are reported in the City's governmental funds as expenditures. However, the government-wide statement of activities reports the cost of pension benefits earned net of employee contributions as pension expense.

Pension contributions		340,458
Cost of benefits earned net of employee contributions		(361,424)

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.

228,647

Change in net position - governmental activities, JUNE 30, 2016	\$	788,525
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See independent auditors' report and the accompanying notes to the financial statements.

CITY OF CHESTER, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,017,573	\$ 299,425	\$ -	\$ 1,316,998
Receivables (net of allowance for uncollectibles):				
Taxes	250,676	-	-	250,676
Intergovernmental	329,355	-	-	329,355
Other	138,816	75,281	-	214,097
Notes receivable, net	-	224,080	-	224,080
Due from other funds	415,723	27,590	-	443,313
Capital lease receivable	69,941	-	-	69,941
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,222,084</u>	<u>\$ 626,376</u>	<u>\$ -</u>	<u>\$ 2,848,460</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 457,741	\$ -	\$ -	\$ 457,741
Accrued expenses	80,264	-	-	80,264
Deferred revenue	340,128	-	-	340,128
Due to Fire District	285,132	-	-	285,132
Due to other funds	4,055	416,824	-	420,879
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,167,320</u>	<u>416,824</u>	<u>-</u>	<u>1,584,144</u>
FUND BALANCES				
Fund balances				
Restricted	-	209,552	-	209,552
Unassigned	1,054,764	-	-	1,054,764
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,054,764</u>	<u>209,552</u>	<u>-</u>	<u>1,264,316</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 2,222,084</u>	<u>\$ 626,376</u>	<u>\$ -</u>	<u>\$ 2,848,460</u>

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

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes - property	\$ 1,139,469	\$ -	\$ -	\$ 1,139,469
Licenses and permits	1,013,886	-	-	1,013,886
Federal grants	72,939	-	-	72,939
Intergovernmental	1,205,204	594,487	-	1,799,691
Charges for services	2,393,515	-	-	2,393,515
Investment earnings	89,843	6,229	-	96,072
Payments in lieu of taxes	21,580	-	-	21,580
Drug forfeitures	-	3,414	-	3,414
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	5,936,436	604,130	-	6,540,566
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES				
Current:				
General government	1,330,416	27	-	1,330,443
Public safety	3,619,123	85,658	-	3,704,781
Public works	860,701	-	-	860,701
Cultural and recreation	432,285	539,376	-	971,661
Capital outlay	-	839,572	-	839,572
Debt service	-	-	256,493	256,493
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	6,242,525	1,464,633	256,493	7,963,651
	<hr/>	<hr/>	<hr/>	<hr/>
Excess revenue over (under) expenditures	(306,089)	(860,503)	(256,493)	(1,423,085)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)				
Lease financing proceeds	-	-	52,835	52,835
Tax anticipation note	-	-	150,000	150,000
Contributed capital	-	821,065	-	821,065
Operating transfers in (out)	12,465	(6,123)	53,658	60,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	12,465	814,942	256,493	1,083,900
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(293,624)	(45,561)	-	(339,185)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, beginning of year	1,348,388	255,113	-	1,603,501
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, end of year	<u>\$ 1,054,764</u>	<u>\$ 209,552</u>	<u>\$ -</u>	<u>\$ 1,264,316</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, 2016

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 510,437	\$ 68,241
Due from/(to) City of Chester	<u>(10,588)</u>	<u>-</u>
Total Assets	<u><u>\$ 499,849</u></u>	<u><u>\$ 68,241</u></u>
LIABILITIES		
Due to City of Chester	\$ -	\$ 51,923
Due to others	-	12,438
Funds held in trust for others	<u>499,849</u>	<u>(7,965)</u>
Total Liabilities	<u><u>\$ 499,849</u></u>	<u><u>\$ 68,241</u></u>

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements

June 30, 2016

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, 2016

C. Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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

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

Proprietary fund types

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

Fiduciary fund types

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

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

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

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

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

D. Measurement Focus

Government-wide financial statements

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

Fund financial statements

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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

Fiduciary funds are reported using the economic measurement focus.

E. Basis of Accounting

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

Revenues – exchange and non-exchange transactions

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

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

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

Deferred revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2016 (all property owned by taxpayers are assessed as of December 31, 2015), but which were billed in October 2015 to finance fiscal year 2015-16 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, 2016

Expenses/expenditures

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

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

F. Assets, Liabilities and Equity

Cash and investments

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

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

Receivables and payables

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

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

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

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

Interfund receivables and payables

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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, 2016

Pensions

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

Deferred Outflows/Inflows of Resources

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

Fund balance

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

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

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

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

Net position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition construction or improvements of those assets. Restricted net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through restrictions imposed by creditors, grantors, laws, or regulations of other governments. Unrestricted net position represents net position not invested in capital assets or restricted.

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

G. Revenues, Expenditures and Expenses

Property taxes

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

Operating revenues and expenses

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

Expenditures/expenses

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

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

Governmental Funds – By Character:	Current (further classified by function)
	Debt service
	Capital outlay

Proprietary Fund – By Operating and Non-operating

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

Interfund transfers

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

Use of estimates

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

Subsequent events

The City evaluated all events and transactions that occurred after June 30, 2016 through the date these financial statements were available to be issued on November 8, 2017.

H. Stewardship, Compliance and Accountability

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Certain Special Revenue funds and Capital Projects funds are budgeted over the life of the grant or

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

project but are not formally approved by City Council. Therefore, Special Revenue and Capital Projects fund budget comparisons to actual expenditures are not presented herein.

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

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

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

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances reserved as of June 30, 2016.

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	\$ 28,949
• Police Department	\$ 199,768
• Fire Department	\$ 85,366
• Public Works	\$ 57,515
• Recreation Department	\$ 43,274

DETAILED NOTES ON ALL FUNDS

Note 2 - Cash and Investments

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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

The City's investments are invested pursuant to statutes established by the State of South Carolina. The statutes allow the City to invest City monies in the most prudent manner possible. At June 30, 2016, the City had investments of \$428,995. Of this amount, \$3,982 is collateralized with securities held by pledging financial institution's trust department or agent in the City's name. The remaining \$425,013 is held in the S.C. Local Government Investment Pool.

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

Custodial Credit Risk – Deposits - At year end, the carrying amount of the City's cash deposits (checking accounts, savings accounts and certificates of deposit), was \$880,000 and the bank balances were \$1,615,957. Of the bank balances, all was covered by federal depository insurance (FDIC). The bank balances are classified in three categories of credit risk. Category 1 includes deposits that are insured or collateralized with securities held by the City or by its agent in the City's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes deposits that are uncollateralized. All cash is in either Category 1 or 2; the City has no cash in Category 3.

