

CITY OF NEW ELLENTON
NEW ELLENTON, SOUTH CAROLINA

FINANCIAL STATEMENTS
June 30, 2005

CITY OF NEW ELLENTON
SOUTH CAROLINA
June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of Town Council
City of New Ellenton, South Carolina

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Ellenton ("*the City*") as of and for the year ended June 30, 2005, which collectively comprise of the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The accompanying Statement of Activities, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, Statement of Revenues, Expenses, and changes in Fund Net Assets, the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, or the Statement of Cash Flows for the year ended were not audited by me and accordingly, I do not express such an opinion.

In my opinion, the accompanying Statement of Net Assets and the Balance Sheet-Governmental Funds presents fairly, in all material respects the financial position of the City as of June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2005.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The City has not presented the Management's Discussion and Analysis that the Governmental Accounting Standard's Board requires to supplement, although not to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 10, 2006 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Irmo, South Carolina
January 10, 2006

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government and Operations

The City of New Ellenton, South Carolina, (the City), an incorporated municipality, is located in Aiken county in southwestern South Carolina. The City possesses all powers granted to municipalities by the Constitution of general laws of the State of South Carolina. The City provides a wide range of governmental services including police and fire protection, recreation, garbage collection, and water and sewer service to its residents.

In evaluating how to determine the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's financial accountability for the potential component unit. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to impose its will over management decision. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity:

Blended Component Unit within the Reporting Entity:

Commission of Public Works

The Commission of Public Works consists of a three-member Board of Commissioners elected by the Citizens of the City. The Commissioners have the authority to set policy and procedures. The Commissioners cannot incur debt without the approval of City Council.

GASB 34 Implementation

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statement prepared using full accrual accounting for all the City's activities, including infrastructure where applicable.
2. A change in the fund financial statements to focus on the major funds.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Basic Financial Statements-Government-Wide Statements

The City's financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds-General Fund and Proprietary fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type.

In the Government-Wide Statement of Net Assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in two parts-invested in capital assets, net of related debt and unrestricted net assets.

The Government-Wide Statement of Activities reports the net cost of each of the City's functions. The Statement of Activities reduces gross expenses (including depreciation) by related function. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Fund Accounting:

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements in this report into generic fund types and broad fund categories, as follows:

Governmental Funds

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

Enterprise Funds are used to account for operations:

- a. that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- b. where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Fiduciary Funds

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. In the past the municipal money owed to the State Treasurer was accounted for in this fund. In the current and future periods, the amount owed to the State Treasurer will be accounted for as a liability in the Statement of Net Assets and the Balance Sheet-Governmental Funds.

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Net current assets include only receivables that are expected to be collected in time (generally, sixty days) to pay liabilities in existence at the end of the year. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for:

- a. accumulated unpaid vacation and sick pay due sixty days or later after the year-end is not recorded in the Governmental funds, (the long-term amounts due are recorded in the General Long-Term Debt Account Group);
- b. prepaid expenditures are not normally recorded;
- c. capital outlays are treated as expenditures when acquired and not capitalized and depreciated; and

All proprietary funds are accounted for on the accrual basis of accounting. Their revenues are recognized when they are earned and theft expenses are recognized when they are incurred. Under Governmental Accounting Standards Board Statement No. 20, the City's Proprietary Fund follows all Financial Accounting Standards Board statements issued after November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards Board pronouncements and that are developed for business enterprises.

Cash and Cash Equivalents:

Cash and cash equivalents for the purposes of the cash flow statement consists of amounts in interest bearing demand deposits, certificates of deposit, and amounts on deposit with bond paying agents.

Inventory:

Inventory is valued at lower of the cost or market using the first in - first out method and consists of supplies used in the installation and maintenance of the water delivery system.

Budgets:

A budget is not presented for the year ended June 30, 2005.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Fixed Assets and Long-Term Liabilities:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Theft reported fund balance (net current assets) is considered a measure of “available spending resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. Depreciation expense has been estimated in the Statement of Activities by management.

All fixed assets are to be valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are to be valued at their estimated fair value on the date donated. In past years, the City has not maintained a complete record of its General Fixed Assets nor has estimated historical cost been determined. However, a running total has been carried forward from year to year.

