

CITY OF CHESTER, SOUTH CAROLINA

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

For the Year Ended June 30, 2017

CITY OF CHESTER, SOUTH CAROLINA

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CITY OF CHESTER, SOUTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

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

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, 2017, 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, 2017 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.

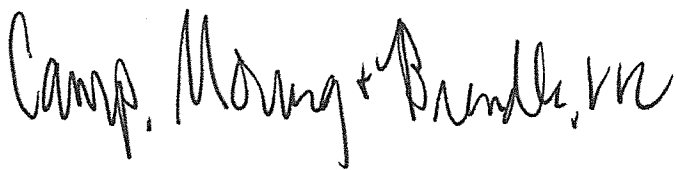
Other Information

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 September 5, 2018, 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.

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

Columbia, South Carolina
September 5, 2018

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,230,528
Receivables (net of allowance for uncollectibles):	
Property taxes	401,553
Intergovernmental	57,591
Other	52,132
Notes receivable, net	224,080
Due from other funds	11,670
Prepaid expenses	-
Capital lease receivable	69,502
Capital assets:	
Land	36,000
Buildings and improvements	2,212,548
Improvements, other than buildings	1,759,158
Infrastructure - sidewalks	224,094
Machinery and equipment	3,590,022
Construction in progress	1,203,988
Accumulated depreciation	(4,792,534)
Total Assets	<u>6,280,332</u>
 Deferred Outflow of Resources	
Deferred charges on pension amounts	703,547
 LIABILITIES	
Accounts payable	143,621
Accrued expenses	109,014
Deferred revenue	339,689
Due to Fire District	285,132
Other post employment benefits	411,669
Net pension liability	5,641,005
Noncurrent liabilities:	
Due within one year	88,227
Due after one year	137,818
Total Liabilities	<u>7,156,175</u>
 Deferred Inflow of Resources	
Deferred charges on pension amounts	122,230
 NET POSITION	
Invested in capital assets - net of related debt	4,007,231
Restricted for general government	559,519
Unrestricted	(4,861,276)
Total Net Position	<u>\$ (294,526)</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, 2017

Total fund balances - governmental funds, June 30, 2017	\$ 940,691
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	9,025,810
Accumulated depreciation	(4,792,534)
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	300,219
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	(90,810)
Lease financing	(135,235)
Other post employment benefits	(411,669)
Net pension liability	(5,641,005)
Compensated absences	(71,310)
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	703,547
Deferred inflows of resources	(122,230)
Total net position - governmental activities, June 30, 2017	\$ (294,526)

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, 2017

	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	\$ 2,010,894	\$ 15,155	\$ 180,006	\$ -	\$ (1,815,733)
Public safety	3,630,111	1,708,710	7,300	-	(1,914,101)
Public works	817,317	448,296	-	75,000	(294,021)
Cultural and recreation	924,814	53,999	503,134	-	(367,681)
Interest and fiscal charges	3,911	-	-	-	(3,911)
Total Governmental	<u>7,387,047</u>	<u>2,226,160</u>	<u>690,440</u>	<u>75,000</u>	<u>(4,395,447)</u>
Business-Type Activities					
None	-	-	-	-	-
Total Primary Government	<u>\$ 7,387,047</u>	<u>\$ 2,226,160</u>	<u>\$ 690,440</u>	<u>\$ 75,000</u>	<u>(4,395,447)</u>
			General Revenues		
			Property taxes levied for:		
			General purposes		1,126,040
			Accommodations tax		1,538
			Interest/investment income		294,344
			Intergovernmental		1,230,322
			Franchise fees		150,839
			Business licenses		670,676
			Tax anticipation note		-
			Contributed capital		161,563
			Transfer to fiduciary funds		-
			Total general revenues		<u>3,635,322</u>
			Changes in net position		(760,125)
			Net Position, beginning		465,599
			Net Position, ending		<u>\$ (294,526)</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, 2017

Change in fund balances - governmental funds, JUNE 30, 2017	\$	(323,623)
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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.

319,319

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.

(323,877)

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

-

 Principal payments on long-term debt

86,048

 Compensated absences

(26,215)

 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

(537,036)

 Cost of benefits earned net of employee contributions

19,043

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.

26,216

Change in net position - governmental activities, JUNE 30, 2017	\$	(760,125)
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26,216

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, 2017

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,014,032	\$ 216,498	\$ -	\$ 1,230,530
Receivables (net of allowance for uncollectibles):				
Taxes	250,676	-	-	250,676
Intergovernmental	56,391	-	-	56,391
Other	51,923	1,409	-	53,332
Notes receivable, net	-	224,080	-	224,080
Due from other funds	443,935	202,590	-	646,525
Capital lease receivable	69,502	-	-	69,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,886,459</u>	<u>\$ 644,577</u>	<u>\$ -</u>	<u>\$ 2,531,036</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 142,614	\$ 1,008	\$ -	\$ 143,622
Accrued expenses	109,014	-	-	109,014
Deferred revenue	339,689	-	-	339,689
Due to Fire District	285,132	-	-	285,132
Due to other funds	628,838	84,050	-	712,888
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,505,287</u>	<u>85,058</u>	<u>-</u>	<u>1,590,345</u>
FUND BALANCES				
Fund balances				
Restricted	-	559,519	-	559,519
Unassigned	381,172	-	-	381,172
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>381,172</u>	<u>559,519</u>	<u>-</u>	<u>940,691</u>
Total Liabilities and Fund Balance	<u>\$ 1,886,459</u>	<u>\$ 644,577</u>	<u>\$ -</u>	<u>\$ 2,531,036</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, 2017

