

CITY OF CHESTER, SOUTH CAROLINA

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

For the Year Ended June 30, 2018

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 have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Chester, South Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Chester, South Carolina, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that other required supplementary information, as listed on the table of contents, 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.

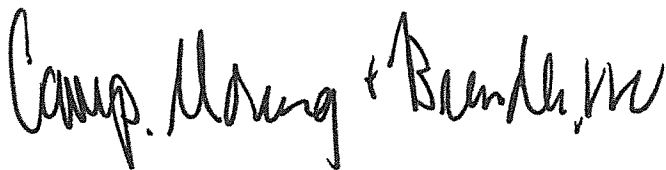
Other Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of the City Chester, South Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Chester, South Carolina's internal control over financial reporting and compliance.



Columbia, South Carolina
September 27, 2019

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 819,861
Receivables (net of allowance for uncollectibles):	
Property taxes	425,018
Intergovernmental	68,226
Other	7,209
Notes receivable, net	299,080
Capital lease receivable	69,502
Capital assets:	
Land	36,000
Buildings and improvements	2,212,548
Improvements, other than buildings	1,814,754
Infrastructure - sidewalks	224,094
Machinery and equipment	3,721,745
Construction in progress	1,203,988
Accumulated depreciation	(5,111,981)
Total Assets	<u>5,790,044</u>
Deferred Outflow of Resources	
Deferred charges on pension amounts	1,741,852
LIABILITIES	
Accounts payable	183,368
Accrued expenses	171,826
Deferred revenue	210,035
Due to Fire District	285,132
Due to other funds	212,372
Other post employment benefits	2,855,406
Net pension liability	6,582,769
Noncurrent liabilities:	
Due within one year	132,898
Due after one year	92,383
Total Liabilities	<u>10,726,189</u>
Deferred Inflow of Resources	
Deferred charges on pension amounts	640,065
NET POSITION	
Invested in capital assets - net of related debt	3,959,766
Restricted for general government	522,604
Unrestricted	(8,316,728)
Total Net Position	<u>\$ (3,834,358)</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, 2018

Total fund balances - governmental funds, June 30, 2018	\$ 626,164
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	9,213,129
Accumulated depreciation	(5,111,981)
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	-
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	(46,287)
Lease financing	(95,095)
Other post employment benefits	(2,855,406)
Net pension liability	(6,582,769)
Compensated absences	(83,900)
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	1,741,852
Deferred inflows of resources	(640,065)
Total net position - governmental activities, June 30, 2018	\$ (3,834,358)

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, 2018

	Program Revenues			Net Revenue (Expense) and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT					
Governmental Activities					
General government	\$ 1,895,408	\$ 21,579	\$ 387,578	\$ -	\$ (1,486,251)
Public safety	3,698,062	1,698,860	3,258	-	(1,995,944)
Public works	829,227	511,865	-	-	(317,362)
Cultural and recreation	817,801	37,378	169,573	10,618	(600,232)
Interest and fiscal charges	8,319	-	-	-	(8,319)
Total Governmental	<u>7,248,817</u>	<u>2,269,682</u>	<u>560,409</u>	<u>10,618</u>	<u>(4,408,108)</u>
Business-Type Activities					
None	-	-	-	-	-
Total Primary Government	<u>\$ 7,248,817</u>	<u>\$ 2,269,682</u>	<u>\$ 560,409</u>	<u>\$ 10,618</u>	<u>(4,408,108)</u>
			General Revenues		
			Property taxes levied for:		
			General purposes		1,400,836
			Accommodations tax		21,170
			Interest/investment income		(124,777)
			Intergovernmental		1,164,196
			Franchise fees		265,182
			Business licenses		731,927
			Transfer to fiduciary funds		206,995
			Total general revenues		<u>3,665,529</u>
			Changes in net position		(742,579)
			Net Position, beginning		(294,526)
			Prior Period Adjustments		(506,233)
			Prior Period Adjustments, NPL		(2,291,020)
			Net Position, beginning, restated		<u>(3,091,779)</u>
			Net Position, ending		<u>\$ (3,834,358)</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, 2018

Change in fund balances - governmental funds, JUNE 30, 2018	\$ (108,516)
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.	187,319
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.	(319,446)
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.	
Principal payments on long-term debt	84,663
Compensated absences	(12,588)
Other post employment benefits	(152,717)
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	(827,822)
Cost of benefits earned net of employee contributions	406,528
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.	-
Change in net position - governmental activities, JUNE 30, 2018	\$ (742,579)

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, 2018

	General Fund	Other Governmental Funds	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 580,109	\$ 239,751	\$ -	\$ 819,860
Receivables (net of allowance for uncollectibles):				
Taxes	425,021	-	-	425,021
Intergovernmental	65,426	-	-	65,426
Other	-	8,009	-	8,009
Notes receivable, net	-	299,080	-	299,080
Due from other funds	536,964	502,369	-	1,039,333
Capital lease receivable	69,502	-	-	69,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,677,022</u>	<u>\$ 1,049,209</u>	<u>\$ -</u>	<u>\$ 2,726,231</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 183,369	\$ -	\$ -	\$ 183,369
Accrued expenses	171,826	-	-	171,826
Deferred revenue	210,035	-	-	210,035
Due to Fire District	285,132	-	-	285,132
Due to other funds	723,100	526,605	-	1,249,705
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,573,462</u>	<u>526,605</u>	<u>-</u>	<u>2,100,067</u>
FUND BALANCES				
Fund balances				
Restricted	-	522,604	-	522,604
Unassigned	103,560	-	-	103,560
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>103,560</u>	<u>522,604</u>	<u>-</u>	<u>626,164</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 1,677,022</u>	<u>\$ 1,049,209</u>	<u>\$ -</u>	<u>\$ 2,726,231</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, 2018

	General Fund	Other Governmental Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Taxes - property	\$ 1,415,351	\$ -	\$ -	\$ 1,415,351
Licenses and permits	997,109	-	-	997,109
Federal grants	159,198	-	-	159,198
Intergovernmental	1,182,676	411,828	-	1,594,504
Charges for services	2,251,109	-	-	2,251,109
Investment earnings	(134,557)	6,255	-	(128,302)
Payments in lieu of taxes	46,481	-	-	46,481
Drug forfeitures	-	18,573	-	18,573
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	5,917,367	436,656	-	6,354,023
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES				
Current:				
General government	1,312,631	16,089	-	1,328,720
Public safety	3,536,320	5,913	-	3,542,233
Public works	797,153	-	-	797,153
Cultural and recreation	415,736	406,746	-	822,482
Capital outlay	-	4,000	-	4,000
Debt service	-	-	92,950	92,950
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	6,061,840	432,748	92,950	6,587,538
	<hr/>	<hr/>	<hr/>	<hr/>
Excess revenue over (under) expenditures	(144,473)	3,908	(92,950)	(233,515)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	73,047	40,998	92,950	206,995
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	73,047	40,998	92,950	206,995
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(71,426)	(37,090)	-	(108,516)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, beginning of year	174,986	559,694	-	734,680
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, end of year	<u>\$ 103,560</u>	<u>\$ 522,604</u>	<u>\$ -</u>	<u>\$ 626,164</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, 2018

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 141,012	\$ 91,519
Due from/(to) City of Chester	<u>(10,588)</u>	<u>-</u>
Total Assets	<u>\$ 130,424</u>	<u>\$ 91,519</u>
LIABILITIES		
Due to City of Chester	\$ -	\$ 51,923
Due to others	-	4,659
Funds held in trust for others	<u>130,424</u>	<u>23,092</u>
Total Liabilities	<u>\$ 130,424</u>	<u>\$ 91,519</u>

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

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements

June 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018 (all property owned by taxpayers are assessed as of December 31, 2017), but which were billed in October 2017 to finance fiscal year 2017-18 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, 2018

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, 2018

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, 2018

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 – OPEB and 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 resourced 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 City 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, 2018

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, 2018 through the date these financial statements were available to be issued on September 27, 2019.