Because of their spending measurement focus, expenditure recognition for Governmental Fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as Governmental Fund type expenditures or fund liabilities.

All Proprietary Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets purchased with local funds is charged as an expense against Proprietary Fund operations. Depreciation has been provided over the estimated useful lives of fixed assets using the straight-line method. The estimated useful lives are as follows:

Machinery and equipment	3-10 years
Sewer facility and buildings	30 years
Water delivery system	15-30 years

The fixed assets of the sewer facility include capitalized interest of \$288,250.

Due from or to other funds:

All “Due from or to other funds” represents transfers of a non-mandatory and nonpermanent nature and have been reclassified into operating transfers. These amounts transferred have no formal specified time for repayment and are not to be considered loans but permanent transfers to aid in operations.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Deferred Bond Issue Costs Amortization:

The Commission of Public Works and the Sewer Department have recorded deferred bond issue costs arising from the issuance of revenue bonds. Such costs are being amortized on a straightline basis over the term of the bond.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE B - RISK MANAGEMENT:

The City pays insurance premiums to the State of South Carolina and other entities to cover risks that may occur in normal operations. These entities accumulate assets and these entities themselves assume risk for the following:

- Claims of City employees for unemployment compensation benefits.
- Claims of covered employees for workers' compensation benefits.
- Claims of covered employees for health, dental, long term health care and group life benefits.

The City's Workers' Compensation premium amounts are subject to audit by the State of South Carolina. Accordingly, additional premiums for Workers' Compensation may be assessed.

In addition, the City pays premiums to the State's Insurance Reserve Fund and independent insurance agencies, which accumulate assets to cover the following losses:

- Buildings and building contents
- Motor vehicles
- Equipment
- General tort claims

NOTE C- COMPENSATED ABSENCES:

City employees earn annual leave, based upon years of service. Also, maximum accumulations at any fiscal year-end cannot exceed one and one half (1-1/2) the employee's annual accrual rate. Further, under no circumstances will employees be paid in excess of their maximum authorized accumulation in the case of termination.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE C – COMPENSATED ABSENCES-continued

The Commission of Public Works and Sewer Department, (Proprietary Funds), record vested or accumulated vacation leave as an expense of those funds as the benefits are paid to employees, rather than when earned by employees, because these amounts are considered immaterial in respect to operations. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulation of rights to receive sick pay benefits.

NOTE D- BUDGET POLICY:

The City's various departments submit requests for appropriations to the City's administration so that a proposed budget may be formulated. The budget is prepared by fund, function, and activity. Before June 30 of each year, the proposed budget is presented to the City Council for review. The Council holds public hearings and may add to, subtract from, or change appropriations.

Budget amounts reflected in the accompanying financial statements represent the adopted budget and any revisions approved by Council during the fiscal year. Line item transfers within operating departments are approved by the Mayor; any additional appropriations or transfers between departments are approved by Council. Expenditures may not legally exceed budgeted appropriations at the departmental level. At year-end, all budget appropriations lapse.

NOTE E - CASH AND INVESTMENTS:

Under state law, the City is authorized to:

- A. Hold funds in deposit accounts with banking institutions.
- B. Invest money in the following:
 - 1. Obligations of the United States and agencies thereof
 - 2. General obligations of the State of South Carolina or any of its political units.
 - 3. Savings and loan associations to the extent insured by an agency of the federal government.
 - 4. Certificates of deposit, where the certificates are federally insured or collaterally secured by collateral of the types in 1 or 2, above.

At June 30, 2005, cash and investments consist of the following:

Unrestricted:

General Fund:

Cash in banks \$ 498,863

Enterprise Fund \$ 47,796

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE E – CASH AND INVESTMENTS -continued

Restricted:

Enterprise Fund \$ 688,265

Deposits:

The City's deposits are categorized to indicate the level of risk assumed by the City at year-end. Category 1 includes deposits insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities pledged by the pledging financial institutions trust department or agent in the City's name. Category 3 includes uninsured deposits, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name.