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes - property	\$ 1,111,931	\$ -	\$ -	\$ 1,111,931
Licenses and permits	821,515	-	-	821,515
Federal grants	17,714	-	-	17,714
Intergovernmental	1,225,985	747,726	-	1,973,711
Charges for services	2,217,363	-	-	2,217,363
Investment earnings	293,074	6,499	-	299,573
Payments in lieu of taxes	14,109	-	-	14,109
Drug forfeitures	-	8,797	-	8,797
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	5,701,691	763,022	-	6,464,713
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES				
Current:				
General government	1,478,592	-	-	1,478,592
Public safety	3,501,285	6,801	-	3,508,086
Public works	785,245	-	-	785,245
Cultural and recreation	617,209	293,283	-	910,492
Capital outlay	-	174,534	-	174,534
Debt service	-	-	92,950	92,950
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	6,382,331	474,618	92,950	6,949,899
	<hr/>	<hr/>	<hr/>	<hr/>
Excess revenue over (under) expenditures	(680,640)	288,404	(92,950)	(485,186)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)				
Lease financing proceeds	-	-	-	-
Tax anticipation note	-	-	-	-
Contributed capital	-	161,563	-	161,563
Operating transfers in (out)	7,050	(100,000)	92,950	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	7,050	61,563	92,950	161,563
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(673,590)	349,967	-	(323,623)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, beginning of year	1,054,762	209,552	-	1,264,314
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, end of year	<u>\$ 381,172</u>	<u>\$ 559,519</u>	<u>\$ -</u>	<u>\$ 940,691</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, 2017

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 271,753	\$ 67,610
Due from/(to) City of Chester	<u>(10,588)</u>	<u>-</u>
Total Assets	<u>\$ 261,165</u>	<u>\$ 67,610</u>
LIABILITIES		
Due to City of Chester	\$ -	\$ 51,923
Due to others	-	4,659
Funds held in trust for others	<u>261,165</u>	<u>(817)</u>
Total Liabilities	<u>\$ 261,165</u>	<u>\$ 67,610</u>

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements

June 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017 (all property owned by taxpayers are assessed as of December 31, 2016), but which were billed in October 2016 to finance fiscal year 2016-17 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, 2017

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, 2017

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, 2017

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, 2017

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, 2017 through the date these financial statements were available to be issued on September 5, 2018.

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, 2017

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 re-appropriated and honored during the subsequent year. There were no encumbrances reserved as of June 30, 2017.

Budget Basis of Accounting

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

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

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

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

• Administration	\$ 54,981
• Fire Department	\$ 115,645
• Public Works	\$ 219,816
• Recreation Department	\$ 147,948

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, 2017

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, 2017, the City had investments of \$193,299. 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 \$189,317 is held in the S.C. Local Government Investment Pool.

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

Custodial Credit Risk – Deposits - At year end, the carrying amount of the City's cash deposits (checking accounts, savings accounts and certificates of deposit), was \$1,230,528 and the bank balances were \$1,150,385. 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, 2017

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2017 including penalties, are as follows:

Real property (2007 - 2017)	\$ 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, 2017 are as follows:

State of South Carolina for	
Local Option Sales Taxes	\$ -
Accommodations Tax	-
MASC Brokers Tax	-
Chester County	18,516
Chester Metropolitan District	36,658
Chester Fire District	1,216
Other receivables	-
Total intergovernmental receivables	<u>\$ 56,390</u>

Other receivables at June 30, 2017 are as follow:

General Fund

Police fines escrow account	\$ 51,923
SC MIT	-
Victim's Assistance	-
Franchise fees	-
	<u>51,923</u>

Special Revenue

Receivables	<u>11,845</u>
Total other receivables	<u>\$ 63,768</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	<u>270,187</u>
Deferred revenue - capital lease of sewage plant	<u>69,941</u>
Total deferred revenue	<u>\$ 340,128</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2017, is as follows:

	Interfund Receivables	Interfund Payables	Purpose
General Fund	\$ 443,935	\$ 628,838	
Special Revenue Fund - Fire Equipment Replacement	-	55,229	subsidize program
Special Revenue Fund - Sewer Escrow Fund	100,500	-	subsidize program
Special Revenue Fund - Wellness Grant	-	1,200	subsidize program
Special Revenue Fund - Hospitality Tax	-	1,828	subsidize program
Special Revenue Fund - Summer Foods Program	-	288,618	subsidize program
Special Revenue Fund - Artisan & Farmers Market	216,441	-	construction
Capital Projects Fund - Capital Improvements	158,519	-	construction
Capital Projects Fund - East Chester Village Renaissance (II)	-	9,415	construction
Agency Funds - Police Fines & Fees	-	11,846	subsidize program
Trust Funds - Evergreen Cemetery	65,909	-	subsidize program
Total Other Governmental Funds	541,369	368,136	
Totals	\$ 985,304	\$ 996,974	

	Interfund Transfer Out	Interfund Transfer In	
General Fund	\$ 92,950	\$ 100,000	
Special Revenue Fund - Hospitality Tax	100,000	-	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)	-	-	local match
Debt Service Fund	-	92,950	transfer debt activity
Trust Funds - Healthcare Fund	-	-	subsidize program
	\$ 192,950	\$ 192,950	

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2017 is as follows:

	Balance 06/30/16	Additions	Retirements	Balance 06/30/17
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	1,042,425	161,563	-	1,203,988
Total capital assets, not being depreciated	1,078,425	161,563	-	1,239,988
Capital assets, being depreciated:				
Buildings	2,212,548	-	-	2,212,548
Improvements other than buildings	1,664,009	95,149	-	1,759,158
Infrastructure	224,094	-	-	224,094
Machinery and equipment	3,527,415	62,607	-	3,590,022
Total capital assets, being depreciated	7,628,066	157,756	-	7,785,822
Less accumulated depreciation for:				
Buildings	1,214,307	48,699	-	1,263,006
Improvements other than buildings	375,750	58,803	-	434,553
Infrastructure	44,606	7,469	-	52,075
Machinery and equipment	2,833,994	208,906	-	3,042,900
Total accumulated depreciation	4,468,657	323,877	-	4,792,534
Total capital assets, being depreciated, net	3,159,409	(166,121)	-	2,993,288
Governmental activities capital assets, net	\$ 4,237,834	\$ (4,558)	\$ -	\$ 4,233,276