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, 2018

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, 2018.

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:

• Finance	\$ 13,961
• Human Resources	\$ 40,155
• Police Department	\$ 72,121
• Fire Department	\$ 18,239
• Public Works	\$ 231,728

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, 2018

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, 2018, 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 \$1,052,391 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, 2018

Note 5 - Receivables and Deferred Revenue

Property taxes receivables at June 30, 2018 including penalties, are as follows:

Real property (2007 - 2018)	\$ 447,391
Less allowance for doubtful accounts	(22,370)
Total property taxes receivable - net of allowance for uncollectibles	<u>\$ 425,021</u>

Intergovernmental receivables at June 30, 2018 are as follows:

State of South Carolina for	
Local Option Sales Taxes	\$ -
Accommodations Tax	-
MASC Brokers Tax	-
Chester County	19,280
Chester Metropolitan District	44,930
Chester Fire District	1,216
Other receivables	-
Total intergovernmental receivables	<u>\$ 65,426</u>

Other receivables at June 30, 2018 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>8,009</u>
Total other receivables	<u>\$ 59,932</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	\$ 140,533
Received but not earned	-
Total deferred revenues related to property taxes	140,533
Deferred revenue - capital lease of sewage plant	69,502
Total deferred revenue	<u>\$ 210,035</u>

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2018, is as follows:

	Interfund Receivables	Interfund Payables	Purpose
General Fund	\$ 553,550	\$ 739,685	
Special Revenue Fund - Grant Projects	-	14,622	subsidize program
Special Revenue Fund - Drug Fund	-	600	subsidize program
Special Revenue Fund - Fire Equipment Replacement	-	2,000	subsidize program
Special Revenue Fund - Sewer Escrow Fund	101,500	-	subsidize program
Special Revenue Fund - Wellness Grant	-	1,200	subsidize program
Special Revenue Fund - Hospitality Tax	-	9,891	subsidize program
Special Revenue Fund - Summer Foods Program	-	492,077	subsidize program
Special Revenue Fund - Artisan & Farmers Market	456,098	139,511	construction
Capital Projects Fund - Capital Improvements	85,483	-	construction
Capital Projects Fund - East Chester Village Renaissance (II)	-	9,415	construction
Capital Projects Fund - Collins Stadium	75,000	-	construction
Agency Funds - Police Fines & Fees	600	11,846	subsidize program
Trust Funds - Healthcare Fund	75,000	-	subsidize program
Trust Funds - Evergreen Cemetery	84,204	10,588	subsidize program
Total Other Governmental Funds	877,885	691,750	
Totals	\$ 1,431,435	\$ 1,431,435	
	Interfund Transfer Out	Interfund Transfer In	
General Fund	\$ 134,304	\$ 207,351	
Special Revenue Fund - Hospitality Tax	-	-	subsidize program
Special Revenue Fund - Grant Projects	-	41,354	subsidize program
Special Revenue Fund - Artisan & Farmers Market	81,437	-	subsidize program
Capital Projects Fund - East Chester Village Renaissance (II)	914	-	local match
Debt Service Fund	-	92,950	transfer debt activity
Trust Funds - Healthcare Fund	125,000	-	subsidize program
	\$ 341,655	\$ 341,655	

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

Note 7 - Capital Assets

Primary government capital asset activity for the year ended June 30, 2018 is as follows:

	Balance 06/30/17	Additions	Retirements	Balance 06/30/18
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	1,203,988	-	-	1,203,988
Total capital assets, not being depreciated	1,239,988	-	-	1,239,988
Capital assets, being depreciated:				
Buildings	2,212,548	-	-	2,212,548
Improvements other than buildings	1,759,158	55,596	-	1,814,754
Infrastructure	224,094	-	-	224,094
Machinery and equipment	3,590,022	131,723	-	3,721,745
Total capital assets, being depreciated	7,785,822	187,319	-	7,973,141
Less accumulated depreciation for:				
Buildings	1,263,066	48,699	-	1,311,765
Improvements other than buildings	434,553	59,482	-	494,035
Infrastructure	52,075	7,470	-	59,545
Machinery and equipment	3,042,900	203,795	-	3,246,695
Total accumulated depreciation	4,792,594	319,446	-	5,112,040
Total capital assets, being depreciated, net	2,993,228	(132,127)	-	2,861,101
Governmental activities capital assets, net	<u>\$ 4,233,216</u>	<u>\$ (132,127)</u>	<u>\$ -</u>	<u>\$ 4,101,089</u>

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

Governmental Activities:	
General government	\$ 88,881
Public safety	155,184
Public works	32,073
Culture and recreation	43,308
	<u>\$ 319,446</u>

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

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 06/30/17	Increase	Decrease	Balance 06/30/18
General obligation bond, Series 2009. Due in annual payments of \$47,592, principal & interest (3.34%), due April 2019.	\$ 90,810	\$ -	\$ 44,523	\$ 46,287
Lease purchase. Due in annual payments of \$38,502, principal and interest (1.64%), due September 2018.	112,246	-	33,841	78,405
Lease purchase. Due in annual payments of \$3,428, principal and interest (2.17%), due August 2020.	22,989	-	6,299	16,690
Total general long-term debt	<u>\$ 226,045</u>	<u>\$ -</u>	<u>\$ 84,663</u>	<u>\$ 141,382</u>

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

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 127,753	\$ 2,484	\$ 130,237
2020	6,674	182	6,856
2021	6,955	37	6,992
	<u>\$ 141,382</u>	<u>\$ 2,703</u>	<u>\$ 144,085</u>

	Balance 06/30/17	Increase	Decrease	Balance 06/30/18
Accrued compensated absences	\$ 71,310	\$ 12,588	\$ -	\$ 83,898
Total general long-term debt	<u>\$ 71,310</u>	<u>\$ 12,588</u>	<u>\$ -</u>	<u>\$ 83,898</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	78,753	78,753
	<u>\$ 83,898</u>	<u>\$ 83,898</u>

There was interest expense of \$8,287 for the year related to long-term debt.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

Note 9 - Employee Pension Plans

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 State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting the review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with U.S. GAAP. For this purpose, revenues are recognized when earned and expenses are recognized with incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state

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

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

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

investment providers for the employee contribution 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 and an incidental death benefit contribution, if applicable, which is retained by SCRS.

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

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

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

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent 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 has 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.