Note 3- Capital Lease Receivable and Sewer Escrow

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

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

Note 4- Notes Receivable and Allowance for Doubtful Accounts

Notes receivable in the special revenue fund are composed of various loans made in prior years from Community Developments Block Grant funds. Four of the City's Rehabilitation Notes Receivable are doubtful as to whether they can be collected. The notes receivable in the special revenue fund is shown net of allowance at \$16,080.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2016 including penalties, are as follows:

Real property (2007 - 2016)	\$ 265,448
Less allowance for doubtful accounts	(14,772)
Total property taxes receivable - net of allowance for uncollectibles	<u>\$ 250,676</u>

Intergovernmental receivables at June 30, 2016 are as follows:

State of South Carolina for	
Local Option Sales Taxes	\$ 224,912
Accommodations Tax	20,462
MASC Brokers Tax	28,571
Chester County	
Delinquent taxes	3,391
Vehicle taxes	14,022
Payments in lieu of taxes	123
Chester Metropolitan District	36,658
Chester Fire District	1,216
Other receivables	-
Total intergovernmental receivables	<u>\$ 329,355</u>

Other receivables at June 30, 2016 are as follow:

General Fund

Police fines escrow account	\$ 51,923
SC MIT	27,606
Victim's Assistance	-
Franchise fees	59,287
	<u>138,816</u>

Special Revenue

Receivables	75,281
Total other receivables	<u>\$ 214,097</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	\$ 270,187
Received but not earned	-
Total deferred revenues related to property taxes	270,187
Deferred revenue - capital lease of sewage plant	69,941
Total deferred revenue	<u>\$ 340,128</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2016

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2016, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Purpose</u>
General Fund	\$ 415,723	\$ 4,055	
Special Revenue Fund - Fire Equipment Replacement	-	55,229	subsidize program
Special Revenue Fund - Sewer Escrow Fund	500	-	subsidize program
Special Revenue Fund - Wellness Grant	-	1,200	subsidize program
Special Revenue Fund - Hospitality Tax	-	23,467	subsidize program
Special Revenue Fund - Summer Foods Program	-	251,208	subsidize program
Special Revenue Fund - Artisan & Farmers Market	-	145,704	construction
Capital Projects Fund - Capital Improvements	83,519	-	construction
Capital Projects Fund - East Chester Village Renaissance (II)	3,555	-	construction
Agency Funds - Police Fines & Fees	-	11,846	subsidize program
Trust Funds - Evergreen Cemetery	-	10,588	subsidize program
Total Other Governmental Funds	<u>87,574</u>	<u>499,242</u>	
Totals	<u>\$ 503,297</u>	<u>\$ 503,297</u>	
	<u>Interfund Transfer Out</u>	<u>Interfund Transfer In</u>	
General Fund	\$ 70,706	\$ 83,171	
Special Revenue Fund - Fire Equipment Replacement	23,171	-	subsidize program
Special Revenue Fund - Sewer Escrow Fund	-	-	subsidize program
Special Revenue Fund - Artisan & Farmers Market	-	-	subsidize program
Capital Projects Fund - East Chester Village Renaissance (II)	-	17,048	local match
Debt Service Fund	-	53,658	transfer debt activity
Trust Funds - Healthcare Fund	60,000	-	subsidize program
	<u>\$ 153,877</u>	<u>\$ 153,877</u>	

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2016 is as follows:

	Balance 06/30/15	Additions	Retirements	Balance 06/30/16
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	221,360	821,065	-	1,042,425
Total capital assets, not being depreciated	257,360	821,065	-	1,078,425
Capital assets, being depreciated:				
Buildings	2,212,548	-	-	2,212,548
Improvements other than buildings	1,607,233	56,776	-	1,664,009
Infrastructure	224,094	-	-	224,094
Machinery and equipment	3,522,758	240,742	236,085	3,527,415
Total capital assets, being depreciated	7,566,633	297,518	236,085	7,628,066
Less accumulated depreciation for:				
Buildings	1,165,608	48,699	-	1,214,307
Improvements other than buildings	322,366	53,384	-	375,750
Infrastructure	37,136	7,470	-	44,606
Machinery and equipment	2,894,629	175,450	236,085	2,833,994
Total accumulated depreciation	4,419,739	285,003	236,085	4,468,657
Total capital assets, being depreciated, net	3,146,894	12,515	-	3,159,409
Governmental activities capital assets, net	<u>\$ 3,404,254</u>	<u>\$ 833,580</u>	<u>\$ -</u>	<u>\$ 4,237,834</u>

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

Governmental Activities:	
General government	\$ 103,212
Public safety	145,409
Public works	35,295
Culture and recreation	1,087
	<u>\$ 285,003</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2016

Note 8 - Long-Term Debt

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

Activity for the fiscal year is as follows:

	Balance 06/30/15	Increase	Decrease	Balance 06/30/16
General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest (3.34%), due April 2019.	\$ 175,666	\$ -	\$ 41,731	\$ 133,935
Lease purchase. Due in quarterly payments of \$6,060, principal and interest (3.56%), due August 2015.	5,561	-	5,561	-
Lease purchase. Due in quarterly payments of \$7,662, principal and interest (1.32%), due August 2015.	7,655	-	7,655	-
Lease purchase. Due in annual payments of \$38,502, principal and interest (1.64%), due September 2018.	164,504	20,486	36,076	148,914
Lease purchase. Due in annual payments of \$3,428, principal and interest (2.17%), due August 2020.	-	32,325	3,081	29,244
Total general long-term debt	<u>\$ 353,386</u>	<u>\$ 52,811</u>	<u>\$ 94,104</u>	<u>\$ 312,093</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>
2017	\$ 86,048	\$ 6,902	\$ 92,950
2018	88,227	4,723	92,950
2019	127,753	2,484	130,237
2020	6,674	182	6,856
2021	3,391	37	3,428
	<u>\$ 312,093</u>	<u>\$ 14,328</u>	<u>\$ 326,421</u>

	Balance 06/30/15	Increase	Decrease	Balance 06/30/16
Accrued compensated absences	\$ 90,251	\$ -	\$ 45,156	\$ 45,095
Total general long-term debt	<u>\$ 90,251</u>	<u>\$ -</u>	<u>\$ 45,156</u>	<u>\$ 45,095</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	39,950	39,950
	<u>\$ 45,095</u>	<u>\$ 45,095</u>

There was interest expense of \$8,888 for the year related to long-term debt.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

Note 9 - Employee Pension Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
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employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

The following table presents the required contributions (including group life insurance) to the SCRS and PORS by the City for the years ended June 30, 2016, 2015 and 2014:

Year Ending June 30,		Covered Salaries	Employee Contribution	Employer Contribution	Total Contributions
	2016 Regular	\$ 939,829	\$ 76,690	\$ 103,945	\$ 180,635
	Police	1,791,831	156,606	246,198	402,804
	2015 Regular	885,590	70,847	95,201	166,048
	Police	1,750,294	218,047	227,713	445,760
	2014 Regular	892,215	66,916	94,575	161,491
	Police	1,768,626	138,660	227,092	365,752

SCRS and ORP - Employer contribution rates were 10.91%, 10.75% and 10.45% for the years ended June 30, 2016, 2015 and 2014, respectively. Employee contribution rates were 8.16%, 8.00% and 7.50% for the years ended June 30, 2016, 2015 and 2014, respectively.

PORS – Employer contribution rates were 13.34%, 13.01% and 12.84% for the years ended June 30, 2016, 2015 and 2014, respectively. Employee contribution rates were 8.74%, 8.41% and 7.84% for the years ended June 30, 2016, 2015 and 2014, respectively.

Net Pension Liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2015, for SCRS and PORS are presented below:

<u>System</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Employers' Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
SCRS	\$ 44,097,310,230	\$ 25,131,828,101	\$ 18,965,482,129	57.0%
PORS	\$ 6,151,321,222	\$ 3,971,824,383	\$ 2,179,496,384	64.6%

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$4,867,348 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportion was 0.009431% for SCRS and 0.14126% for PORS.