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

Governmental Activities:	
General government	\$ 114,871
Public safety	163,253
Public works	44,666
Culture and recreation	1,087
	<u>\$ 323,877</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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 06/30/16	Increase	Decrease	Balance 06/30/17
General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest (3.34%), due April 2019.	\$ 133,935	\$ -	\$ 43,125	\$ 90,810
Lease purchase. Due in annual payments of \$38,502, principal and interest (1.64%), due September 2018.	148,914	-	36,668	112,246
Lease purchase. Due in annual payments of \$3,428, principal and interest (2.17%), due August 2020.	29,244	-	6,255	22,989
Total general long-term debt	<u>\$ 312,093</u>	<u>\$ -</u>	<u>\$ 86,048</u>	<u>\$ 226,045</u>

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

Year ended	Principal	Interest	Total
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>\$ 226,045</u>	<u>\$ 7,426</u>	<u>\$ 233,471</u>

	Balance 06/30/16	Increase	Decrease	Balance 06/30/17
Accrued compensated absences	\$ 45,095	\$ 26,215	-	\$ 71,310
Total general long-term debt	<u>\$ 45,095</u>	<u>\$ 26,215</u>	<u>-</u>	<u>\$ 71,310</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	66,165	66,165
	<u>\$ 71,310</u>	<u>\$ 71,310</u>

There was interest expense of \$7,245 for the year related to long-term debt.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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, we 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 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.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2017

The following table presents the required contributions (including group life insurance) to the SCRS by the City for the years ended June 30, 2017, 2016 and 2015:

Year Ending June 30,	Covered <u>Salaries</u>	Employee <u>Contribution</u>	Employer <u>Contribution</u>	Total <u>Contributions</u>
2017 Regular	\$1,246,564	\$ 107,952	\$ 142,233	\$ 250,185
Police	1,769,517	163,503	244,901	408,404
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

SCRS and ORP - Employer contribution rates were 11.41%, 10.75%, and 10.45% for the years ended June 30, 2016, 2015 and 2014, respectively. Employee contribution rates were 8.66%, 8.00%, and 7.50% for the years ended June 30, 2016, 2015 and 2014, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of \$5,641,005 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportion was 0.009719% for SCRS and 0.140550% for PORS.

For the year ended June 30, 2015, the City recognized pension expense of \$537,036. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Liability experience	\$ 74,418	\$ 2,255
Investment experience	805,105	226,205
Change in proportion & difference between employer contribution & proportionate share of plan contributions	40,294	119,975
	<u>\$ 919,817</u>	<u>\$ 348,435</u>

The \$74,418 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	SCRS	PORS
2017	\$ 43,729	\$ 74,442
2018	32,480	71,760
2019	79,701	138,404
2020	40,774	90,094
Total	<u>\$ 196,684</u>	<u>\$ 374,700</u>

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

Actuarial Assumptions and Methods – Actuarial valuations involve estimates 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 using in the July 1, 2013, valuations for SCRS.

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

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

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

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As con-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 is 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.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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

								Long-Term
							Expected	Expected
						Target	Arithmetic	Portfolio
						Asset	Real Rate	Real Rate
<u>Asset Class</u>						<u>Allocation</u>	<u>of Return</u>	<u>of Return</u>
Short term						5.00%		
Cash						2.00%	0.71%	0.01%
Short duration						2.00%	0.71%	0.01%
Domestic fixed income						13.00%		
Core fixed income						10.00%	1.72%	0.17%
High yield						2.00%	3.50%	0.07%
Bank loans						4.00%	2.80%	0.11%
Global fixed income						9.00%		
Global fixed income						3.00%	0.80%	0.02%
Emerging Market Debt						6.00%	4.91%	0.25%
Global public equity						31.00%	6.52%	2.22%
Global tactical asset allocation						10.00%	3.90%	0.39%
Alternatives						32.00%		
Hedge funds (low beta)						10.00%	3.87%	0.39%
Private debt						7.00%	4.47%	0.31%
Private equity						9.00%	9.30%	0.84%
Real estate (broad market)						5.00%	4.32%	22.00%
Commodities						3.00%	4.53%	0.13%
Total Expected Rate of Return						100.00%		5.10%
Inflation for Actuarial Purposes								2.75%
Total Expected Nominal Return								7.85%

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 participation employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to change in the discount rate.

		SCRS	PORS
		Proportionate	Proportionate
		Share of Net	Share of Net
	Discount	Pension	Pension
	<u>Rate</u>	<u>Liability</u>	<u>Liability</u>
1% decrease	6.50%	\$ 2,589,708	\$ 4,672,291
Current discount rate	7.50%	\$ 2,075,964	\$ 3,565,041
1% increase	8.50%	\$ 1,648,291	\$ 2,569,968

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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, 2017 and June 30, 2016, the City paid \$39,496 and \$39,496, 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 \$1,699,470 for the period July 1, 2016 through June 30, 2017.

Note 12 - Contingent Liability - Self Insured Unemployment Claims

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

Note 13 – Contingent Liability – Legal Claims

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

Note 14 – Risk Management

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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

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

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

Note 15 – Other Post-Employment Benefits

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

Plan Description

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

Calculation of Net OPEB Obligation

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

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

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

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

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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

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

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

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

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

Summary of Inputs

Actual Contribution: see definition above.

Age Adjusted Contribution: see definition above.

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

Annual Required Contribution (ARC): see definition above.

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

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

Net OPEB Obligation (NOO): see definition above.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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

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, 2017 but arose after the year end (non-recognized subsequent events) occurred.

During October 2015, the Finance Director of the City resigned. A full time Finance Director was not hired until November 15, 2017. During April 2017, the City Administrator resigned. A full time City Administrator was not hired until May 15, 2018.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2017

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 2016, the City's funding was withheld again and they did not receive their Local Government Funds, Local Option Sales Tax and Accommodations payments until the June 30, 2016 audit was issued in November 2017. The late issuance of the June 30, 2017 audit report resulted in funding being withheld again starting August 2018.

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

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 and June 30, 2017 fiscal years, 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.