Contributions – Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may adopt and present to the SFAA for approval an increase in the SCRS employer and employee contribution rates, 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. 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, 2018

The following table presents the required contributions (including group life insurance) to the SCRS by the Commission for the years ended June 30, 2018, 2017 and 2016:

Year Ending June 30,	Covered Salaries	Employee Contribution	Employer Contribution	Total Contributions
2018 Regular	\$1,083,492	\$ 97,514	\$ 145,296	\$ 242,810
Police	1,838,084	179,213	291,142	470,355
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

SCRS - Employer contribution rates were 13.41%, 11.41% and 10.91% for the years ended June 30, 2018, 2017 and 2016, respectively. Employee contribution rates were 9.00%, 8.66% and 8.16% for the years ended June 30, 2018, 2017 and 2016, respectively.

PORS - Employer contribution rates were 15.84%, 13.84% and 11.91% for the years ended June 30, 2018, 2017 and 2016, respectively. Employee contribution rates were 9.75%, 9.24% and 8.66% for the years ended June 30, 2018, 2017 and 2016, respectively. Employer incidental and accidental death rates were 0.20%.

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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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. An experience report on the Systems was most recently issued as of July 1, 2015. The June 30, 2017 total pension liability, net pension liability and sensitivity information were determined by the Systems consulting actuary and are based on the July 1, 2016 actuarial valuations. The total pension liability was rolled-forward from the valuation date to the Systems' fiscal year ended June 30, 2017 using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017 and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result, the actuary made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017.

<u>Actuarial cost method</u>	<u>Entry age</u>
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increase	3.0% to 12.5% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	Lessor of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2018

Net Pension Liability – The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. Net pension liability totals, as of June 30, 2017, for the SCRS and PORS are presented in the following table:

<u>System</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Employers' Net Pension Liability</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
SCRS	\$ 48,244,437,494	\$ 25,732,829,268	\$ 22,511,608,226	53.3%
PORS	\$ 7,013,684,001	\$ 4,274,123,178	\$ 2,739,560,823	60.9%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Long-Term Expected Rate of Return – The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectation and market based inputs. Expected returns are net of investment loss.

The expected rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted beginning January 1, 2017. The long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00% real rate of return and a 2.25% inflation component.

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2018

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 Class				Asset	Real Rate	Real Rate
				<u>Allocation</u>	<u>of Return</u>	<u>of Return</u>
Global Equity				45.00%		
Global public equity				31.00%	6.72%	2.08%
Private equity				9.00%	9.60%	0.86%
Equity options strategies				5.00%	5291.00%	0.30%
Real Assets				8.00%		
Real estate (private)				5.00%	4.32%	0.22%
Real estate (REITs)				2.00%	6.33%	0.13%
Infrastructure				1.00%	6.26%	0.06%
Opportunistic				17.00%		
GTAA/risk parity				10.00%	4.16%	0.42%
Hedge funds (non-PA)				4.00%	3.82%	0.15%
Other opportunistic strategies				3.00%	4.16%	0.12%
Diversified Credit				18.00%		
Mixed credit				6.00%	3.92%	0.24%
Emerging markets debt				5.00%	5.01%	0.25%
Private debt				7.00%	4.37%	0.31%
Conservative Fixed Income				12.00%		
Core fixed income				10.00%	1.60%	0.16%
Cash and short duration (net)				<u>2.00%</u>	92.00%	<u>0.02%</u>
Total Expected Rate of Return				<u>100.00%</u>		5.31%
Inflation for Actuarial Purposes						<u>2.25%</u>
Total Expected Nominal Return						<u>7.56%</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. 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.

Sensitivity Analysis - The following table presents the collective net pension liability of the Commission using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.25%) or 1.00% higher (8.25%) than the current 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	6.25%	\$ 3,844,694	\$ 4,860,355
Current discount rate	7.25%	\$ 2,983,013	\$ 3,599,756
1% increase	8.25%	\$ 2,460,175	\$ 2,606,798

CITY OF CHESTER, SOUTH CAROLINA

Notes to the Financial Statements -- continued

June 30, 2018

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a combined liability of \$6,582,769 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, 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 0.013251% SCRS and 0.13140% PORS.

For the year ended June 30, 2018, the City recognized a combined pension expense of \$837,284. At June 30, 2018, 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	\$ 45,398	\$ 1,653
Assumption changes	516,273	-
Investment experience	617,644	406,098
Change in proportion & difference between employer contribution & proportionate share of plan contributions	<u>543,143</u>	<u>232,314</u>
	<u>\$ 1,722,458</u>	<u>\$ 640,065</u>

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

Year Ending June 30,	<u>Combined</u>
2018	\$ 319,348
2019	441,101
2020	347,361
2021	<u>(25,417)</u>
Total	<u>\$ 1,082,393</u>

Additional Information – 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, 2018 and June 30, 2017, 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 \$1,729,743 for the period July 1, 2017 through June 30, 2018.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

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.

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 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions (replaces GASB 45). The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB this is provided by other entities. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

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.

Significant Accounting Policies

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Contribution Policy

There is no contribution policy, the plan is not funded.

Retirement Health Plan

The City of Chester provides continued medical coverage after retirement for certain employees who were employed prior to June 18, 2004. Details regarding eligibility for this benefit and the amount of the benefit are set forth below:

Eligibility

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 South Carolina Retirement System (SCRS) or the Police Officers Retirement System (PORS) and who have earned all years of service with the City of Chester are eligible for continued coverage under the City's group health insurance plan.

Benefit

Pre-65 Coverage - Pre-65 coverage is provided under a fully insured group policy provided by BlueCross Blue Shield of South Carolina. Retirees are required to share in the cost of coverage. The amount of cost sharing is determined at the beginning of each year. For 2018 and 2019, eligible retirees are required to pay \$250 per month toward the cost of pre-65 coverage.

Post-65 Coverage - Post-65 coverage is provided under a fully insured group Medicare Supplement policy provided by BlueCross Blue Shield of South Carolina. Medicare Part D coverage is also provided. Retirees are required to share in the cost of coverage. The amount of cost sharing is determined at the beginning of each year. For 2018 and 2019, eligible retirees are required to pay \$65 per month toward the cost of pre-65 coverage.

Spousal Coverage - No spousal coverage is provided.

End of Coverage - Coverage ends upon death of the retiree or if the retiree becomes eligible for health insurance coverage through other employment. When retiree coverage ends under this program, it can never be restored.

Summary of Key Results

Reporting Date for Employer under GASB 75	6/30/18
Measurement Date for Employer under GASB 75	6/30/18
Valuation Date for Employer under GASB 75	6/30/18

Discount Rate:

Municipal Bond Index Rate at Measurement Date	3.87%
Expected Long-Term Rate of Return on Assets	N/A
Single Equivalent Discount Rate at Measurement Date	3.87%

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

Census Data – 23 active, 12 retired participants and beneficiaries for a total of 35.

GASB 75 Disclosures

Total OPEB Liability	\$ 2,810,678
Fiduciary Net Position as a percentage of Total OPEB Liability	0.00%
Covered Payroll	\$ 633,700
Net OPEB Liability divided by covered payroll	443.53%
OPEB Expense	\$ 152,717

Changes in the Total OPEB Liability

Service cost	\$ 48,988
Interest	103,729
Benefit payments	(38,643)
Implicit rate subsidy fulfillment	<u>(6,085)</u>
Net changes	107,989
Beginning OPEB liability	<u>2,702,689</u>
Ending OPEB liability	<u><u>\$ 2,810,678</u></u>

OPEB Expense

Service cost with interest	\$ 48,988
Interest on the total OPEB liability	<u>103,729</u>
OPEB Expense	<u><u>\$ 152,717</u></u>

Since GASB 75 was first implemented as of 6/30/2018, the amount of deferred inflows and outflows recognized in the current period is \$0.