	<u>1</u>	<u>2</u>	<u>3</u>
City	\$ 26,045		
CPW	<u>307,904</u>		
	<u>\$ 333,949</u>	<u>\$</u>	<u>\$</u>

Investments:

The City's investments are categorized to disclose the level of risk assumed by the City at year~ end. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the name of the City. Category 2 includes uninsured and unregistered investments, 'with securities held by the counterparty's trust department or agent in the government's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty or by its trust department or agent, but not in the name of the City. Investments of the City represent accounts maintained by its revenue bond trustees for the future retirement of debt.

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Market</u>	<u>Carrying</u>
Repurchase					
Agreements	<u>\$</u>	<u>\$ 402,112</u>	<u>\$</u>	<u>\$ 402,112</u>	<u>\$ 402,112</u>

NOTE F- PROPERTY TAXES:

Property taxes are levied on real and personal properties, except motor vehicles, owned on the preceding December 31, of each County fiscal year ended June 30. These taxes are due without penalty through January 15. Penalties are added to taxes on the following dates:

- January 16 through February 1
- February 2 through March 16
- March 17 through March 31

Current year real and personal taxes become delinquent on April 1.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE F – PROPERTY TAXES -continued

The levy date for motor vehicle taxes is the first day of the month in which the motor vehicle license expires. These taxes are due by the last day of the same month.

Property tax revenues are recognized when due or past due and collectible within the current period or soon enough thereafter (defined as sixty days) to pay liabilities of the current period. For governmental funds, deferred revenue (property taxes) represents that portion of delinquent property taxes which is deemed not available to pay current expenditures.

Taxes receivable and deferred tax revenue at June 30, 2005 are as follows:

Taxes receivable	<u>\$ 75,161</u>
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NOTE G - RETIREMENT PLAN:

The City contributes to the South Carolina Retirement System (SCRS). Title 9-1 -480 *Code of Laws of South Carolina 1976* (as amended), states that all eligible persons, except those specifically excluded, shall become members of the SCRS as a condition of their employment. The responsibility for administration of the system is assigned by law to the State Budget & Control Board. SCRS is maintained as a cost-sharing multiple employer PERS (Public Employees Retirement System). Generally, all full-time employees of the City are members of the SCRS.

South Carolina Retirement System (SCRS)

Plan Description and Provisions

Benefit provisions are established under the authority of Title 9 of the South Carolina Code of Laws. Under current statutes, member employees who retire at age 65 or after 30 years of credited service are entitled to an annual full service retirement benefit, payable monthly for life, equal to 1.82 percent of the employee's highest twelve consecutive quarters of compensation.

Member employees who are at least 60 years of age may elect early retirement in which case the full service benefit is reduced by 5 percent for each year the employee's age at retirement is less than 65. in either case, any unrecovered contributions are payable upon death. Benefit payments increase 4 percent each year following an increase in the Consumer Price Index of at least 3 percent Full service or early retirees may elect other optional methods of benefit distributions, including lump sum distributions to name beneficiary. Benefits are fully vested on reaching five years of service. The retirement system also provides death and disability benefits to all member employees.

Contributions

State statutes also determine the levels of contributions required. Employee members are required to contribute 6 percent of their compensation. The City contributes 6.7 percent of the employee's compensation for retirement benefits and .15 percent of the employee's compensation for group life insurance benefits. Contributions for the years ending June 30, 2004 and June 30, 2005 were \$6,161 and \$3,460 respectively.

CITY OF NEW ELLENTON, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2005

NOTE G – RETIREMENT PLAN -continued

Police Officers Retirement System (PORS)

Plan Description and Provisions

Membership in the South Carolina Police Officers Retirement System is offered to all City police officers and firefighters. The PORS provides both retirement and death benefits on an employee and employer contribution basis. Member employees contribute 6.5% of their annual compensation. The employer contribution is 10.5% of the total membership's annual compensation; included is the entire cost of group life insurance for covered employees at the rate of .2%.

As a member of the PORS an employee can elect to retire after reaching age 55 with at least five years of credited service, or 25 years of service credits regardless of age.