CITY OF CHESTER, SOUTH CAROLINA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes - property	\$ -	\$ -	\$ 1,111,931	\$ 1,111,931
Licenses and permits	-	-	821,515	821,515
Grants	-	-	17,714	17,714
Intergovernmental	-	-	1,225,985	1,225,985
Charges for services	-	-	2,217,363	2,217,363
Investment earnings	-	-	293,074	293,074
Payments in lieu of taxes	-	-	14,109	14,109
Total Revenues	-	-	5,701,691	5,701,691
EXPENDITURES				
Current:				
General government	1,546,714	1,546,714	1,478,592	68,122
Public safety	3,416,712	3,416,712	3,501,285	(84,573)
Public works	565,429	565,429	785,245	(219,816)
Cultural and recreation	469,261	469,261	617,209	(147,948)
Capital outlay	-	-	-	-
Debt service	56,929	56,929	-	56,929
Total Expenditures	6,055,045	6,055,045	6,382,331	(327,286)
Excess revenue over (under) expenditures	(6,055,045)	(6,055,045)	(680,640)	5,374,405
OTHER FINANCING SOURCES (USES)				
Lease financing purchase	-	-	-	-
Operating transfers in (out)	-	-	7,050	7,050
Total Other Financing Sources (Uses)	-	-	7,050	7,050
Net change in fund balances	<u>\$ (6,055,045)</u>	<u>\$ (6,055,045)</u>	(673,590)	<u>\$ 5,381,455</u>
Fund Balance, beginning of year			1,054,762	
Fund Balance, end of year			<u>\$ 381,172</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, 2017. See Finding #17-2

CITY OF CHESTER, SOUTH CAROLINA

**SCHEDULE OF CONTRIBUTIONS AND
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
June 30, 2017

	<u>2015</u>		<u>2016</u>		<u>2017</u>	
	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>	<u>SCRS</u>	<u>PORS</u>
Statutorily Required Contributions	\$ 95,201	\$ 227,713	\$ 103,945	\$ 246,198	\$ 142,233	\$ 244,901
Contributions in Relation to Statutorily Required Contributions	95,201	227,713	103,945	246,198	142,233	244,901
Contributions Excess/(Deficiency)	-	-	-	-	-	-
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831	\$ 1,246,564	\$ 1,769,517
Contributions as a Percentage of Covered Employee Payroll	10.75%	13.01%	11.06%	13.74%	11.41%	13.84%
City's Proportionate Share of Net Pension Liability (%)	0.009828%	0.147080%	0.009431%	0.141260%	0.009719%	0.140550%
City's Proportionate Share of Net Pension Liability	\$ 1,692,056	\$ 2,815,146	\$ 1,788,635	\$ 3,078,713	\$ 1,788,635	\$ 3,565,041
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831	\$ 1,246,564	\$ 1,769,517
City's Proportionate Share of Net Pension Liability as a Percentage of Its Covered Employee Payroll (%)	191.07%	160.84%	190.31%	171.82%	143.49%	201.47%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.90%	67.50%	57.00%	64.60%	52.90%	60.40%

** 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, 2017

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	30 Years, Open
Asset Valuation Method	20% difference recognition
Inflation	2.75%
Salary Increase	3.5% plus step-rate increases for members with less than 25 years of service
Investment Return	7.5%
Mortality	RP-2000 Mortality Table (White Collar Adjustment for Educators), 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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES				
TAXES:				
Property taxes - current	\$ -	\$ -	\$ 990,426	\$ 990,426
Property taxes - delinquent	-	-	121,505	121,505
	-	-	1,111,931	1,111,931
LICENSES, FINES, FEES AND PERMITS:				
Business licenses	-	-	670,676	670,676
Franchise fees	-	-	150,839	150,839
	-	-	821,515	821,515
GRANTS:				
State grants	-	-	17,714	17,714
Federal grants	-	-	-	-
INTERGOVERNMENTAL:				
State shared revenues:				
Local government revenue	-	-	145,034	145,034
Local option sales tax	-	-	858,467	858,467
Homestead exemption	-	-	185,708	185,708
Accommodations tax	-	-	1,538	1,538
Merchant's inventory tax	-	-	34,567	34,567
Manufacturing depreciation tax	-	-	671	671
Hospitality tax	-	-	-	-
	-	-	1,225,985	1,225,985
CHARGES FOR SERVICES:				
Chester Fire District contract	-	-	1,699,470	1,699,470
Police fines and fees	-	-	443	443
Solid waste fees - commercial	-	-	-	-
Solid waste fees - residential	-	-	436,611	436,611
Public Works fees	-	-	11,685	11,685
Cemetery fees	-	-	15,155	15,155
Recreation Department fees	-	-	53,999	53,999
	-	-	2,217,363	2,217,363
INVESTMENT EARNINGS:				
Interest income	-	-	2,764	2,764
Lease income	-	-	5,000	5,000
Other income	-	-	285,310	285,310
	-	-	293,074	293,074
PAYMENTS IN LIEU OF TAXES:				
Payments in lieu of taxes	-	-	14,109	14,109
TOTAL REVENUES	\$ -	\$ -	\$ 5,701,691	\$ 5,701,691

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT:				
CITY COUNCIL				
Salaries	\$ 51,700	\$ 51,700	\$ 51,700	\$ -
Payroll taxes	3,955	3,955	3,770	185
Retirement	5,977	5,977	5,977	-
Employee insurance and benefits	32,247	32,247	36,200	(3,953)
Dues and subscriptions	-	-	-	-
Mayor's meeting expenses	-	-	1,265	(1,265)
Council conferences and travel	15,300	15,300	21,104	(5,804)
Tourism and accommodations	6,000	6,000	5,815	185
Supplies and materials	550	550	547	3
Municipal elections	4,500	4,500	3,588	912
Agency support expenses	15,000	15,000	10,593	4,407
Capital expenditures	50,000	50,000	(58,714)	108,714
	<u>185,229</u>	<u>185,229</u>	<u>81,845</u>	<u>103,384</u>
ADMINISTRATION				
Salaries	325,757	325,757	383,767	(58,010)
Payroll taxes	24,920	24,920	28,429	(3,509)
Retirement	37,658	37,658	42,655	(4,997)
Employee insurance and benefits	49,428	49,428	47,847	1,581
Supplies and materials	4,700	4,700	4,939	(239)
Uniforms	500	500	-	500
Postage	50	50	3,023	(2,973)
Travel and training	14,000	14,000	14,275	(275)
Dues and subscriptions	4,200	4,200	6,986	(2,786)
Auto repairs and maintenance	15,500	15,500	3,160	12,340
Advertising and printing	12,840	12,840	19,611	(6,771)
Utilities	160,000	160,000	183,564	(23,564)
Repairs and maintenance	63,608	63,608	73,264	(9,656)
Communications	22,300	22,300	67,454	(45,154)
General and miscellaneous	6,000	6,000	5,209	791
Contracted services	108,303	108,303	83,074	25,229
Insurance	2,500	2,500	15,554	(13,054)
Juror's fees	25,000	25,000	25	24,975
Bond retirement	47,600	47,600	(2,991)	50,591
	<u>924,864</u>	<u>924,864</u>	<u>979,845</u>	<u>(54,981)</u>
FINANCE				
Salaries	101,560	101,560	57,990	43,570
Payroll taxes	8,152	8,152	4,315	3,837
Retirement	12,318	12,318	6,641	5,677
Employee insurance and benefits	23,430	23,430	15,092	8,338
Supplies and materials	2,000	2,000	1,979	21
Postage	3,500	3,500	(29)	3,529
Travel and training	2,400	2,400	806	1,594