Key actuarial assumptions and methods that were used for the June 30, 2018 actuarial valuation are set forth below. As indicated below, many of these assumptions are the same as those used for the July 1, 2018 Actuarial Valuation of the SC Retirement System and the June 30, 2016 State of SC PEBA Retiree Health Care Plan Actuarial Valuation pursuant to GASB 75.

Discount Rate - Pursuant to GASB 75, projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). The Bond Buyer 20-Bond GO index is often cited as an appropriate benchmark. That index was 3.87% on June 30, 2018. A discount rate of 3.87% was used for the June 30, 2018 actuarial valuation.

Retirement Rates - The rates used for the July 1, 2018 SCRS Valuation.

Mortality Rates - The rates used for the July 1, 2018 SCRS Valuation. **Disability** - The rates used for the July 1, 2018 SCRS Valuation.

Termination Rates - The rates used for the July 1, 2018 SCRS Valuation.

Per Capita Claims Costs - Per Capita Claims Costs were developed based on current Blue Cross Blue Shield (BCBS) premiums.

Medical Trend - The medical trend rates were derived from the rates used for the June 30, 2016 SC OPEB Valuation.

CITY OF CHESTER, SOUTH CAROLINA
Notes to the Financial Statements -- continued
June 30, 2018

Premium Rates - Blue Cross Blue Shield (BCBS) premium rates.

Election Percentage - It is assumed that 100% of eligible retirees elect to receive medical coverage upon retirement. Employees hired after June 18, 2004 are not eligible for medical benefits.

Marriage Percentage - N/A. Spousal and dependent coverage are not provided.

Actuarial Funding Method - Individual Entry Age, level percent of payroll.

GASB 75 was first implemented for the fiscal year ending 6/30/2018; therefore, there were no experience gains or losses, no assumption changes and no plan changes as of the measurement date.

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability, calculated using the current discount rate, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	Discount Rate	Total OPEB Liability
1% decrease	2.87%	\$ 3,309,147
Current discount rate	3.87%	\$ 2,810,678
1% increase	4.87%	\$ 2,407,160

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates - The following presents the total OPEB liability as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rate that is 1% lower or 1% higher than the current rate.

	Healthcare Cost Trend Rates
1% decrease	\$ 2,367,089
Current discount rate	\$ 2,810,678
1% increase	\$ 3,373,135

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, 2018 but arose after the year end (non-recognized subsequent events) occurred.

During October 2016, the Finance Director of the City resigned. A full time Finance Director was not hired until November 15, 2018 who has since retired as of July 31, 2019. During April 2018, the City Administrator resigned. A full time City Administrator was not hired until May 15, 2018.

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 late issuance of the June 30, 2018 audit report resulted in funding being withheld again starting August 2018.

Note 17 – Prior Period Adjustments

A prior period adjustment of \$2,291,020 was made to the beginning net position as a result of implementing GASB 75. Other prior period adjustments totaling \$506,223 were made as a result of correction prior year balances disclaimed.

CITY OF CHESTER, SOUTH CAROLINA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes - property	\$ 1,453,527	\$ 1,453,527	\$ 1,415,351	\$ (38,176)
Licenses and permits	898,303	898,303	997,109	98,806
Grants	59,845	59,845	159,198	99,353
Intergovernmental	1,116,855	1,116,855	1,182,676	65,821
Charges for services	2,355,643	2,355,643	2,251,109	(104,534)
Investment earnings	39,964	39,964	(134,557)	(174,521)
Payments in lieu of taxes	63,807	63,807	46,481	(17,326)
Total Revenues	<u>5,987,944</u>	<u>5,987,944</u>	<u>5,917,367</u>	<u>(70,577)</u>
EXPENDITURES				
Current:				
General government	1,546,702	1,546,702	1,312,631	234,071
Public safety	3,445,960	3,445,960	3,536,320	(90,360)
Public works	565,425	565,425	797,153	(231,728)
Cultural and recreation	469,279	469,279	415,736	53,543
Debt service	56,929	56,929	-	56,929
Total Expenditures	<u>6,084,295</u>	<u>6,084,295</u>	<u>6,061,840</u>	<u>22,455</u>
Excess revenue over (under) expenditures	(96,351)	(96,351)	(144,473)	(48,122)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>73,047</u>	<u>73,047</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>73,047</u>	<u>73,047</u>
Net change in fund balances	<u>\$ (96,351)</u>	<u>\$ (96,351)</u>	(71,426)	<u>\$ 24,925</u>
Fund Balance, beginning of year			<u>174,986</u>	
Fund Balance, end of year			<u>\$ 103,560</u>	

CITY OF CHESTER, SOUTH CAROLINA

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY

June 30, 2018

Reporting Date	6/30/2018
Measurement Date	6/30/2018
Valuation Date	6/30/2018
 Total OPEB Liability	
Service cost	\$ 48,988
Interest	103,729
Benefit payments	(38,643)
Implicit rate subsidy fulfillment	<u>(6,085)</u>
Net change in total OPEB liability	107,989
 Total OPEB Liability - beginning	<u>2,702,689</u>
Total OPEB Liability - ending	<u><u>\$ 2,810,678</u></u>
 Covered-employee payroll	633,700
 Total OPEB liability as a percentage of covered-employee payroll	443.53%

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

CITY OF CHESTER, SOUTH CAROLINA

SCHEDULE OF CONTRIBUTIONS AND PROPORTIONATE SHARE OF THE NET PENSION LIABILITY June 30, 2018

	<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>	
	<u>SCRS</u>	<u>PORS</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	\$ 154,549	\$ 251,979
Contributions in Relation to Statutorily Required Contributions	95,201	227,713	103,945	246,198	142,233	244,901	154,549	251,979
Contributions Excess/(Deficiency)	-	-	-	-	-	-	-	-
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831	\$ 1,246,564	\$ 1,769,517	\$ 1,083,492	\$ 1,838,084
Contributions as a Percentage of Covered Employee Payroll	10.75%	13.01%	11.06%	13.74%	11.41%	13.84%	14.26%	13.71%
City's Proportionate Share of Net Pension Liability (%)	0.009828%	0.147080%	0.009431%	0.141260%	0.009719%	0.140550%	0.013251%	0.131400%
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	\$ 2,983,013	\$ 3,599,756
City's Covered Employee Payroll	\$ 885,590	\$ 1,750,294	\$ 939,829	\$ 1,791,831	\$ 1,246,564	\$ 1,769,517	\$ 1,083,492	\$ 1,838,084
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%	275.31%	195.84%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.90%	67.50%	57.00%	64.60%	52.90%	60.40%	53.30%	60.90%

** 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, 2018

OPEB LIABILITY

GASB 75 was first implemented for the fiscal year ending June 30, 2018. There were no experiences gains or losses, no assumption changes and no plan changes as of the measurement date.