For the year ended June 30, 2016, the City recognized pension expense of \$331,064. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Liability experience	\$ 3,199	\$ 92,798
Investment experience	337,347	383,005
Change in proportion & difference between employer contribution & proportionate share of plan contributions	150,790	-
	<u>\$ 491,336</u>	<u>\$ 475,803</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	<u>SCRS</u>	<u>PORS</u>
2016	\$ (9,685)	\$ (15,694)
2017	(9,685)	(15,694)
2018	(20,601)	(18,389)
2019	25,650	48,566
Total	<u>\$ (14,321)</u>	<u>\$ (1,211)</u>

Actuarial Assumptions and Methods – Actuarial valuations involve estimates of the reported amount and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014 valuations for SCRS.

<u>Actuarial cost method</u>	<u>SCRS</u>	<u>PORS</u>
	<u>Entry age</u>	<u>Entry age</u>
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increase	3.5-12.5%	4.0-10.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	Lessor of 1% or \$500	Lessor of 1% or \$500

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

Long-Term Expected Rate of Return – The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the fourth quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return of each major asset class and were developed in coordination with the investment consultant for Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Short term	5.00%		
Cash	2.00%	1.90%	0.04%
Short duration	3.00%	2.00%	0.06%
Domestic fixed income	13.00%		
Core fixed income	7.00%	2.70%	0.19%
Mixed credit	6.00%	3.80%	0.23%
Global fixed income	9.00%		
Global fixed income	3.00%	2.80%	0.08%
Emerging Market Debt	6.00%	5.10%	0.31%
Global public equity	31.00%	7.10%	2.20%
Global tactical asset allocation	10.00%	4.90%	0.49%
Alternatives	32.00%		
Hedge funds (low beta)	8.00%	4.30%	0.34%
Private debt	7.00%	9.90%	0.69%
Private equity	9.00%	9.90%	0.89%
Real estate (broad market)	5.00%	6.00%	0.30%
Commodities	3.00%	5.90%	0.18%
Total Expected Rate of Return	100.00%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

Sensitivity Analysis - The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.5%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

		SCRS	PORS
		Proportionate	Proportionate
		Share of Net	Share of Net
	Discount	Pension	Pension
	Rate	Liability	Liability
1% decrease	6.50%	\$ 2,254,957	\$ 4,193,926
Current discount rate	7.50%	\$ 1,788,635	\$ 3,078,713
1% increase	8.50%	\$ 1,397,797	\$ 2,081,773

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

Note 10 – Post-Employment Benefits

The City policy is to provide postretirement health care benefits to all employees who are eligible to retire from the South Carolina Retirement System (SCRS) and who have 20 years of credited service with the City of Chester and who have at least 10 years of medical coverage with the South Carolina Local Government Assurance Group. Currently, there are 12 eligible participants receiving benefits. During the years ended June 30, 2016 and June 30, 2015, the City paid \$39,496 and \$62,119, 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 \$1,678,495 for the period July 1, 2015 through June 30, 2016.

Note 12 - Contingent Liability - Self Insured Unemployment Claims

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

Note 13 – Contingent Liability – Legal Claims

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

Note 14 – Risk Management

The City is exposed to various risks of loss and maintains insurance coverage for each of those risks (except unemployment claims as described in Note 12). The City pays insurance premiums to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the period in accordance with insurance policy and benefits program limits except for the deductibles.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
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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 position over time.

Plan Description

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

Calculation of Net OPEB Obligation

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

Interest on Net OPEB Obligation (NOO): An adjustment to the prior year financial statement's Net OPEB Obligation (NOO) to reflect interest on the obligation over the past year. It is calculated as (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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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

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.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

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.

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2016

Note 16 – Subsequent Events

As of the date these financial statements were available to be issued, subsequent events that provide evidence about conditions of the City that did not exist as of June 30, 2016 but arose after the year end (non-recognized subsequent events) occurred.

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

As a result of not meeting the annual South Carolina State law requirement that all municipalities submit a financial audit to the State Treasurer within thirteen months of the fiscal year end, the City has had its state payments withheld. The City's funding for fiscal year 2015 was withheld from August 2016 until the audit was issued in March 2017. As of July 2017, the City's funding has been withheld again and they have not received their Local Government Funds, Local Option Sales Tax and Accommodations payments.

As a result of funding being withheld, the City has cashed in five certificates of deposit totaling \$524,716.

October 31, 2016	\$ 28,004
November 28, 2016	101,630
December 16, 2016	132,378
December 16, 2016	129,981
October 12, 2017	<u>132,723</u>
	<u>\$ 524,716</u>

The City has also transferred \$250,000 from two of their Local Government Investment Pool accounts. \$150,000 was transferred August 24, 2016 and \$100,000 was transferred November 29, 2016. The \$100,000 transferred in November 2016 is due back to the LGIP account as a result of a City Ordinance requiring those funds to be held for future sewer repairs and/or replacements.

Note 17 – Police Fines Escrow Account

For the June 30, 2016 fiscal year, the monthly South Carolina State Treasurer's Revenue Remittance Forms could not be reconciled to the Police Fines and Fees Escrow bank account. Based on the monthly amounts collected from various police fines and fees reported by the Clerk of Court, a portion is remitted to the State Treasurer, a portion is remitted to the Victim Services of the City and a portion is retained by the City. After reconciling the information provided, several daily collections could not be traced to the bank's deposits. As a result, it cannot be determined whether the proper amounts have been distributed and the supplementary information to be reported on municipal court fees and fines cannot be accurately provided. Management and the Finance Committee are aware of the issue and have turned the matter over to the City's human resources attorney for further investigation.

Note 18 – Prior Period Adjustment

During the audit, a prior period adjustment of \$20,935 was made increasing the beginning net position as a result of reconciling the City and the Chester Fire District's account.

CITY OF CHESTER, SOUTH CAROLINA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes - property	\$ 1,260,921	\$ 1,260,921	\$ 1,139,469	\$ (121,452)
Licenses and permits	884,303	884,303	1,013,886	129,583
Grants	454,063	454,063	72,939	(381,124)
Intergovernmental	1,130,607	1,130,607	1,205,204	74,597
Charges for services	2,324,065	2,324,065	2,393,515	69,450
Investment earnings	49,800	49,800	89,843	40,043
Payments in lieu of taxes	63,807	63,807	21,580	(42,227)
Total Revenues	<u>6,167,566</u>	<u>6,167,566</u>	<u>5,936,436</u>	<u>(231,130)</u>
EXPENDITURES				
Current:				
General government	1,437,558	1,437,558	1,330,416	107,142
Public safety	3,333,989	3,333,989	3,619,123	(285,134)
Public works	803,186	803,186	860,701	(57,515)
Cultural and recreation	812,714	812,714	432,285	380,429
Capital outlay	-	-	-	-
Debt service	51,801	51,801	-	51,801
Total Expenditures	<u>6,439,248</u>	<u>6,439,248</u>	<u>6,242,525</u>	<u>196,723</u>
Excess revenue over (under) expenditures	(271,682)	(271,682)	(306,089)	(34,407)
OTHER FINANCING SOURCES (USES)				
Lease financing purchase	-	-	-	-
Operating transfers in (out)	(16,500)	(16,500)	12,465	(4,035)
Total Other Financing Sources (Uses)	<u>(16,500)</u>	<u>(16,500)</u>	<u>12,465</u>	<u>(4,035)</u>
Net change in fund balances	<u>\$ (255,182)</u>	<u>\$ (255,182)</u>	(293,624)	<u>\$ (38,442)</u>
Fund Balance, beginning of year			<u>1,348,388</u>	
Fund Balance, end of year			<u>\$ 1,054,764</u>	