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Dues and subscriptions	200	200	50	150
Advertising and printing	4,200	4,200	8,433	(4,233)
Repairs and maintenance	22,408	22,408	30,481	(8,073)
Communications	480	480	-	480
General and miscellaneous	4,200	4,200	10,314	(6,114)
Contracted services	39,785	39,785	51,360	(11,575)
Insurance	1,200	1,200	20,863	(19,663)
	<u>225,833</u>	<u>225,833</u>	<u>208,295</u>	<u>17,538</u>
HUMAN RESOURCES				
Salaries	119,974	119,974	124,255	(4,281)
Payroll taxes	9,178	9,178	9,244	(66)
Retirement	13,869	13,869	14,364	(495)
Employee insurance and benefits	25,358	25,358	18,192	7,166
Supplies and materials	2,500	2,500	2,463	37
Postage	-	-	-	-
Travel and training	13,300	13,300	4,529	8,771
Printing	6,860	6,860	6,249	611
Municipal expense	-	-	-	-
Dues and subscriptions	800	800	560	240
Repairs and maintenance	6,908	6,908	7,068	(160)
Contracted services	11,221	11,221	21,029	(9,808)
Communications	820	820	654	166
	<u>210,788</u>	<u>210,788</u>	<u>208,607</u>	<u>2,181</u>
Total General Government	<u>1,546,714</u>	<u>1,546,714</u>	<u>1,478,592</u>	<u>68,122</u>
PUBLIC SAFETY:				
POLICE DEPARTMENT				
Salaries	993,305	993,305	854,382	138,923
Payroll taxes	75,988	75,988	64,007	11,981
Retirement	139,873	139,873	121,819	18,054
Employee insurance and benefits	247,988	247,988	243,778	4,210
Supplies and materials	52,500	52,500	50,270	2,230
Postage	-	-	-	-
Travel and training.	12,750	12,750	8,441	4,309
Dues and subscriptions	500	500	252	248
Auto repairs and maintenance	50,000	50,000	40,454	9,546
Advertising and printing	19,200	19,200	17,739	1,461
Utilities	-	-	7,960	(7,960)
Repairs and maintenance	6,408	6,408	5,677	731
Communications	37,200	37,200	41,936	(4,736)
General and miscellaneous	3,500	3,500	33,260	(29,760)
Uniforms	15,000	15,000	25,646	(10,646)
Contracted services	88,500	88,500	132,272	(43,772)
Insurance	32,000	32,000	90,292	(58,292)
Capital expenditures	-	-	5,455	(5,455)
	<u>1,774,712</u>	<u>1,774,712</u>	<u>1,743,640</u>	<u>31,072</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
FIRE DEPARTMENT				
Salaries	975,000	975,000	1,003,518	(28,518)
Payroll taxes	74,000	74,000	74,205	(205)
Retirement	132,500	132,500	141,285	(8,785)
Employee insurance and benefits	263,000	263,000	281,921	(18,921)
Supplies and materials	7,000	7,000	8,193	(1,193)
Postage	250	250	69	181
Travel and training	29,400	29,400	18,894	10,506
Dues and subscriptions	3,000	3,000	2,755	245
Auto repairs and maintenance	-	-	-	-
Advertising and printing	6,500	6,500	3,206	3,294
Utilities	25,400	25,400	28,381	(2,981)
Repairs and maintenance	18,750	18,750	18,668	82
Communications	11,700	11,700	10,969	731
General and miscellaneous	1,000	1,000	2,997	(1,997)
Uniforms	25,500	25,500	27,007	(1,507)
Contracted services	46,000	46,000	56,063	(10,063)
Insurance	23,000	23,000	79,514	(56,514)
	<u>1,642,000</u>	<u>1,642,000</u>	<u>1,757,645</u>	<u>(115,645)</u>
Total Public Safety	<u>3,416,712</u>	<u>3,416,712</u>	<u>3,501,285</u>	<u>(84,573)</u>
PUBLIC WORKS:				
PUBLIC WORKS - COMMERCIAL				
Salaries	225,163	225,163	294,716	(69,553)
Payroll taxes	17,225	17,225	21,795	(4,570)
Retirement	26,029	26,029	33,023	(6,994)
Employee insurance and benefits	66,104	66,104	107,426	(41,322)
Supplies and materials	18,000	18,000	18,534	(534)
Postage	-	-	-	-
Travel and training	3,000	3,000	141	2,859
Dues and subscriptions	500	500	20	480
Auto repairs and maintenance	25,000	25,000	41,605	(16,605)
Advertising and printing	500	500	408	92
Utilities	7,500	7,500	7,260	240
Repairs and maintenance	10,108	10,108	20,644	(10,536)
Communications	3,420	3,420	1,945	1,475
Contracted services	77,880	77,880	93,039	(15,159)
Insurance	5,000	5,000	34,582	(29,582)
Solid waste - yard	20,000	20,000	29,336	(9,336)
Solid waste - commercial	60,000	60,000	80,771	(20,771)
	<u>565,429</u>	<u>565,429</u>	<u>785,245</u>	<u>(219,816)</u>
Total Public Works	<u>565,429</u>	<u>565,429</u>	<u>785,245</u>	<u>(219,816)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<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	250,495	250,495	267,008	(16,513)
Payroll taxes	19,163	19,163	19,132	31
Retirement	26,933	26,933	24,187	2,746
Employee insurance and benefits	15,912	15,912	52,896	(36,984)
Supplies and materials	8,950	8,950	7,895	1,055
Postage	100	100	13	87
Travel and training	2,250	2,250	424	1,826
Dues and subscriptions	500	500	463	37
Auto repairs and maintenance	3,750	3,750	4,222	(472)
Advertising and printing	4,000	4,000	5,969	(1,969)
Utilities	33,600	33,600	39,498	(5,898)
Repairs and maintenance	34,108	34,108	84,657	(50,549)
Communications	5,100	5,100	5,705	(605)
General and miscellaneous	-	-	-	-
Uniforms	5,000	5,000	3,727	1,273
Contracted services	8,300	8,300	12,359	(4,059)
Insurance	1,100	1,100	5,799	(4,699)
Minor equipment	-	-	13	(13)
Programs and services	50,000	50,000	67,201	(17,201)
Grant match	-	-	-	-
	<u>469,261</u>	<u>469,261</u>	<u>601,168</u>	<u>(131,907)</u>
SUMMER FOOD PROGRAM				
Salaries	-	-	14,012	(14,012)
Payroll taxes	-	-	2,029	(2,029)
Contract services	-	-	-	-
Insurance	-	-	-	-
Supplies and materials	-	-	-	-
Travel and training	-	-	-	-
	<u>-</u>	<u>-</u>	<u>16,041</u>	<u>(16,041)</u>
Total Culture and Recreation	469,261	469,261	617,209	(147,948)
DEBT SERVICE				
Debt service	56,929	56,929	-	56,929
OTHER FINANCING (SOURCES) USES				
Transfer in (out)	-	-	(7,050)	7,050
Total Other Financing (Sources) Uses	-	-	(7,050)	7,050
TOTAL EXPENDITURES	\$ 6,055,045	\$ 6,055,045	\$ 6,375,281	\$ (320,236)
EXCESS EXPENDITURES OVER REVENUES				
	<u>\$ (6,055,045)</u>	<u>\$ (6,055,045)</u>	<u>\$ (673,590)</u>	<u>\$ 5,381,455</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