NET PENSION LIABILITY

NOTE 1 – VALUATION DATE

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

NOTE 2 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	25 Years, Open
Asset Valuation Method	5-year Smoothing Market
Inflation	2.25%
Salary Increase	3.0% - 12.5%
Investment Return	7.5%
Mortality	2016 PRSC, Projected at Scale AA from Year 2016

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, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<u>REVENUES</u>				
TAXES:				
Property taxes - current	\$ 1,240,123	\$ 1,240,123	\$ 995,924	\$ (244,199)
Property taxes - delinquent	213,404	213,404	419,427	206,023
	<u>1,453,527</u>	<u>1,453,527</u>	<u>1,415,351</u>	<u>(38,176)</u>
LICENSES, FINES, FEES AND PERMITS:				
Business licenses	643,303	643,303	731,927	88,624
Franchise fees	<u>255,000</u>	<u>255,000</u>	<u>265,182</u>	<u>10,182</u>
	898,303	898,303	997,109	98,806
GRANTS:				
State grants	12,000	12,000	125,693	113,693
Federal grants	47,845	47,845	33,505	(14,340)
INTERGOVERNMENTAL:				
State shared revenues:				
Local government revenue	126,998	126,998	149,927	22,929
Local option sales tax	509,250	509,250	784,232	274,982
Homestead exemption	178,440	178,440	192,204	13,764
Accommodations tax	35,000	35,000	21,170	(13,830)
Merchant's inventory tax	34,567	34,567	34,568	1
Manufacturing depreciation tax	1,600	1,600	575	(1,025)
Hospitality tax	<u>231,000</u>	<u>231,000</u>	<u>-</u>	<u>(231,000)</u>
	1,116,855	1,116,855	1,182,676	65,821
CHARGES FOR SERVICES:				
Chester Fire District contract	1,699,470	1,699,470	1,729,743	30,273
Police fines and fees	86,500	86,500	(49,456)	(135,956)
Solid waste fees - commercial	-	-	-	-
Solid waste fees - residential	478,435	478,435	496,931	18,496
Public Works fees	9,350	9,350	14,934	5,584
Cemetery fees	14,863	14,863	21,579	6,716
Recreation Department fees	<u>67,025</u>	<u>67,025</u>	<u>37,378</u>	<u>(29,647)</u>
	2,355,643	2,355,643	2,251,109	(104,534)
INVESTMENT EARNINGS:				
Interest income	500	500	776	276
Lease income	5,000	5,000	4,500	(500)
Other income	<u>34,464</u>	<u>34,464</u>	<u>(139,833)</u>	<u>(174,297)</u>
	39,964	39,964	(134,557)	(174,521)
PAYMENTS IN LIEU OF TAXES:				
Payments in lieu of taxes	<u>63,807</u>	<u>63,807</u>	<u>46,481</u>	<u>(17,326)</u>
TOTAL REVENUES	<u><u>\$ 5,987,944</u></u>	<u><u>\$ 5,987,944</u></u>	<u><u>\$ 5,917,367</u></u>	<u><u>\$ (70,577)</u></u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT:				
CITY COUNCIL				
Salaries	\$ 51,700	\$ 51,700	\$ 51,700	\$ -
Payroll taxes	3,955	3,955	3,725	230
Retirement	5,976	5,976	7,011	(1,035)
Employee insurance and benefits	32,247	32,247	43,120	(10,873)
Dues and subscriptions	-	-	100	(100)
Mayor's meeting expenses	-	-	2,381	(2,381)
Council conferences and travel	15,300	15,300	2,986	12,314
Tourism and accommodations	6,000	6,000	8,250	(2,250)
Supplies and materials	550	550	1,633	(1,083)
Municipal elections	4,500	4,500	-	4,500
Agency support expenses	15,000	15,000	3,089	11,911
Capital expenditures	50,000	50,000	42,908	7,092
	<u>185,228</u>	<u>185,228</u>	<u>166,903</u>	<u>18,325</u>
ADMINISTRATION				
Salaries	325,757	325,757	172,107	153,650
Payroll taxes	24,920	24,920	12,826	12,094
Retirement	37,657	37,657	22,022	15,635
Employee insurance and benefits	49,426	49,426	33,656	15,770
Supplies and materials	4,700	4,700	1,980	2,720
Uniforms	500	500	-	500
Postage	50	50	4,370	(4,320)
Travel and training	14,000	14,000	3,187	10,813
Dues and subscriptions	4,200	4,200	6,802	(2,602)
Auto repairs and maintenance	15,500	15,500	1,096	14,404
Advertising and printing	12,840	12,840	20,548	(7,708)
Utilities	160,000	160,000	192,762	(32,762)
Repairs and maintenance	63,608	63,608	11,821	51,787
Communications	22,300	22,300	30,519	(8,219)
General and miscellaneous	6,000	6,000	3,374	2,626
Contracted services	108,301	108,301	126,540	(18,239)
Insurance	2,500	2,500	11,348	(8,848)
Juror's fees	25,000	25,000	7	24,993
Bond retirement	47,600	47,600	32	47,568
	<u>924,859</u>	<u>924,859</u>	<u>654,997</u>	<u>269,862</u>
FINANCE				
Salaries	101,560	101,560	91,615	9,945
Payroll taxes	8,151	8,151	6,889	1,262
Retirement	12,318	12,318	12,423	(105)
Employee insurance and benefits	23,430	23,430	12,735	10,695
Supplies and materials	2,000	2,000	1,774	226
Postage	3,500	3,500	(15)	3,515
Travel and training	2,400	2,400	406	1,994