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

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%
6/30/2013	-	1,963,677	1,963,677	0.00%	1,053,207	186.45%
6/30/2014	-	1,963,677	1,963,677	0.00%	1,053,207	186.45%

History of Net OPEB Obligation

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
6/30/2013	202,478	65,255	32.00%	137,223
6/30/2014	202,478	65,255	32.00%	137,223
				<u>\$ 411,669</u>

** There was no change for the year ending June 30, 2016. See Finding #16-2

CITY OF CHESTER, SOUTH CAROLINA

SCHEDULE OF CONTRIBUTIONS AND PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

June 30, 2016

	<u>2015</u>		<u>2016</u>	
	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>
Statutorily Required Contributions	\$ 95,201	\$ 227,713	\$ 103,945	\$ 246,198
Contributions in Relation to Statutorily Required Contributions	95,201	227,713	103,945	246,198
Contributions Excess/(Deficiency)	-	-	-	-
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831
Contributions as a Percentage of Covered Employee Payroll	10.75%	13.01%	11.06%	13.74%
City's Proportionate Share of Net Pension Liability (%)	0.009828%	0.147080%	0.009431%	0.141260%
City's Proportionate Share of Net Pension Liability	\$ 1,692,056	\$ 2,815,146	\$ 1,788,635	\$ 3,078,713
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831
City's Proportionate Share of Net Pension Liability as a Percentage of Its Covered Employee Payroll (%)	191.07%	160.84%	190.31%	171.82%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.90%	67.50%	57.00%	64.60%

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to Required Supplementary Information
June 30, 2016

NOTE 1 – VALUATION DATE

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

NOTE 2 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

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

NOTE 3 – CHANGES IN BENEFITS

No changes were noted for the current year ending.

NOTE 4 – CHANGES IN ASSUMPTIONS

No changes were noted for the current year ending.

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<u>REVENUES</u>				
TAXES:				
Property taxes - current	\$ 1,046,088	\$ 1,046,088	\$ 1,036,571	\$ (9,517)
Property taxes - delinquent	214,833	214,833	102,898	(111,935)
	<u>1,260,921</u>	<u>1,260,921</u>	<u>1,139,469</u>	<u>(121,452)</u>
LICENSES, FINES, FEES AND PERMITS:				
Business licenses	643,303	643,303	689,318	46,015
Franchise fees	241,000	241,000	324,568	83,568
	<u>884,303</u>	<u>884,303</u>	<u>1,013,886</u>	<u>129,583</u>
GRANTS:				
State grants	420,779	420,779	5,962	(414,817)
Federal grants	33,284	33,284	66,977	33,693
INTERGOVERNMENTAL:				
State shared revenues:				
Local government revenue	126,000	126,000	159,483	33,483
Local option sales tax	705,000	705,000	799,307	94,307
Homestead exemption	178,440	178,440	189,724	11,284
Accommodations tax	35,000	35,000	21,546	(13,454)
Merchant's inventory tax	34,567	34,567	34,567	-
Manufacturing depreciation tax	1,600	1,600	577	(1,023)
Hospitality tax	50,000	50,000	-	(50,000)
	<u>1,130,607</u>	<u>1,130,607</u>	<u>1,205,204</u>	<u>74,597</u>
CHARGES FOR SERVICES:				
Chester Fire District contract	1,678,492	1,678,492	1,762,463	83,971
Police fines and fees	86,500	86,500	22,417	(64,083)
Solid waste fees - commercial	-	-	-	-
Solid waste fees - residential	478,435	478,435	488,266	9,831
Public Works fees	5,850	5,850	12,263	6,413
Cemetery fees	12,463	12,463	15,604	3,141
Recreation Department fees	62,325	62,325	92,502	30,177
	<u>2,324,065</u>	<u>2,324,065</u>	<u>2,393,515</u>	<u>69,450</u>
INVESTMENT EARNINGS:				
Interest income	6,800	6,800	2,772	(4,028)
Lease income	5,000	5,000	5,000	-
Other income	38,000	38,000	82,071	44,071
	<u>49,800</u>	<u>49,800</u>	<u>89,843</u>	<u>40,043</u>
PAYMENTS IN LIEU OF TAXES:				
Payments in lieu of taxes	63,807	63,807	21,580	(42,227)
TOTAL REVENUES	<u>\$ 6,167,566</u>	<u>\$ 6,167,566</u>	<u>\$ 5,936,436</u>	<u>\$ (231,130)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT:				
CITY COUNCIL				
Salaries	\$ 51,700	\$ 51,700	\$ 51,358	\$ 342
Payroll taxes	3,955	3,955	3,759	196
Retirement	5,718	5,718	5,680	38
Employee insurance and benefits	36,305	36,305	41,477	(5,172)
Dues and subscriptions	-	-	-	-
Mayor's meeting expenses	1,500	1,500	695	805
Council conferences and travel	24,800	24,800	34,573	(9,773)
Tourism and accommodations	6,000	6,000	4,945	1,055
Supplies and materials	550	550	283	267
Municipal elections	4,150	4,150	4,128	22
Agency support expenses	10,350	10,350	7,556	2,794
Capital expenditures	80,874	80,874	100,397	(19,523)
	<u>225,902</u>	<u>225,902</u>	<u>254,851</u>	<u>(28,949)</u>
ADMINISTRATION				
Salaries	255,419	255,419	235,392	20,027
Payroll taxes	19,539	19,539	17,714	1,825
Retirement	29,527	29,527	24,857	4,670
Employee insurance and benefits	46,410	46,410	36,010	10,400
Supplies and materials	5,900	5,900	4,082	1,818
Uniforms	500	500	-	500
Postage	50	50	2,019	(1,969)
Travel and training	20,500	20,500	13,424	7,076
Dues and subscriptions	4,200	4,200	4,590	(390)
Auto repairs and maintenance	3,000	3,000	3,156	(156)
Advertising and printing	12,840	12,840	14,120	(1,280)
Utilities	160,000	160,000	177,727	(17,727)
Repairs and maintenance	56,309	56,309	54,814	1,495
Communications	17,000	17,000	19,094	(2,094)
General and miscellaneous	38,000	38,000	8,103	29,897
Contracted services	86,015	86,015	98,569	(12,554)
Insurance	2,500	2,500	8,665	(6,165)
Juror's fees	-	-	-	-
Bond retirement	47,600	47,600	1,299	46,301
	<u>805,309</u>	<u>805,309</u>	<u>723,635</u>	<u>81,674</u>
FINANCE				
Salaries	85,834	85,834	63,850	21,984
Payroll taxes	7,278	7,278	4,755	2,523
Retirement	10,522	10,522	6,483	4,039
Employee insurance and benefits	29,564	29,564	16,626	12,938
Supplies and materials	2,000	2,000	1,832	168
Postage	3,500	3,500	3,442	58
Travel and training	2,400	2,400	2,711	(311)