SPECIAL REVENUE FUNDS									
	Special Projects	Community Development	McAliley Project	Drug Fund	Fire Equipment Replacement	Sewer Escrow	Water Works Fund	Wellness Grant	
ASSETS									
Cash	\$ -	\$ -	\$ -	\$ 11,093	\$ 85,422	\$ 20,029	\$ 26,026	\$ -	
Receivable - other	200	-	-	-	1,200	-	-	-	
Notes receivable, net	-	16,080	208,000	-	-	-	-	-	
Due from other funds	-	-	-	-	(55,229)	100,500	-	(1,200)	
Total Assets	\$ 200	\$ 16,080	\$ 208,000	\$ 11,093	\$ 31,393	\$ 120,529	\$ 26,026	\$ (1,200)	
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Due to other funds	-	-	-	600	-	-	-	-	
Fund balance	200	16,080	208,000	10,493	31,393	120,529	26,026	(1,200)	
Total Liabilities and Fund Balance	\$ 200	\$ 16,080	\$ 208,000	\$ 11,093	\$ 31,393	\$ 120,529	\$ 26,026	\$ (1,200)	

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2017

	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	\$ 3,028	\$ -	\$ 68,011	\$ 1,963	\$ 737	\$ -	\$ 189	\$ 216,498	
Receivable - other	-	-	-	-	9	-	-	1,409	
Notes receivable, net	-	-	-	-	-	-	-	224,080	
Due from other funds	-	-	-	158,519	-	-	-	202,590	
Total Assets	\$ 3,028	\$ -	\$ 68,011	\$ 160,482	\$ 746	\$ -	\$ 189	\$ 644,577	
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ 1,008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,008	
Due to other funds	1,828	288,618	(216,411)	-	9,415	-	-	84,050	
Fund balance	192	(288,618)	284,422	160,482	(8,669)	-	189	559,519	
Total Liabilities and Fund Balance	\$ 3,028	\$ -	\$ 68,011	\$ 160,482	\$ 746	\$ -	\$ 189	\$ 644,577	

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, 2017

	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	-	-	-	-	7,300	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	762	5,497	240	-
Drug forfeitures	-	-	-	8,797	-	-	-	-
Total Revenues	-	-	-	8,797	8,062	5,497	240	-
EXPENDITURES								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	6,801	-	-	-	-
Cultural and recreation	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total Expenditures	-	-	-	6,801	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	1,996	8,062	5,497	240	-
Other financing sources								
Other financing sources	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	-	-	-	-	-
Fund Balance, June 30, 2016	200	16,080	208,000	8,497	23,331	115,032	25,786	(1,200)
Fund Balance, JUNE 30, 2017	\$ 200	\$ 16,080	\$ 208,000	\$ 10,493	\$ 31,393	\$ 120,529	\$ 26,026	\$ (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, 2017