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Dues and subscriptions	200	200	6	194
Advertising and printing	4,200	4,200	4,510	(310)
Repairs and maintenance	22,408	22,408	12,735	9,673
Communications	480	480	40	440
General and miscellaneous	4,200	4,200	3,332	868
Contracted services	39,784	39,784	78,121	(38,337)
Insurance	1,200	1,200	15,221	(14,021)
	<u>225,831</u>	<u>225,831</u>	<u>239,792</u>	<u>(13,961)</u>
HUMAN RESOURCES				
Salaries	119,973	119,973	163,419	(43,446)
Payroll taxes	9,178	9,178	12,288	(3,110)
Retirement	13,868	13,868	22,160	(8,292)
Employee insurance and benefits	25,357	25,357	19,357	6,000
Supplies and materials	2,500	2,500	1,450	1,050
Postage	-	-	-	-
Travel and training	13,300	13,300	1,243	12,057
Printing	6,860	6,860	6,112	748
Municipal expense	-	-	-	-
Dues and subscriptions	800	800	435	365
Repairs and maintenance	6,908	6,908	3,701	3,207
Contracted services	11,220	11,220	20,082	(8,862)
Communications	820	820	692	128
	<u>210,784</u>	<u>210,784</u>	<u>250,939</u>	<u>(40,155)</u>
Total General Government	<u>1,546,702</u>	<u>1,546,702</u>	<u>1,312,631</u>	<u>234,071</u>
PUBLIC SAFETY:				
POLICE DEPARTMENT				
Salaries	993,305	993,305	956,563	36,742
Payroll taxes	75,987	75,987	70,749	5,238
Retirement	139,873	139,873	153,757	(13,884)
Employee insurance and benefits	247,987	247,987	239,977	8,010
Supplies and materials	52,500	52,500	50,786	1,714
Postage	-	-	-	-
Travel and training	12,750	12,750	9,890	2,860
Dues and subscriptions	500	500	235	265
Auto repairs and maintenance	50,000	50,000	64,012	(14,012)
Advertising and printing	19,200	19,200	58,866	(39,666)
Utilities	-	-	7,223	(7,223)
Repairs and maintenance	6,408	6,408	1,279	5,129
Communications	37,200	37,200	49,628	(12,428)
General and miscellaneous	3,500	3,500	16,335	(12,835)
Uniforms	15,000	15,000	11,696	3,304
Contracted services	88,500	88,500	87,582	918
Insurance	32,000	32,000	68,253	(36,253)
Capital expenditures	-	-	-	-
	<u>1,774,710</u>	<u>1,774,710</u>	<u>1,846,831</u>	<u>(72,121)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
FIRE DEPARTMENT				
Salaries	1,192,500	1,192,500	979,636	212,864
Payroll taxes	75,000	75,000	72,586	2,414
Retirement	157,000	157,000	157,575	(575)
Employee insurance and benefits	43,000	43,000	253,392	(210,392)
Supplies and materials	7,450	7,450	7,028	422
Postage	250	250	-	250
Travel and training	26,200	26,200	18,560	7,640
Dues and subscriptions	3,000	3,000	2,867	133
Auto repairs and maintenance	-	-	-	-
Advertising and printing	6,000	6,000	5,710	290
Utilities	25,900	25,900	27,991	(2,091)
Repairs and maintenance	24,750	24,750	28,955	(4,205)
Communications	11,700	11,700	11,078	622
General and miscellaneous	1,000	1,000	2,196	(1,196)
Uniforms	24,000	24,000	26,487	(2,487)
Contracted services	50,500	50,500	37,417	13,083
Insurance	23,000	23,000	58,011	(35,011)
	<u>1,671,250</u>	<u>1,671,250</u>	<u>1,689,489</u>	<u>(18,239)</u>
Total Public Safety	<u>3,445,960</u>	<u>3,445,960</u>	<u>3,536,320</u>	<u>(90,360)</u>
PUBLIC WORKS:				
PUBLIC WORKS - COMMERCIAL				
Salaries	225,162	225,162	323,450	(98,288)
Payroll taxes	17,224	17,224	24,023	(6,799)
Retirement	26,028	26,028	43,860	(17,832)
Employee insurance and benefits	66,103	66,103	115,160	(49,057)
Supplies and materials	18,000	18,000	15,157	2,843
Postage	-	-	-	-
Travel and training	3,000	3,000	117	2,883
Dues and subscriptions	500	500	28	472
Auto repairs and maintenance	25,000	25,000	46,020	(21,020)
Advertising and printing	500	500	357	143
Utilities	7,500	7,500	10,530	(3,030)
Repairs and maintenance	10,108	10,108	9,066	1,042
Communications	3,420	3,420	1,992	1,428
Contracted services	77,880	77,880	83,729	(5,849)
Insurance	5,000	5,000	20,953	(15,953)
Solid waste - yard	20,000	20,000	26,050	(6,050)
Solid waste - commercial	60,000	60,000	76,661	(16,661)
	<u>565,425</u>	<u>565,425</u>	<u>797,153</u>	<u>(231,728)</u>
Total Public Works	<u>565,425</u>	<u>565,425</u>	<u>797,153</u>	<u>(231,728)</u>

CITY OF CHESTER, SOUTH CAROLINA
DETAILED BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<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	195,629	54,866
Payroll taxes	19,162	19,162	14,006	5,156
Retirement	26,932	26,932	19,791	7,141
Employee insurance and benefits	15,912	15,912	34,565	(18,653)
Supplies and materials	8,970	8,970	3,808	5,162
Postage	100	100	19	81
Travel and training	2,250	2,250	9	2,241
Dues and subscriptions	500	500	601	(101)
Auto repairs and maintenance	3,750	3,750	2,662	1,088
Advertising and printing	4,000	4,000	3,534	466
Utilities	33,600	33,600	43,087	(9,487)
Repairs and maintenance	34,108	34,108	16,836	17,272
Communications	5,100	5,100	4,926	174
General and miscellaneous	-	-	-	-
Uniforms	5,000	5,000	271	4,729
Contracted services	8,300	8,300	12,190	(3,890)
Insurance	1,100	1,100	3,219	(2,119)
Programs and services	50,000	50,000	60,324	(10,324)
Grant match	-	-	-	-
	<u>469,279</u>	<u>469,279</u>	<u>415,477</u>	<u>53,802</u>
SUMMER FOOD PROGRAM				
Supplies and materials	-	-	271	(271)
Travel and training	-	-	(12)	12
	<u>-</u>	<u>-</u>	<u>259</u>	<u>(259)</u>
Total Culture and Recreation	469,279	469,279	415,736	53,543
DEBT SERVICE				
Debt service	56,929	56,929	-	56,929
OTHER FINANCING (SOURCES) USES				
Transfer in (out)	-	-	(73,047)	73,047
Total Other Financing (Sources) Uses	-	-	(73,047)	73,047
TOTAL EXPENDITURES	\$ 6,084,295	\$ 6,084,295	\$ 5,988,793	\$ 95,502
EXCESS EXPENDITURES OVER REVENUES				
	<u>\$ (96,351)</u>	<u>\$ (96,351)</u>	<u>\$ (71,426)</u>	<u>\$ 24,925</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018

SPECIAL REVENUE FUNDS

	Special Projects	Community Development	McAliley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Eserow	Water Works Fund	Wellness Grant
ASSETS									
Cash	\$ -	\$ -	\$ -	\$ 51,089	\$ 19,753	\$ 34,719	\$ 24,368	\$ 26,416	\$ -
Receivable - other	200	-	-	7,000	-	800	-	-	-
Notes receivable, net	-	16,080	208,000	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	101,500	-	-
Total Assets	\$ 200	\$ 16,080	\$ 208,000	\$ 58,089	\$ 19,753	\$ 35,519	\$ 125,868	\$ 26,416	\$ -
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	14,622	600	-	-	-	-
Fund balance	200	16,080	208,000	43,467	19,153	35,519	125,868	26,416	-
Total Liabilities and Fund Balance	\$ 200	\$ 16,080	\$ 208,000	\$ 58,089	\$ 19,753	\$ 35,519	\$ 125,868	\$ 26,416	\$ -

CITY OF CHESTER, SOUTH CAROLINA
COMBINING BALANCE SHEET - ALL OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUNDS				
	Hospitality Tax	Summer Foods Program	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	Joe Collins Stadium	Other Capital Projects Funds	Totals	
ASSETS									
Cash	\$ 3,387	\$ 79,830	\$ -	\$ -	\$ -	\$ -	\$ 189	\$ 239,751	
Receivable - other	-	-	-	-	9	-	-	8,009	
Notes receivable, net	-	-	-	-	-	75,000	-	299,080	
Due from other funds	-	-	316,587	85,482	-	-	-	502,369	
Total Assets	\$ 3,387	\$ 79,830	\$ 316,587	\$ 85,482	\$ 9	\$ 75,000	\$ 189	\$ 1,049,209	
LIABILITIES AND FUND BALANCE									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Due to other funds	9,891	492,076	-	-	9,416	-	-	526,605	
Fund balance	(6,504)	(412,246)	316,587	85,482	(9,407)	75,000	189	522,604	
Total Liabilities and Fund Balance	\$ 3,387	\$ 79,830	\$ 316,587	\$ 85,482	\$ 9	\$ 75,000	\$ 189	\$ 1,049,209	