Police Officers Retirement System (PORS) (Continued)

Another option available is when an employee has completed five years of credited service prior to age 55, they can retire, yet defer their retirement allowance until they reach age 55. Other benefits include disability coverage after five years membership (immediate coverage if job related), group life insurance coverage after one year of credited service (immediate coverage if job related), and vesting rights after five years membership. Benefit provisions are established under the authority of Title 9 of the SC Code of Laws.

Contributions

State statutes also determine the levels of contributions required. Employee members are required to contribute 6.5 percent of their compensation. The City contributes 7.8 percent of the employee's compensation for retirement benefits and .2 percent of the employee's compensation for group life insurance benefits and .2 percent of the employee's compensation for accidental death benefits. Contributions for the years ending June 30, 2004 and 2005 were \$16,175 and \$9,607 respectively.

NOTE H- NOTES AND OTHER OBLIGATIONS PAYABLE:

The City is indebted to the following institutions at year-end:

Note payable to Aiken Electric Cooperative, original amount of \$100,000, with installments ending in April, 2009.

\$ 30,714

The loan does not bear interest although indebtedness not paid when due will be subject to late charges, costs, and other charges as provided in the note.

**CITY OF NEW ELLENTON, SOUTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 Year Ended June 30, 2005**

NOTE H-NOTES AND OTHER OBLIGATIONS -continued

Note payable to Hometrust Bank due in monthly installments of \$5,924 with an interest rate of 7.053% collateralized by a 1999 KME Aerial Truck. \$ 379,408

Note payable to Hometrust Bank due in monthly installments of \$975 with an interest rate of 6.858% collateralized by a 1999 Chevrolet and Brush Clipper. 26,825

Total Notes payable to banks \$ 406,233

The debt service requirements for the City's notes payable to banks for the next five years is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 70,226	\$ 26,416	\$ 96,642
2007	74,312	22,329	96,641
2008	61,924	18,030	79,954
2009	57,044	14,041	71,085
2010	61,199	9,885	71,084
2011-2015	<u>112,242</u>	<u>6,404</u>	<u>118,646</u>
	<u>\$ 436,947</u>	<u>\$ 97,105</u>	<u>\$ 534,052</u>

NOTE I- BONDS PAYABLE:

The City of New Ellenton and the Commission of Public Works had two and one series, respectively, of Revenue Bonds outstanding as of June 30, 2005. These bonds were issued pursuant to bond ordinances, which set forth the terms of payment and various accounting and stewardship requirements to insure payment of the bonds. The provisions of these bond ordinances are summarized below.

The Commission issued a \$1,663,000 Waterworks System Revenue Bond on March 14, 1988. Interest is payable monthly at the rate of 7.75% for a period of 30 years. The outstanding bonds are subject to redemption at the option of the City of New Ellenton. The bonds are to be redeemed in reverse chronological order.

On June 28, 1990, the City of New Ellenton issued a \$5,025,000 Sewer System Revenue Bond, Series 1990. Interest is payable semiannually on June 1 and December 1 and principal is payable on June 1 of each year through 2020. Interest rates vary from 6.15% to 7.25% with the maturity of the bonds.

CITY OF NEW ELLENTON. SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2005

NOTE I- BONDS PAYABLE - continued

The Sewer Department had the following notes payable at year-end:
 State of South Carolina \$ 3,440,000

The Sewer Department's obligation to the State of South Carolina consists of amounts paid by the State of South Carolina to South Carolina Resources Authority on behalf of the City. These payments on behalf of the City were for principal and interest due on the \$5,025,000 Sewer System Revenue Bond, Series 1990. The City does not have an established schedule for repaying the \$3,440,000.

The following is a summary of debt of transactions for the year ended June 30, 2005.

	<u>1990 Issue</u>	<u>CPW 1988 Issue</u>	<u>Total</u>
Balance at July 1, 2004	\$ 3,920,000	\$ 2,756,390	\$ 6,676,390
Additions		12,838	12,838
Retirements	<u>480,000</u>	<u>82,839</u>	<u>562,839</u>
Balance at June 30, 2005	3,440,000	2,686,389	6,126,389
Less, current portion	<u>480,000</u>	<u>77,308</u>	<u>557,308</u>
Long-term portion	<u>\$ 2,960,000</u>	<u>\$ 2,609,081</u>	<u>\$ 5,569,081</u>

Amortization for deferred bond issue costs amounted to \$ 1,571 for the Commission of Public Works and \$ 725 for the Sewer Department.