	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	\$ -	\$ 148,778	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,778	
State sources	-	-	-	-	-	-	-	-	
Local sources	73,456	13,514	429,678	75,000	-	-	-	598,948	
Charges for services	-	-	-	-	-	-	-	-	
Investment earnings	-	-	-	-	-	-	-	6,499	
Drug forfeitures	-	-	-	-	-	-	-	8,797	
Total Revenues	73,456	162,292	429,678	75,000	-	-	-	763,022	
EXPENDITURES									
General government	-	-	-	-	-	-	-	-	
Public safety	-	-	-	-	-	-	-	6,801	
Cultural and recreation	31,069	262,202	12	-	-	-	-	293,283	
Capital outlay	-	-	-	-	12,971	161,563	-	174,534	
Total Expenditures	31,069	262,202	12	-	12,971	161,563	-	474,618	
Excess (deficiency) of revenues over expenditures	42,387	(99,910)	429,666	75,000	(12,971)	(161,563)	-	288,404	
Other financing sources									
Other financing sources	-	-	-	-	-	161,563	-	161,563	
Transfers in	-	-	-	-	-	-	-	-	
Transfers (out)	100,000	-	-	-	-	-	-	100,000	
	(100,000)	-	-	-	-	161,563	-	261,563	
Excess (deficiency) of revenues and other financing sources over expenditures	(57,613)	(99,910)	429,666	75,000	(12,971)	-	-	549,967	
Fund Balance, June 30, 2016	57,805	(188,708)	(145,244)	85,482	4,302	-	189	209,552	
Fund Balance, JUNE 30, 2017	\$ 192	\$ (288,618)	\$ 284,422	\$ 160,482	\$ (8,669)	\$ -	\$ 189	\$ 759,519	

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Debt Service</u>
REVENUES	
Intergovernmental:	
Investment earnings	\$ -
Total Revenues	<u>-</u>
EXPENDITURES	
Capital outlay	-
Principal and interest	92,950
Total Expenditures	<u>92,950</u>
Excess (deficiency) of revenues over expenditures	(92,950)
Other financing sources	
Lease purchase proceeds	-
Tax anticipation note proceeds	-
Transfers in (out)	92,950
	<u>92,950</u>
Excess (deficiency) of revenues and other financing sources over expenditures	-
Fund Balance, June 30, 2016	<u>-</u>
Fund Balance, JUNE 30, 2017	<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, 2017

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>
<u>Tax Sale Escrow Fund</u>				
ASSETS				
Cash	\$ 33,863	\$ 14,711	\$ 20,827	\$ 27,747
Total Assets	<u>\$ 33,863</u>	<u>\$ 14,711</u>	<u>\$ 20,827</u>	<u>\$ 27,747</u>
LIABILITIES				
Funds held in trust for others	\$ 33,863	\$ 14,711	\$ 20,827	\$ 27,747
Total Liabilities	<u>\$ 33,863</u>	<u>\$ 14,711</u>	<u>\$ 20,827</u>	<u>\$ 27,747</u>
<u>Fireman's Fund</u>				
ASSETS				
Cash	\$ 13,801	\$ 98	\$ 27,738	\$ (13,839)
Total Assets	<u>\$ 13,801</u>	<u>\$ 98</u>	<u>\$ 27,738</u>	<u>\$ (13,839)</u>
LIABILITIES				
Funds held in trust for others	\$ 13,801	\$ 98	\$ 27,738	\$ (13,839)
Total Liabilities	<u>\$ 13,801</u>	<u>\$ 98</u>	<u>\$ 27,738</u>	<u>\$ (13,839)</u>
<u>Police Fines Escrow</u>				
ASSETS				
Cash	\$ 20,577	\$ 112,730	\$ 79,605	\$ 53,702
Total Assets	<u>\$ 20,577</u>	<u>\$ 112,730</u>	<u>\$ 79,605</u>	<u>\$ 53,702</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ 3,956	\$ 3,956	\$ 51,923
Due to Victim's Service	11,845	11,845	11,845	11,845
Due to others	12,438	6,257	14,036	4,659
Funds held in trust for others	<u>(55,629)</u>	<u>90,672</u>	<u>49,768</u>	<u>(14,725)</u>
Total Liabilities	<u>\$ 20,577</u>	<u>\$ 112,730</u>	<u>\$ 79,605</u>	<u>\$ 53,702</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>
<u>Totals - All Agency Funds</u>				
ASSETS				
Cash	\$ 68,241	\$ 127,539	\$ 128,170	\$ 67,610
Total Assets	<u>\$ 68,241</u>	<u>\$ 127,539</u>	<u>\$ 128,170</u>	<u>\$ 67,610</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ 3,956	\$ 3,956	\$ 51,923
Due to others	12,438	6,257	14,036	4,659
Funds held in trust for others	<u>(7,965)</u>	<u>105,481</u>	<u>98,333</u>	<u>(817)</u>
Total Liabilities	<u>\$ 68,241</u>	<u>\$ 127,539</u>	<u>\$ 128,170</u>	<u>\$ 67,610</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Evergreen Cemetery Trust Fund</u>				
ASSETS				
Cash	\$ 179,712	\$ 680	\$ 76,496	\$ 103,896
Due from (to) Others	-	76,496	-	76,496
Due from (to) City of Chester	(10,588)	-	-	(10,588)
Total Assets	<u>\$ 169,124</u>	<u>\$ 77,176</u>	<u>\$ 76,496</u>	<u>\$ 169,804</u>
LIABILITIES				
Funds held in trust for others	\$ 169,124	\$ 77,176	\$ 76,496	\$ 169,804
Total Liabilities	<u>\$ 169,124</u>	<u>\$ 77,176</u>	<u>\$ 76,496</u>	<u>\$ 169,804</u>
<u>Healthcare Trust Fund</u>				
ASSETS				
Cash	\$ 330,725	\$ -	\$ 162,868	\$ 167,857
Due from (to) Others	-	-	-	-
Total Assets	<u>\$ 330,725</u>	<u>\$ -</u>	<u>\$ 162,868</u>	<u>\$ 167,857</u>
LIABILITIES				
Funds held in trust for others	\$ 330,725	\$ -	\$ 162,868	\$ 167,857
Total Liabilities	<u>\$ 330,725</u>	<u>\$ -</u>	<u>\$ 162,868</u>	<u>\$ 167,857</u>
<u>Totals - All Trust Funds</u>				
ASSETS				
Cash	\$ 510,437	\$ 680	\$ 239,364	\$ 271,753
Due from (to) City/Others	(10,588)	-	-	(10,588)
Total Assets	<u>\$ 499,849</u>	<u>\$ 680</u>	<u>\$ 239,364</u>	<u>\$ 261,165</u>
LIABILITIES				
Funds held in trust for others	\$ 499,849	\$ 680	\$ 239,364	\$ 261,165
Total Liabilities	<u>\$ 499,849</u>	<u>\$ 680</u>	<u>\$ 239,364</u>	<u>\$ 261,165</u>

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2017

COURT FINES

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

COURT ASSESSMENTS

Collected	79,523
Retained by City	-
	<hr/> 79,523

COURT SURCHARGES

Collected	-
Retained by City	-
	<hr/> -

AMOUNT ALLOCATED TO VICTIM'S SERVICES

Court Assessments	-
Court Surcharges	-
	<hr/>

Total allocated to Victim's Services	<hr/> <hr/> \$ -
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** SEE FOOTNOTE #17.