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, 2018

SPECIAL REVENUE FUNDS									
	Special Projects	Community Development	McAliley Project	Grant Projects	Drug Fund	Fire Equipment Replacement	Sewer Eserow	Water Works Fund	Wellness Grant
REVENUES									
Intergovernmental:									
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	18,202	-	-	-	-	-
Local sources	-	-	-	-	-	3,600	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	526	5,339	390	-
Drug forfeitures	-	-	-	-	18,573	-	-	-	-
Total Revenues	-	-	-	18,202	18,573	4,126	5,339	390	-
EXPENDITURES									
General government	-	-	-	16,089	-	-	-	-	-
Public safety	-	-	-	-	5,913	-	-	-	-
Cultural and recreation	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	4,000	-	-	-	-
Total Expenditures	-	-	-	16,089	9,913	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	2,113	8,660	4,126	5,339	390	-
Other financing sources									
Other financing sources	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	41,354	-	-	-	-	-
	-	-	-	(41,354)	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	43,467	8,660	4,126	5,339	390	-
Fund Balance, June 30, 2017	200	16,080	208,000	-	10,493	31,393	120,529	26,026	-
Fund Balance, JUNE 30, 2018	\$ 200	\$ 16,080	\$ 208,000	\$ 43,467	\$ 19,153	\$ 35,519	\$ 125,868	\$ 26,416	\$ -

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, 2018

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS				Totals
	Hospitality Tax	Summer Foods Program	Artisan & Farmers Market	Capital Improvement Fund	East Chester Village Renaissance (II)	Joe Collins Stadium	Other Capital Projects Funds	
REVENUES								
Intergovernmental:								
Federal sources	\$ -	\$ -	\$ 10,617	\$ -	\$ -	\$ -	\$ -	\$ 10,617
State sources	-	-	-	-	-	-	-	18,202
Local sources	66,577	209,836	102,996	-	-	-	-	383,009
Charges for services	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-	-	6,255
Drug forfeitures	-	-	-	-	-	-	-	18,573
Total Revenues	66,577	209,836	113,613	-	-	-	-	436,656
EXPENDITURES								
General government	-	-	-	-	-	-	-	16,089
Public safety	-	-	-	-	-	-	-	5,913
Cultural and recreation	73,273	333,463	10	-	-	-	-	406,746
Capital outlay	-	-	-	-	-	-	-	4,000
Total Expenditures	73,273	333,463	10	-	-	-	-	432,748
Excess (deficiency) of revenues over expenditures	(6,696)	(123,627)	113,603	-	-	-	-	3,908
Other financing sources								
Other financing sources	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	(914)	-	-	(914)
Transfers (out)	-	-	(81,438)	-	-	-	-	(40,084)
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	81,438	-	(914)	-	-	(40,998)
	(6,696)	(123,627)	32,165	-	(914)	-	-	(37,090)
Fund Balance, June 30, 2017	192	(288,619)	284,422	85,482	(8,493)	75,000	189	559,694
Fund Balance, JUNE 30, 2018	\$ (6,504)	\$ (412,246)	\$ 316,587	\$ 85,482	\$ (9,407)	\$ 75,000	\$ 189	\$ 522,604

CITY OF CHESTER, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<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, 2017	<u>-</u>
Fund Balance, JUNE 30, 2018	<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, 2018

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
<u>Tax Sale Escrow Fund</u>				
ASSETS				
Cash	\$ 27,747	\$ -	\$ 5,195	\$ 22,552
Total Assets	<u>\$ 27,747</u>	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ 22,552</u>
LIABILITIES				
Funds held in trust for others	\$ 27,747	\$ -	\$ 5,195	\$ 22,552
Total Liabilities	<u>\$ 27,747</u>	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ 22,552</u>
<u>Fireman's Fund</u>				
ASSETS				
Cash	\$ (13,839)	\$ 29,908	\$ 32,346	\$ (16,277)
Total Assets	<u>\$ (13,839)</u>	<u>\$ 29,908</u>	<u>\$ 32,346</u>	<u>\$ (16,277)</u>
LIABILITIES				
Funds held in trust for others	\$ (13,839)	\$ 29,908	\$ 32,346	\$ (16,277)
Total Liabilities	<u>\$ (13,839)</u>	<u>\$ 29,908</u>	<u>\$ 32,346</u>	<u>\$ (16,277)</u>
<u>Police Fines Escrow</u>				
ASSETS				
Cash	\$ 53,702	\$ 127,967	\$ 96,425	\$ 85,244
Total Assets	<u>\$ 53,702</u>	<u>\$ 127,967</u>	<u>\$ 96,425</u>	<u>\$ 85,244</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ -	\$ -	\$ 51,923
Due to Victim's Service	11,845	-	-	11,845
Due to others	4,659	-	-	4,659
Funds held in trust for others	<u>(14,725)</u>	<u>127,967</u>	<u>96,425</u>	<u>16,817</u>
Total Liabilities	<u>\$ 53,702</u>	<u>\$ 127,967</u>	<u>\$ 96,425</u>	<u>\$ 85,244</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
<u>Totals - All Agency Funds</u>				
ASSETS				
Cash	\$ 67,610	\$ 157,875	\$ 133,966	\$ 91,519
Total Assets	<u>\$ 67,610</u>	<u>\$ 157,875</u>	<u>\$ 133,966</u>	<u>\$ 91,519</u>
LIABILITIES				
Due to City of Chester	\$ 51,923	\$ -	\$ -	\$ 51,923
Due to others	4,659	-	-	4,659
Funds held in trust for others	<u>(817)</u>	<u>157,875</u>	<u>133,966</u>	<u>23,092</u>
Total Liabilities	<u>\$ 67,610</u>	<u>\$ 157,875</u>	<u>\$ 133,966</u>	<u>\$ 91,519</u>

CITY OF CHESTER, SOUTH CAROLINA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Evergreen Cemetery Trust Fund</u>				
ASSETS				
Cash	\$ 103,896	\$ 272	\$ 7,708	\$ 96,460
Due from (to) Others	76,496	7,708	-	84,204
Due from (to) City of Chester	(10,588)	-	-	(10,588)
Total Assets	<u>\$ 169,804</u>	<u>\$ 7,980</u>	<u>\$ 7,708</u>	<u>\$ 170,076</u>
LIABILITIES				
Funds held in trust for others	\$ 169,804	\$ 7,980	\$ 7,708	\$ 170,076
Total Liabilities	<u>\$ 169,804</u>	<u>\$ 7,980</u>	<u>\$ 7,708</u>	<u>\$ 170,076</u>
<u>Healthcare Trust Fund</u>				
ASSETS				
Cash	\$ 167,857	\$ 2,146	\$ 125,451	\$ 44,552
Due from (to) Others	-	-	-	-
Total Assets	<u>\$ 167,857</u>	<u>\$ 2,146</u>	<u>\$ 125,451</u>	<u>\$ 44,552</u>
LIABILITIES				
Funds held in trust for others	\$ 167,857	\$ 2,146	\$ 125,451	\$ 44,552
Total Liabilities	<u>\$ 167,857</u>	<u>\$ 2,146</u>	<u>\$ 125,451</u>	<u>\$ 44,552</u>
<u>Totals - All Trust Funds</u>				
ASSETS				
Cash	\$ 271,753	\$ 2,418	\$ 133,159	\$ 141,012
Due from (to) City/Others	(10,588)	-	-	(10,588)
Total Assets	<u>\$ 261,165</u>	<u>\$ 2,418</u>	<u>\$ 133,159</u>	<u>\$ 130,424</u>
LIABILITIES				
Funds held in trust for others	\$ 261,165	\$ 2,418	\$ 133,159	\$ 130,424
Total Liabilities	<u>\$ 261,165</u>	<u>\$ 2,418</u>	<u>\$ 133,159</u>	<u>\$ 130,424</u>