The annual requirements to amortize the City of New Ellenton's and the Commission's Revenue Bonds as of June 30, 2005, including interest are as follows:

	<u>CPW Principal 1988 Issue</u>	<u>1990 Issue</u>	<u>Total Principal</u>	<u>Total Interest</u>
2006	\$ 77,308	\$ 480,000	\$ 557,308	\$ 367,404
2007	81,014	480,000	561,014	329,825
2008	84,897	480,000	564,897	292,342
2009	88,967	480,000	568,967	254,672
2010	93,232	480,000	573,232	216,807
2011-2015	537,646	480,000	1,017,646	553,348
2016-2020	453,396	480,000	933,396	387,757
2021-2025	129,743	80,000	209,743	328,237
2026-2030	165,474		165,474	258,906
2031-2035	211,045		211,045	213,335
2036-2040	269,166		269,166	155,214
2041-2045	244,819		244,819	89,476
2046-2050	<u>249,682</u>		<u>249,682</u>	<u>29,670</u>
Balance at June 30, 2005	2,686,389	3,440,000	6,126,389	3,476,993
Less, current portion	<u>77,308</u>	<u>480,000</u>	<u>557,308</u>	<u>367,404</u>
Long-term portion	<u>\$ 2,609,081</u>	<u>\$ 2,960,000</u>	<u>\$ 5,569,081</u>	<u>\$ 3,109,589</u>

**CITY OF NEW ELLENTON. SOUTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2005**

NOTE I- BONDS PAYABLE - continued

The United States Department of Agriculture, Farmers Home Administration, purchased the Waterworks System Revenue Bond of 1988. The bond is a special obligation of the issuer and is payable solely from the revenues derived from the operation of the waterworks system. The bond indenture provides that the revenue of the system, on a monthly basis, is to be used in the following order:

1. To the Operation and Maintenance Fund the sum determined to be needed as the cost of operating and maintaining the system for the next month.
2. To the Bond and Interest Funds and Cushion Fund as established by the ordinances.
3. To the Depreciation Fund and Contingency Fund the amounts required.
4. Any remaining revenues at the end of the fiscal year may be disposed of as the Board of Commissioners determines for lawful purposes.

At June 30, 2005, the Commission was not in compliance with this bond indenture.

The 1990 Sewer System Revenue Bond Resolution provides that if the City is adjudged to be in default, after proper written notification and the sixty-day grace period to correct any such default as to the performance of any covenant, then holders of not less than 25% of the bonds may give written notice to the City and declare the principal of all bonds then outstanding and the interest accrued thereon immediately due and payable. A court-ordered agreement has been reached concerning the City's default on the bond, which is discussed in Note M.

NOTE J-OBLIGATIONS UNDER CAPITAL LEASE:

Capital Leases — 2 Police Cars and a Truck

During the year, the City of New Ellenton entered into two capital lease agreements with Ford Motor Credit Company to purchase two new 2003 Crown Victoria police cars. The lease for the two police cars requires monthly payments of \$1,433, with interest at 5.5%. The first payment is due on July 16, 2003, and the lease term ends on June 16, 2006. The Truck lease requires monthly payments of \$606.11, with interest at 5.5%. The first payment is due on February 20, 2004, and the lease term ends on January 20, 2007.