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Dues and subscriptions	200	200	27	173
Advertising and printing	9,800	9,800	10,086	(286)
Repairs and maintenance	22,408	22,408	22,055	353
Communications	480	480	200	280
General and miscellaneous	4,200	4,200	9,002	(4,802)
Contracted services	38,565	38,565	22,562	16,003
Insurance	1,200	1,200	11,601	(10,401)
	<u>217,951</u>	<u>217,951</u>	<u>175,232</u>	<u>42,719</u>
HUMAN RESOURCES				
Salaries	106,963	106,963	105,909	1,054
Payroll taxes	8,183	8,183	7,695	488
Retirement	11,830	11,830	11,203	627
Employee insurance and benefits	25,471	25,471	23,292	2,179
Supplies and materials	2,500	2,500	1,554	946
Postage	-	-	-	-
Travel and training	6,800	6,800	3,944	2,856
Printing	6,860	6,860	4,157	2,703
Municipal expense	-	-	-	-
Dues and subscriptions	800	800	837	(37)
Repairs and maintenance	6,908	6,908	6,627	281
Contracted services	11,261	11,261	10,699	562
Communications	820	820	781	39
	<u>188,396</u>	<u>188,396</u>	<u>176,698</u>	<u>11,698</u>
Total General Government	<u>1,437,558</u>	<u>1,437,558</u>	<u>1,330,416</u>	<u>107,142</u>
PUBLIC SAFETY:				
POLICE DEPARTMENT				
Salaries	873,829	873,829	914,596	(40,767)
Payroll taxes	79,283	79,283	67,879	11,404
Retirement	121,065	121,065	119,997	1,068
Employee insurance and benefits	299,268	299,268	240,441	58,827
Supplies and materials	67,500	67,500	58,964	8,536
Postage	-	-	7	(7)
Travel and training.	9,650	9,650	9,273	377
Dues and subscriptions	500	500	327	173
Auto repairs and maintenance	38,000	38,000	37,483	517
Advertising and printing	19,200	19,200	17,777	1,423
Utilities	6,750	6,750	6,948	(198)
Repairs and maintenance	11,408	11,408	21,514	(10,106)
Communications	36,200	36,200	37,068	(868)
General and miscellaneous	5,200	5,200	4,005	1,195
Uniforms	15,000	15,000	14,196	804
Contracted services	109,201	109,201	107,911	1,290
Insurance	28,000	28,000	47,469	(19,469)
Capital expenditures	-	-	213,967	(213,967)
	<u>1,720,054</u>	<u>1,720,054</u>	<u>1,919,822</u>	<u>(199,768)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
FIRE DEPARTMENT				
Salaries	949,000	949,000	994,871	(45,871)
Payroll taxes	71,835	71,835	73,213	(1,378)
Retirement	129,000	129,000	130,142	(1,142)
Employee insurance and benefits	264,000	264,000	275,197	(11,197)
Supplies and materials	7,000	7,000	5,837	1,163
Postage	350	350	122	228
Travel and training	31,900	31,900	21,390	10,510
Dues and subscriptions	2,900	2,900	2,625	275
Auto repairs and maintenance	-	-	-	-
Advertising and printing	6,500	6,500	4,648	1,852
Utilities	26,500	26,500	29,417	(2,917)
Repairs and maintenance	14,250	14,250	28,034	(13,784)
Communications	13,400	13,400	10,540	2,860
General and miscellaneous	1,000	1,000	432	568
Uniforms	28,000	28,000	30,419	(2,419)
Contracted services	45,300	45,300	47,200	(1,900)
Insurance	23,000	23,000	45,214	(22,214)
	<u>1,613,935</u>	<u>1,613,935</u>	<u>1,699,301</u>	<u>(85,366)</u>
Total Public Safety	<u>3,333,989</u>	<u>3,333,989</u>	<u>3,619,123</u>	<u>(285,134)</u>
PUBLIC WORKS:				
PUBLIC WORKS - COMMERCIAL				
Salaries	343,200	343,200	352,219	(9,019)
Payroll taxes	26,315	26,315	26,057	258
Retirement	39,382	39,382	37,544	1,838
Employee insurance and benefits	118,900	118,900	151,606	(32,706)
Supplies and materials	23,500	23,500	20,721	2,779
Postage	-	-	-	-
Travel and training	2,250	2,250	1,451	799
Dues and subscriptions	500	500	277	223
Auto repairs and maintenance	38,000	38,000	39,124	(1,124)
Advertising and printing	500	500	492	8
Utilities	7,450	7,450	5,263	2,187
Repairs and maintenance	6,108	6,108	1,488	4,620
Communications	3,800	3,800	2,806	994
Contracted services	60,281	60,281	65,206	(4,925)
Insurance	15,000	15,000	24,381	(9,381)
Solid waste - yard	36,000	36,000	49,535	(13,535)
Solid waste - commercial	82,000	82,000	82,531	(531)
	<u>803,186</u>	<u>803,186</u>	<u>860,701</u>	<u>(57,515)</u>
Total Public Works	<u>803,186</u>	<u>803,186</u>	<u>860,701</u>	<u>(57,515)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<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	148,480	148,480	136,677	11,803
Payroll taxes	10,976	10,976	10,446	530
Retirement	8,285	8,285	1,868	6,417
Employee insurance and benefits	21,769	21,769	20,158	1,611
Supplies and materials	11,650	11,650	24,513	(12,863)
Postage	100	100	81	19
Travel and training	1,250	1,250	741	509
Dues and subscriptions	500	500	377	123
Auto repairs and maintenance	3,750	3,750	1,729	2,021
Advertising and printing	4,200	4,200	4,408	(208)
Utilities	33,600	33,600	34,714	(1,114)
Repairs and maintenance	64,358	64,358	79,970	(15,612)
Communications	4,700	4,700	4,232	468
General and miscellaneous	-	-	-	-
Uniforms	750	750	327	423
Contracted services	7,873	7,873	8,032	(159)
Insurance	1,100	1,100	2,455	(1,355)
Minor equipment	26,000	26,000	25,497	503
Programs and services	39,670	39,670	76,060	(36,390)
Grant match	-	-	-	-
	<u>389,011</u>	<u>389,011</u>	<u>432,285</u>	<u>(43,274)</u>
SUMMER FOOD PROGRAM				
Salaries	83,340	83,340	-	83,340
Payroll taxes	11,092	11,092	-	11,092
Contract services	2,765	2,765	-	2,765
Insurance	1,200	1,200	-	1,200
Supplies and materials	316,806	316,806	-	316,806
Travel and training	8,500	8,500	-	8,500
	<u>423,703</u>	<u>423,703</u>	<u>-</u>	<u>423,703</u>
Total Culture and Recreation	812,714	812,714	432,285	380,429
DEBT SERVICE				
Debt service	51,801	51,801	-	51,801
OTHER FINANCING (SOURCES) USES				
Transfer in (out)	<u>(16,500)</u>	<u>(16,500)</u>	<u>(12,465)</u>	<u>(4,035)</u>
Total Other Financing (Sources) Uses	<u>(16,500)</u>	<u>(16,500)</u>	<u>(12,465)</u>	<u>(4,035)</u>
TOTAL EXPENDITURES	<u>\$ 6,422,748</u>	<u>\$ 6,422,748</u>	<u>\$ 6,230,060</u>	<u>\$ 192,688</u>
EXCESS EXPENDITURES OVER REVENUES				
	<u>\$ (255,182)</u>	<u>\$ (255,182)</u>	<u>\$ (293,624)</u>	<u>\$ (38,442)</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