CITY OF CHESTER, SOUTH CAROLINA
SUPPLEMENTARY INFORMATION
SCHEDULE OF MUNICIPAL COURT FEES AND FINES
FOR THE YEAR ENDED JUNE 30, 2018

COURT FINES

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

COURT ASSESSMENTS

Collected		49,149
Retained by City		6,174
		<hr/> 55,323

COURT SURCHARGES

Collected		20,953
Retained by City		3,057
		<hr/> 24,010

AMOUNT ALLOCATED TO VICTIM'S SERVICES

Court Assessments		6,174
Court Surcharges		3,057
		<hr/>

Total allocated to Victim's Services	\$	<hr/> <hr/> 9,231
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CAMP, MORING & BRENDLE, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1418 LAUREL STREET
COLUMBIA, SOUTH CAROLINA 29201
PHONE (803) 252-9375
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JOHN F. CAMP, CPA
WALTER L. MORING, JR., CPA
REBECCA C. BRENDLE, CPA

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City Chester, South Carolina as of and for the year ended June 30, 2018, 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 27, 2019.

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 #18-3 and 18-4.

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 #18-1 and 18-2.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

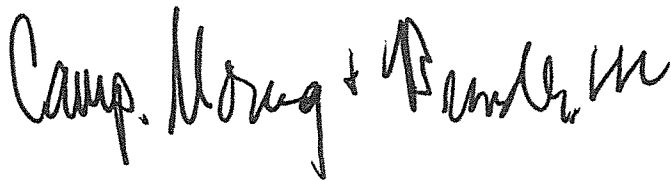
We noted certain matters that we reported to management of City of Chester, South Carolina in a separate letter dated September 27, 2019.

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, Moring & Bunker Inc." with a stylized flourish at the end.

Columbia, South Carolina

September 27, 2019

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Summary of Auditors' Results:

1. Summary of the auditors' results
 - a. Financial Statements
 - i. Type of auditors' report issued : Unmodified
 - ii. Internal control over financial reporting:
 1. Material weakness(es) identified? Two
 2. Significant deficiency(s) identified that are not considered to be material weaknesses? Two
 3. Noncompliance material to the financial statements. None
 - 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 #18-1: 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, 2018 fiscal year financial statements similar to previous fiscal years. A Finance Director was hired during the fiscal year end but that position is currently vacant.

Criteria: *Government Auditing Standards* independence requirements include management's ability to effectively oversee the non-audit 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 through 2018 financial statements, a full-time employee with governmental accounting experience is recommended.

This is a repeat of Finding #15-6, #16-3 and #17.3.

Finding #18-2: 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, #16-4 and #17-4.

CITY OF CHESTER, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Finding #18-3: Trial Balance Funds Did Not Balance

Condition: During the 2018 fiscal year audit, the overall general ledger, as well as a majority of the internal funds, were out of balance at the start of the audit fieldwork. During the 2017 fiscal year audit, 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.

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.

This is a repeat of Finding #17-7.

Finding #18-4: 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 and 2018 fiscal year bank reconciliations were not performed until a Finance Director was hired during the fiscal year end. When the bank reconciliations were completed, several did not reconcile to the general ledger balance. And, the main operating account had a significant variance as of June 30, 2017 and 2018. An outside consultant was eventually hired to help reconcile the City's general fund operating bank account.

Revenue reconciliations were not timely performed either. It was discovered during the revenue confirmation reconciliation process that 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.

This is a repeat of Finding #17-8.

Federal Awards Findings and Questioned Costs:

None.

CITY OF CHESTER, SOUTH CAROLINA

DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2018

As part of procedures performed during our audit of the financial statements of the City of Chester for the year ended June 30, 2018, we investigated the disposition of the findings for the year ended June 30, 2017. We determined that corrective action had been taken for each finding as follows:

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 Taken: The City hired a financial director who recorded all federal grants inside the General Ledger, identified by specific account numbers in which revenue and expenses are recorded.

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 Taken: The City had an actuarial firm complete the GASB 75 report in January 2019.

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 Taken: No action taken.

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 Taken: No action taken.

This is a repeat finding.

CITY OF CHESTER, SOUTH CAROLINA

DISPOSITION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

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 Taken: Since the hiring of the financial director, policies and procedures were 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 Taken: Since the hiring of the financial director, policies and procedures were 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 Taken: No action taken.

This is a repeat finding.

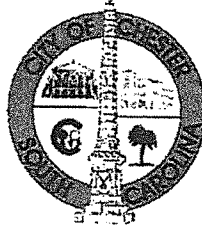
Finding #17-8: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis

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 Taken: No action taken.

This is a repeat finding.



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

Re: CORRECTIVE ACTION PLAN – FINANCIAL STATEMENT AUDIT

City of Chester concurs with the audit finding and respectfully submits the following corrective action plan for the year ending June 30, 2018.

The following from June 30, 2018 schedule of findings and questioned costs are described below:

COMMENTS ON FINDINGS AND RECOMMENDATIONS

Finding #18-1: 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, 2018 fiscal year financial statements similar to previous fiscal years. A Finance Director was hired during the fiscal year end but that position is currently vacant.

Action taken or planned:

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

This is a repeat finding.

Finding #18-2: 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: Monthly financial statements are presented to department heads and Council for their review.

This is a repeat finding.

Finding #18-3: Trial Balance Funds Did Not Balance

Condition: During the 2018 fiscal year audit, the overall general ledger, as well as a majority of the internal funds, were out of balance at the start of the audit fieldwork. During the 2017 fiscal year audit, while the overall general ledger was in balance before audit fieldwork began, several internal funds, including the general fund, were out of balance.

Action taken or planned:

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

This is a repeat finding.

Finding #18-4: 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 and 2018 fiscal year bank reconciliations were not performed until a Finance Director was hired during the fiscal year end. When the bank reconciliations were completed, several did not reconcile to the general ledger balance. And, the main operating account had a significant variance as of June 30, 2017 and 2018. An outside consultant was eventually hired to help reconcile the City's general fund operating bank account.

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

Action taken or planned:

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.

This is a repeat finding.

STATUS OF CORRECTIVE ACTIONS ON PRIOR FINDINGS

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 recorded all federal grants inside the General Ledger, identified by specific account numbers in which revenue and expenses are recorded.

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 had an actuarial firm complete the GASB 75 report in January 2019.

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: 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 were 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 were 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.

This is a repeat finding.

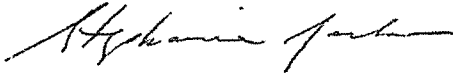
Finding #17-8: Cash and Revenue Reconciliations Not Made on a Timely or Accurate Basis

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.
This is a repeat finding.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stephanie Jackson", written in dark ink.

Stephanie Jackson
City Administrator