The City's obligations under capital leases, as recorded in the general long-term debt account group, are as follows:

	<u>Truck</u>	<u>Police Cars</u>	<u>Total</u>
Obligations at July 1, 2004	\$ 17,581	\$ 32,508	\$ 50,089
Additions			
Deletions	<u>6,536</u>	<u>15,808</u>	<u>22,344</u>
Obligations at June 30, 2005	<u>\$ 11,045</u>	<u>\$ 16,700</u>	<u>\$ 27,745</u>

CITY OF NEW ELLENTON. SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2005

NOTE J-OBLIGATIONS UNDER CAPITAL LEASE - continued

The following is a future minimum lease payment schedule with the net present value of the minimum lease payments as of June 30, 2005:

	<u>Truck</u>	<u>Police Cars</u>	<u>Total</u>
2006	7,272	17,202	24,474
2007	<u>4,243</u>	<u>17,202</u>	<u>4,243</u>
	11,515	17,202	28,717
Less interest	<u>470</u>	<u>502</u>	<u>972</u>
Present value of lease payments	<u>\$ 11,045</u>	<u>\$ 16,700</u>	<u>\$ 27,745</u>

NOTE K -FIXED ASSETS:

A summary of proprietary fund type (Commission of Public Works and Sewer Department) assets follows:

Commission of Public Works:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2005</u>
Water system	\$ 4,219,482	\$ 25,910	\$ 4,245,392
Building and improvements	114,538	6,955	121,493
Land	2,500		2,500
Capital lease equipment	4,879		4,879
Machinery and equipment	188,670		188,670
Furniture and fixtures	17,387	3,036	20,423
Vehicles	<u>81,602</u>	<u> </u>	<u>81,602</u>
	4,629,058	35,901	4,664,959
Accumulated Depreciation	<u>2,386,135</u>	<u>133,512</u>	<u>2,519,647</u>
	<u>\$ 2,242,923</u>	<u>\$ (97,611)</u>	<u>\$ 2,145,312</u>

**CITY OF NEW ELLENTON. SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2005**

NOTE K - FIXED ASSETS - continued

Sewer Department:

	Balance <u>July 1, 2004</u>	Additions <u>(Deletions)</u>	Balance <u>June 30, 2005</u>
Sewer system	\$ 4,013,933		\$ 4,013,933
Buildings	38,653		38,653
Equipment	<u>73,835</u>	<u> </u>	<u>73,835</u>
	4,126,421		4,126,421
Accumulated Depreciation	<u>853,169</u>	<u>70,709</u>	<u>923,878</u>
	<u>\$ 3,273,252</u>	<u>\$ 70,709</u>	<u>\$ 3,202,543</u>

Depreciation expense aggregated \$134,615 for the Commission of Public Works and \$70,709 for the Sewer Department for the year ended June 30, 2005.

General Fixed Assets:

	Balance <u>July 1, 2004</u>	Additions <u>(Deletions)</u>	Balance <u>June 30, 2005</u>
Automobiles/trucks	\$ 772,803		\$ 772,803
Buildings & improvements	55,500		55,500
Equipment	88,835	27,486	116,321
Capital leases	67,383		67,383
Land improvements	<u>8,499</u>	<u> </u>	<u>8,499</u>
	993,020	27,486	1,020,506
Accumulated Depreciation	<u>396,049</u>	<u>97,667</u>	<u>493,716</u>
	<u>\$ 596,971</u>	<u>\$ 70,181</u>	<u>\$ 526,790</u>

Depreciation expense for the general fixed assets was \$97,667 for the year ended June 30, 2005.

NOTE L - FINES, ASSESSMENTS, SURCHARGES AND VICTIMS SERVICES

	<u>Gross Collections</u>	<u>State Portion</u>	<u>Town Portion</u>	<u>Victims/ Witness</u>
Municipal Court	\$ 184,865	\$ 78,315	\$ 80,638	\$ 25,913
Balance Forward				20,192
Expenditures				<u>(0)</u>
Balance June 30, 2005				<u>\$46,105</u>

The cost of the audit is \$0. Actual cash balance in Victim's Rights bank account is \$17,686.

CITY OF NEW ELLENTON. SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2005

NOTE M- GOING CONCERN:

During the year ended June 30, 1997 and prior years, the City of New Ellenton was not in compliance with its 1990 Sewer System Revenue Bond agreement because the City failed to deposit with the trustee sufficient principal and interest payments to service the bonds.