** SEE FINDINGS #17-5 AND #17-6.

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

CERTIFIED PUBLIC ACCOUNTANTS

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S.C. ASSOCIATION
OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

We 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, 2017, 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 September 5, 2018. 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 #17-1, 17-3, 17-5, 17-6 and 17-8.

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 #17-2, 17-4 and 17-7.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Chester, South Carolina's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item Finding #17-5. 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, Mong + Bunkley". The signature is written in a cursive, flowing style.

Columbia, South Carolina
September 5, 2018

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

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? Five
 2. Significant deficiency(s) identified that are not considered to be material weaknesses? Three
 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 #17-1: 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 four 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 and #16-1.

Finding #17-2: 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, 2016 or 2017.

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 and #16-2.

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Finding #17-3: 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. A Finance Director was not hired until after the end of the 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.

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 and #16-3.

Finding #17-4: 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 and #16-4.

Finding #17-5: 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, 2017

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.

This is a repeat of Finding #16-5.

Finding #17-6: 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 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. 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.

This is a repeat of Finding #16-6.

Finding #17-7: Trial Balance Funds Did Not Balance

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

Criteria: The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

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

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

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

Finding #17-8: 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 June 30, 2017 fiscal year bank reconciliations were not performed until a Finance Director was hired after the fiscal year end. When the bank reconciliations were completed, several had duplicate interest entries. And, the main operating account had a significant variance as of June 30, 2017.

Revenue reconciliations were not timely performed either. It was discovered during the revenue confirmation reconciliation process, the prior year accounts receivable balances had not been reversed and/or reconciled for current year transactions.

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

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

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

Federal Awards Findings and Questioned Costs:

Finding #17-1: 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, 2017

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2017, we investigated the disposition of the findings for the year ended June 30, 2016. We determined that corrective action had been taken for each finding as follows:

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 four fiscal years.

Corrective Action Taken: None, 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, 2016 or 2017.

Corrective Action Taken: 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.

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.

Corrective Action Taken: None, 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.

Corrective Action Taken: None, 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.

Corrective Action Taken: None, this is a repeat finding.

CITY OF CHESTER, SOUTH CAROLINA
DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

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

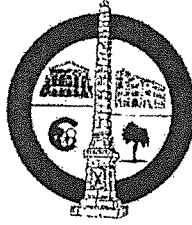
Condition: During the fiscal year, it was discovered that there was a lack of internal controls regarding the police fines and fees and the amounts being collected were not deposited into the bank and reconciled to the LawTrac system in a timely manner. As a result, there's a risk of fines and fees being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

Corrective Action Taken: None, this is a repeat finding.

Federal Awards Findings and Questioned Costs:

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

Same as above.



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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, 2017.

The following from June 30, 2017 schedule of findings and questioned costs are described below:

COMMENTS ON FINDINGS AND RECOMMENDATIONS

Finding #17-1: 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 a financial director who will record all federal grants inside the General Ledger, identified by specific account numbers in which revenue and expenses are recorded.

This is a repeat finding.

Finding #17-2: 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, 2016 or 2017.

Action taken or planned:

Corrective Action Plan: The City has hired a new financial director and city administrator to monitor this process. The Actuarial Variation will be done at least every three years, resuming in 2019.

This is a repeat finding.

Finding #17-3: 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. A Finance Director was not hired until after the end of the fiscal year.

Action taken or planned:

Corrective Action Plan: The City has hired a financial director to help prepare year-end financial statements.

This is a repeat finding.

Finding #17-4: 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 a city administrator and financial director to oversee the budget. Monthly financial statements are presented to department heads and Council for their review.

This is a repeat finding.

Finding #17-5: 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: Since the hiring of the financial director, policies and procedures have been put in place to assure that deposits are reconciled with the LAW Trak System.

Finding #17-6: 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: Since the hiring of the financial director, policies and procedures have been put in place to assure that deposits are reconciled with the LAW Trak System. Measures have been made to make sure deposits are accurately made daily to the bank. The City is now using credit card machines from the bank with which the City banks. This credit card partnership allows the City's deposits to be processed overnight instead of waiting a week for a check from the former credit card company to be presented to the bank as in previous procedures.

Finding #17-7: Trial Balance Funds Did Not Balance

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

Corrective Action Plan: The City has hired a new financial director who balances the general ledger on a weekly basis.

Finding #17-8: 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 June 30, 2017 fiscal year bank reconciliations were not performed until a Finance Director was hired after the fiscal year end. When the bank reconciliations were completed, several had duplicate interest entries. And, the main operating account had a significant variance as of June 30, 2017.

Revenue reconciliations were not timely performed either. It was discovered during the revenue confirmation reconciliation process, the prior year accounts receivable balances had not been reversed and/or reconciled for current year transactions.

Corrective Action Plan: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis

The City has hired a new financial director who reconciles the bank accounts monthly.

STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS

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 four fiscal years.

Corrective Action Taken: None, 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, 2016 or 2017.

Corrective Action Taken: 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.

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.

Corrective Action Taken: None, 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.

Corrective Action Taken: None, 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.

Corrective Action Taken: None, this is a repeat finding.

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

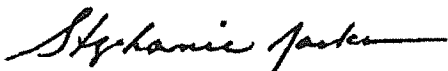
Condition: During the fiscal year, it was discovered that there was a lack of internal controls regarding the police fines and fees and the amounts being collected were not deposited into the bank and reconciled to the LawTrac system in a timely manner. As a result, there's a risk of fines and fees being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

Corrective Action Taken: None, this is a repeat finding.

Federal Awards Findings and Questioned Costs:

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

Same as above.



Sincerely,

Stephanie Jackson
City Administrator