SPECIAL REVENUE FUNDS									
	Special Projects	Community Development	McAliley Project	Drug Fund	Fire Equipment Replacement	Sewer Escrow	Water Works Fund	Wellness Grant	
ASSETS									
Cash	\$ -	\$ -	\$ -	\$ 8,497	\$ 78,560	\$ 114,532	\$ 25,786	\$ -	
Receivable - other	200	-	-	-	-	-	-	-	
Notes receivable, net	-	16,080	208,000	-	-	-	-	-	
Due from other funds	-	-	-	-	(55,229)	500	-	(1,200)	
Total Assets	<u>\$ 200</u>	<u>\$ 16,080</u>	<u>\$ 208,000</u>	<u>\$ 8,497</u>	<u>\$ 23,331</u>	<u>\$ 115,032</u>	<u>\$ 25,786</u>	<u>\$ (1,200)</u>	
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Due to other funds	-	-	-	-	-	-	-	-	
Fund balance	200	16,080	208,000	8,497	23,331	115,032	25,786	(1,200)	
Total Liabilities and Fund Balance	<u>\$ 200</u>	<u>\$ 16,080</u>	<u>\$ 208,000</u>	<u>\$ 8,497</u>	<u>\$ 23,331</u>	<u>\$ 115,032</u>	<u>\$ 25,786</u>	<u>\$ (1,200)</u>	

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS				Totals
	Hospitality Tax	Summer Foods Program	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	1% Sales & Use Tax	Other Capital Projects Funds	
ASSETS								
Cash	\$ 68,700	\$ -	\$ 460	\$ 1,963	\$ 738	\$ -	\$ 189	\$ 299,425
Receivable - other	12,572	62,500	-	-	9	-	-	75,281
Notes receivable, net	-	-	-	-	-	-	-	224,080
Due from other funds	-	-	-	83,519	-	-	-	27,590
Total Assets	<u>\$ 81,272</u>	<u>\$ 62,500</u>	<u>\$ 460</u>	<u>\$ 85,482</u>	<u>\$ 747</u>	<u>\$ -</u>	<u>\$ 189</u>	<u>\$ 626,376</u>
LIABILITIES AND FUND BALANCE								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	23,467	251,208	145,704	-	(3,555)	-	-	416,824
Fund balance	57,805	(188,708)	(145,244)	85,482	4,302	-	189	209,552
Total Liabilities and Fund Balance	<u>\$ 81,272</u>	<u>\$ 62,500</u>	<u>\$ 460</u>	<u>\$ 85,482</u>	<u>\$ 747</u>	<u>\$ -</u>	<u>\$ 189</u>	<u>\$ 626,376</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

		SPECIAL REVENUE FUNDS						
	Special Projects	Community Development	McAliley Project	Drug Fund	Fire Equipment Replacement	Sewer Escrow	Water Works Fund	Wellness Grant
REVENUES								
Intergovernmental:								
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	-	-	-
Local sources	-	-	-	-	6,050	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	464	5,622	143	-
Drug forfeitures	-	-	-	3,414	-	-	-	-
Total Revenues	-	-	-	3,414	6,514	5,622	143	-
EXPENDITURES								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	1,687	83,971	-	-	-
Cultural and recreation	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total Expenditures	-	-	-	1,687	83,971	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	1,727	(77,457)	5,622	143	-
Other financing sources								
Other financing sources	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	(23,171)	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	-	(23,171)	-	-	-
Fund Balance, June 30, 2015	200	16,080	208,000	6,770	123,959	109,410	25,643	(1,200)
Fund Balance, JUNE 30, 2016	\$ 200	\$ 16,080	\$ 208,000	\$ 8,497	\$ 23,331	\$ 115,032	\$ 25,786	\$ (1,200)

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, 2016

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUNDS				Totals
	Hospitality Tax	Summer Foods Program	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	1% Sales & Use Tax	Other Capital Projects Funds		
REVENUES									
Intergovernmental:									
Federal sources	\$ -	\$ 408,622	\$ 32,568	\$ -	\$ 50,000	\$ -	\$ -	\$ 491,190	
State sources	-	-	-	-	-	-	-	-	
Local sources	81,296	15,950	1	-	-	-	-	103,297	
Charges for services	-	-	-	-	-	-	-	-	
Investment earnings	-	-	-	-	-	-	-	6,229	
Drug forfeitures	-	-	-	-	-	-	-	3,414	
Total Revenues	81,296	424,572	32,569	-	50,000	-	-	604,130	
EXPENDITURES									
General government	-	-	-	27	-	-	-	27	
Public safety	-	-	-	-	-	-	-	85,658	
Cultural and recreation	23,491	435,880	80,005	-	-	-	-	539,376	
Capital outlay	-	-	-	-	18,507	821,065	-	839,572	
Total Expenditures	23,491	435,880	80,005	27	18,507	821,065	-	1,464,633	
Excess (deficiency) of revenues over expenditures	57,805	(11,308)	(47,436)	(27)	31,493	(821,065)	-	(860,503)	
Other financing sources									
Other financing sources	-	-	-	-	-	821,065	-	821,065	
Transfers in	-	-	-	-	17,048	-	-	17,048	
Transfers (out)	-	-	-	-	-	-	-	(23,171)	
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	-	17,048	821,065	-	814,942	
Fund Balance, June 30, 2015	57,805	(11,308)	(47,436)	(27)	48,541	-	-	(45,561)	
	-	(177,400)	(97,808)	85,509	(44,239)	-	189	255,113	
Fund Balance, JUNE 30, 2016	\$ 57,805	\$ (188,708)	\$ (145,244)	\$ 85,482	\$ 4,302	\$ -	\$ 189	\$ 209,552	

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Debt Service</u>
REVENUES	
Intergovernmental:	
Investment earnings	\$ -
Total Revenues	<u>-</u>
EXPENDITURES	
Capital outlay	-
Principal and interest	256,493
Total Expenditures	<u>256,493</u>
Excess (deficiency) of revenues over expenditures	(256,493)
Other financing sources	
Lease purchase proceeds	52,835
Tax anticipation note proceeds	150,000
Transfers in (out)	53,658
	<u>256,493</u>
Excess (deficiency) of revenues and other financing sources over expenditures	-
Fund Balance, June 30, 2015	<u>-</u>
Fund Balance, JUNE 30, 2016	<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, 2016

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<u>Tax Sale Escrow Fund</u>				
ASSETS				
Cash	\$ 25,391	\$ 50,801	\$ 42,329	\$ 33,863
Total Assets	<u>\$ 25,391</u>	<u>\$ 50,801</u>	<u>\$ 42,329</u>	<u>\$ 33,863</u>
LIABILITIES				
Funds held in trust for others	\$ 25,391	\$ 50,801	\$ 42,329	\$ 33,863
Total Liabilities	<u>\$ 25,391</u>	<u>\$ 50,801</u>	<u>\$ 42,329</u>	<u>\$ 33,863</u>
<u>Fireman's Fund</u>				
ASSETS				
Cash	\$ 13,852	\$ 27,843	\$ 27,894	\$ 13,801
Total Assets	<u>\$ 13,852</u>	<u>\$ 27,843</u>	<u>\$ 27,894</u>	<u>\$ 13,801</u>
LIABILITIES				
Funds held in trust for others	\$ 13,852	\$ 27,843	\$ 27,894	\$ 13,801
Total Liabilities	<u>\$ 13,852</u>	<u>\$ 27,843</u>	<u>\$ 27,894</u>	<u>\$ 13,801</u>
<u>Police Fines Escrow</u>				
ASSETS				
Cash	\$ 18,277	\$ 134,975	\$ 132,675	\$ 20,577
Total Assets	<u>\$ 18,277</u>	<u>\$ 134,975</u>	<u>\$ 132,675</u>	<u>\$ 20,577</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ 3,956	\$ 3,956	\$ 51,923
Due to Victim's Service	-	11,845	-	11,845
Due to others	20,217	6,257	14,036	12,438
Funds held in trust for others	<u>(53,863)</u>	<u>112,917</u>	<u>114,683</u>	<u>(55,629)</u>
Total Liabilities	<u>\$ 18,277</u>	<u>\$ 134,975</u>	<u>\$ 132,675</u>	<u>\$ 20,577</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<u>Totals - All Agency Funds</u>				
ASSETS				
Cash	\$ 57,520	\$ 213,619	\$ 202,898	\$ 68,241
Total Assets	<u>\$ 57,520</u>	<u>\$ 213,619</u>	<u>\$ 202,898</u>	<u>\$ 68,241</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ 3,956	\$ 3,956	\$ 51,923
Due to others	20,217	6,257	14,036	12,438
Funds held in trust for others	<u>(14,620)</u>	<u>191,561</u>	<u>184,906</u>	<u>(7,965)</u>
Total Liabilities	<u>\$ 57,520</u>	<u>\$ 213,619</u>	<u>\$ 202,898</u>	<u>\$ 68,241</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<u>Evergreen Cemetery Trust Fund</u>				
ASSETS				
Cash	\$ 178,606	\$ 1,106	\$ -	\$ 179,712
Due from (to) City of Chester	(9,088)	-	(1,500)	(10,588)
Total Assets	<u>\$ 169,518</u>	<u>\$ 1,106</u>	<u>\$ (1,500)</u>	<u>\$ 169,124</u>
LIABILITIES				
Funds held in trust for others	\$ 169,518	\$ 1,106	\$ (1,500)	\$ 169,124
Total Liabilities	<u>\$ 169,518</u>	<u>\$ 1,106</u>	<u>\$ (1,500)</u>	<u>\$ 169,124</u>
<u>Healthcare Trust Fund</u>				
ASSETS				
Cash	\$ 286,301	\$ 824,713	\$ 780,289	\$ 330,725
Due from (to) Others	-	-	-	-
Total Assets	<u>\$ 286,301</u>	<u>\$ 824,713</u>	<u>\$ 780,289</u>	<u>\$ 330,725</u>
LIABILITIES				
Funds held in trust for others	\$ 286,301	\$ 824,713	\$ 780,289	\$ 330,725
Total Liabilities	<u>\$ 286,301</u>	<u>\$ 824,713</u>	<u>\$ 780,289</u>	<u>\$ 330,725</u>
<u>Totals - All Trust Funds</u>				
ASSETS				
Cash	\$ 464,907	\$ 825,819	\$ 780,289	\$ 510,437
Due from (to) City/Others	(9,088)	-	(1,500)	(10,588)
Total Assets	<u>\$ 455,819</u>	<u>\$ 825,819</u>	<u>\$ 778,789</u>	<u>\$ 499,849</u>
LIABILITIES				
Funds held in trust for others	\$ 455,819	\$ 825,819	\$ 778,789	\$ 499,849
Total Liabilities	<u>\$ 455,819</u>	<u>\$ 825,819</u>	<u>\$ 778,789</u>	<u>\$ 499,849</u>

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2016

COURT FINES

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

COURT ASSESSMENTS

Collected	59,668
Retained by City	7,500
	<hr/> 67,168

COURT SURCHARGES

Collected	25,256
Retained by City	3,422
	<hr/> 28,678

AMOUNT ALLOCATED TO VICTIM'S SERVICES

Court Assessments	7,500
Court Surcharges	3,422
	<hr/>
Total allocated to Victim's Services	<u>\$ 10,922</u>

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

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

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City Chester, South Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Chester, South Carolina's basic financial statements and have issued our report thereon dated November 8, 2017. Our report disclaims an opinion on such financial statements because of management's suspicion of misappropriated funds.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: Findings #16-1, 16-3, 16-5 and 16-6.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: Findings #16-2 and 16-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Chester, South Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item Finding #16-5. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

City of Chester, South Carolina's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Camp, Horing & Brundage, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
November 8, 2017

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Summary of Auditors' Results:

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

Generally Accepted Governmental Auditing Standards Findings and Questioned Costs:

Finding #16-1: Failure to Record Federal Grant in the City's Financial Statements

Condition: A federal grant from the Department of Commerce was not recorded in the City's financial statements. The East Chester Village Renaissance Phase II grant was properly maintained by the Catawba Regional Council of Government. However, the grant was awarded to the City therefore all the revenue and expenditure transactions should be reflected in the City's financial statements. As a result, over \$70,000 in federal funds was not recorded over the last three fiscal years.

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

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

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

This is a repeat of Finding #15-4.

Finding #16-2: Other Post-Employment Benefits Actuarial Valuation Not Performed

Condition: An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again for the fiscal year end June 30, 2015 or 2016.

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

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

Corrective Action Taken: We recommend the City have an actuarial valuation performed on their OPEB plan every three years to stay in compliance with GASB 45 requirements. Furthermore, the Finance Director and City Administrator should be aware of all audit and compliance requirements affecting the City. The City had an actuarial valuation performed on their OPEB plan to stay in compliance with GASB 45 requirements; however, the report was prepared as of June 30, 2017.

This is a repeat of Finding #15-5.

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Finding #16-3: Financial Statement Presentation

Condition: Management relied on the auditor to assist in drafting the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2016 fiscal year financial statements as well as the previous fiscal year.

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

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

Recommendation: The City should hire, train and retain competent financial and administrative personnel. While the City has been using an outside consultant to assist with the June 30, 2015 and 2016 financial statements, a full-time employee with governmental accounting experience is recommended.

This is a repeat of Finding #15-6.

Finding #16-4: Budget Oversight

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

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

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

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

This is a repeat of Finding #15-7.

Finding #16-5: Police Fines Collected Not Reconciled with Deposits

Condition: During the fiscal year, it was discovered that the police fines and fees collected were not being deposited and reconciled in a timely manner.

Criteria: As stated in South Carolina Code of Laws Title 14 – Courts, Chapter 1 (Section 14-1-206 (E), “To ensure that fines and assessments imposed pursuant to this section and Section 14-1-209(A) are properly collected and remitted to the State Treasurer, the annual independent external audit required to be performed for each county pursuant to Section 4-9-150 must include a review of the accounting controls over the collection, reporting, and distribution of fines and assessments from the point of collection to the point of distribution and a Uniform Supplemental Schedule Form detailing all fines and assessments collected by the clerk of court for the court of general sessions, the amount remitted to the county treasurer, and the amount remitted to the State Treasurer.”

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Cause: The City's Finance and Administration Departments had turnover, as well as vacancies, during the year. The City's Finance Director and Administrator positions are still vacant as of this time. During the audit, it was discovered that employees overseeing the police fines and fees were no longer required to turn their daily receipts and/or reports into the Finance Director, City Administrator or other supervising personnel for approval, reconciliation and deposit.

Recommendation: Total collections should be reconciled to amounts reported to the State Treasurer, amounts retained by the City, amounts designated for Victim's Assistance, amounts retained as bonds and amounts remitted to citizens monthly, if not daily. There should be proper separation of duties and supervision on all fines and fees collections. The overall system needs to be looked at in depth, specifically why there are excessive fines and fees collected that are not being deposited into the bank.

Finding #16-6: Risk of Misappropriation of Assets (Lack of Internal Controls)

Condition: During the fiscal year, it was discovered that there was a lack of internal controls regarding the police fines and fees and the amounts being collected were not deposited into the bank and reconciled to the LawTrac system in a timely manner. As a result, there's a risk of over \$40,000 in fines and fees being misappropriated.

Criteria: As stated in South Carolina Code of Laws Title 14 – Courts, Chapter 1 (Section 14-1-206 (E), "To ensure that fines and assessments imposed pursuant to this section and Section 14-1-209(A) are properly collected and remitted to the State Treasurer, the annual independent external audit required to be performed for each county pursuant to Section 4-9-150 must include a review of the accounting controls over the collection, reporting, and distribution of fines and assessments from the point of collection to the point of distribution and a Uniform Supplemental Schedule Form detailing all fines and assessments collected by the clerk of court for the court of general sessions, the amount remitted to the county treasurer, and the amount remitted to the State Treasurer."

Cause: The City's Finance and Administration Departments had turnover, as well as vacancies, during the year. The City's Finance Director and Administrator positions are still vacant as of this time. During the audit, it was discovered that employees overseeing the police fines and fees were no longer required to turn their daily receipts and/or reports into the Finance Director, City Administrator or other supervising personnel for approval, reconciliation and deposit. There was no separation of duties or strengthening internal controls regarding the police fines and fees.

Recommendation: Total collections should be reconciled to amounts reported to the State Treasurer, amounts retained by the City, amounts designated for Victim's Assistance, amounts retained as bonds and amounts remitted to citizens monthly, if not daily. There should be proper separation of duties and supervision on all fines and fees collections to eliminate the risk of misappropriation of funds. The overall system needs to be looked at in depth, specifically why there are excessive fines and fees collected that are not being deposited into the bank.

Federal Awards Findings and Questioned Costs:

Finding #16-1: Failure to Record Federal Grant in the City's Financial Statements

Same as above.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2016, we investigated the disposition of the findings for the year ended June 30, 2015. We determined that corrective action had been taken for each finding as follows:

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

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

Corrective Action Taken: The trial balance and all funds balanced as of June 30, 2016.

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

Condition: The City's bank accounts were not timely reconciled. A majority of the bank reconciliations for the June 30, 2016 fiscal year were not performed until an outside consultant was brought in during the June 30, 2017 fiscal year. At this time, it was also discovered that several transactions were not properly accounted for in the general ledger. For example, a new bank account was opened for the Narcotics Seizure Account in April 2016 but none of the transactions had been recorded in the general ledger.

Corrective Action Taken: All of the City's bank accounts were reconciled monthly with any variances being investigated immediately.

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

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

Corrective Action Taken: All of the City's revenue and expenditure transactions were recorded in the proper bank account and general ledger fund to reflect accurate financial statements. And, all of the City's bank accounts, as well as revenue receipts, were reconciled in a timely manner with any variances being investigated immediately.

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

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

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

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

Condition: An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again as of June 30, 2016.

Corrective Action Taken: The City had an actuarial valuation performed on their OPEB plan to stay in compliance with GASB 45 requirements.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Finding #15-6: Financial Statement Presentation

Condition: Management relied on the auditor to prepare the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2016 fiscal year financial statements.

Corrective Action Taken: The City should hire, train and retain competent financial and administrative personnel. While the City has been using an outside consultant to assist with the June 30, 2016 financial statements, a full-time employee with governmental accounting experience is recommended.

Finding #15-7: Budget Oversight

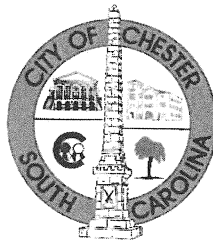
Condition: The City overspent its budget in several departments. However, there is no record of Management or Council addressing the problem or making budgetary adjustments as necessary to prevent overspending or to ratify the overspending.

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

Federal Awards Findings and Questioned Costs:

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

Same as above.



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Columbia, SC 29201

Re: CORRECTIVE ACTION PLAN – FINANCIAL STATEMENT AUDIT

City of Chester concurs with the audit finding and respectfully submits the following corrective action plan for the year ending June 30, 2016.

The following from June 30, 2016 schedule of findings and questioned costs are described below:

COMMENTS ON FINDINGS AND RECOMMENDATIONS

Finding #16-1: Failure to Record Federal Grant in the City's Financial Statements

Condition: A federal grant from the Department of Commerce was not recorded in the City's financial statements. The East Chester Village Renaissance Phase II grant was properly maintained by the Catawba Regional Council of Government. However, the grant was awarded to the City so all the revenue and expenditure transactions should be reflected in the City's financial statements. As a result, over \$70,000 in federal funds was not recorded over the last three fiscal years.

Action taken or planned:

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

This is a repeat finding.

Finding #16-2: Other Post-Employment Benefits Actuarial Valuation Not Performed

Condition: An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again for the fiscal year end June 30, 2015 or 2016.

Action taken or planned:

Corrective Action Plan: The City has had an actuarial valuation done as of June 30, 2017.

This is a repeat finding.

Finding #16-3: Financial Statement Presentation

Condition: Management relied on the auditor to assist in drafting the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2016 fiscal year financial statements.

Action taken or planned:

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

This is a repeat finding.

Finding #16-4: Budget Oversight

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

Action taken or planned:

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

This is a repeat finding.

Finding #16-5: Police Fines Collected Not Reconciled with Deposits

Condition: During the fiscal year, it was discovered that the police fines and fees collected were not being deposited and reconciled in a timely manner.

Action taken or planned:

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

Finding #16-6: Risk of Misappropriation of Assets (Lack of Internal Controls)

Condition: During the fiscal year, it was discovered that there was a lack of internal controls regarding the police fines and fees and the amounts being collected were not deposited into the bank and reconciled to the LawTrac system in a timely manner. As a result, there's a risk of over \$40,000 in fines and fees being misappropriated.

Action taken or planned:

Corrective Action Plan: The City has consulted with our labor attorney and are prepared to investigate this matter further.

STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS

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

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

Action taken or planned:

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

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

Condition: The City's bank accounts were not timely reconciled. A majority of the bank reconciliations for the June 30, 2016 fiscal year were not performed until an outside consultant was brought in during the June 30, 2017 fiscal year. At this time, it was also discovered that several transactions were not properly accounted for in the general ledger. For example, a new bank account was opened for the Narcotics Seizure Account in April 2016 but none of the transactions had been recorded in the general ledger.

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

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

Action taken or planned:

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

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

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

Action taken or planned:

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

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

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

Action taken or planned:

Corrective Action Plan: No action was taken.

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

Condition: An Other Post-Employment Benefits (OPEB) Actuarial Valuation was performed as of June 30, 2012 but was not performed again as of June 30, 2016.

Action taken or planned:

Corrective Action Plan: The City had an actuarial valuation prepared as of June 30, 2017.

Finding #15-6: Financial Statement Presentation

Condition: Management relied on the auditor to prepare the financial statements on their behalf. Management does not have the resources to prepare the disclosures to the financial statements as required by independence standards established by *Governmental Auditing Standards* therefore an outside CPA consultant was brought in to assist with the June 30, 2016 fiscal year financial statements.

Action taken or planned:

Corrective Action Plan: No action was taken.

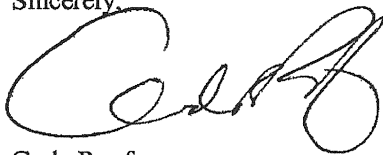
Finding #15-7: Budget Oversight

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

Action taken or planned:

Corrective Action Plan: No action was taken.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carla Roof', written in a cursive style.

Carla Roof
Human Resources Director