On February 20, 1997, the City and the custodian of its 1990 Sewer System Revenue Bond entered into a court-ordered agreement whereby the City is to remit sixty (60%) of the monthly sewer system revenues, except tap fees, to the bond custodian for application to debt service. Additionally, five percent (5%) of the monthly sewer system revenues are to be deposited into the Contingency Fund and thirty-five (35%) will be available to the City for operation and maintenance of the sewer system. Under the agreement, the City has agreed to the above terms until the earlier of

1. the bond maturity date, unless it is earlier retired, at which time the City's obligations under the bond will be deemed satisfied, or
2. the principal and interest payments by the City, including past payments, are brought current, or
3. default by the City in its performance under the terms of the agreement, or
4. the parties otherwise agree.

The effect of this agreement is to provide a settlement between the bond custodian and the City of New Ellenton in that the bond custodian has agreed not to seek the appointment of a receiver so long as the City of New Ellenton performs the obligations and responsibilities under the bond and bond ordinance as modified by the court-ordered settlement. The City has not complied with the provisions of this agreement for the year ended June 30, 2005.

The City's Sewer Department has continued to generate only marginally sufficient cash flows to cover normal operating expenses exclusive of debt service and depreciation. Under the court-ordered agreement discussed above, only thirty-five percent (35%) of the revenues are available to the City to pay operating expenses of the sewer system. Additionally, the City's general fund has not provided any excess cash flows. These conditions lead to substantial doubt about the City's ability to continue as a going concern.

The City's management considers the aforementioned factors significant and has, therefore, committed themselves to improving the financial situation of the City and its Sewer Department. The City's management believes operating efficiencies and cost reductions can be achieved as well as increasing revenues through growth and increased sewer service sales.

**Independent Auditor's Report on Compliance
and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Honorable Mayor and members of Town Council
City of New Ellenton, South Carolina

I have audited the general purpose financial statements of the City of New Ellenton, South Carolina, as of and for the year ended June 30, 2005 and have issued my report thereon dated January 10, 2006. I conducted my 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.

Compliance

As part of obtaining reasonable assurance about whether the City of New Ellenton's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. Reportable conditions are described in the accompanying Schedule of Findings as items 05-1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of New Ellenton's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 05-2 and 05-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness.

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

January 10, 2006
Irmo, South Carolina

CITY OF NEW ELLENTON
SCHEDULE OF FINDINGS
June 30, 2005

COMPLIANCE FINDING
05-01

Criteria

The City is required by a court order to submit 60% of its monthly sewer revenues to the Bank of New York to apply these payments to the 1990 Sewer System Revenue Bond.

Condition

During the year the City only submitted five payments to the Bank of New York.

Effect

The Town is not in compliance with this court order and the effect is unknown.

Recommendations

The City should make every effort to comply with the court order and stay in compliance with the stipulations of the 1990 Sewer System Revenue Bond.

INTERNAL CONTROL FINDINGS
05-02: Fixed Assets

Criteria

Generally accepted accounting principles require the presentation of general fixed assets at cost or estimated historical cost if actual cost has not been maintained.

Condition

Complete records have not been established by the City for its general fixed assets. Only a running total of current additions have been maintained.

Effect

The City is unaware of all fixed assets which subjects it to balance sheet misstatement.

Recommendations

The City should make every effort to establish a fixed asset list with historical cost and include an estimated cost basis for items that an actual cost cannot be established.

CITY OF NEW ELLENTON, SOUTH CAROLINA
SCHEDULE OF FINDINGS
June 30, 2005

INTERNAL CONTROL FINDINGS

05-02: Segregation of Duties in Accounting Department

Criteria

Good internal controls require that certain functions be segregated among different employees. Incompatible duties exist when any one employee performs more than one of the following functions:

1. Maintaining custody of an asset.
2. Maintaining records of accounting for the asset.
3. Approving transactions related to the asset.

When incompatible duties exist, the opportunity is provided for errors or irregularities to occur and not be detected by management on a timely basis.

Condition

During our audit, we found incompatible duties to exist in the processing of receipts and disbursements. Due to the limited number of personnel employed by the City, an ideal segregation of duties is not possible.

Effect

Lack of a good segregation of duties subjects the City to increased audit risks.

Recommendations

We recommend that the City consider methods and procedures to strengthen controls and provide more segregation of duties.

Internal Control Findings noted in the Commission of Public Works' June 30, 2005:

05-03: Segregation of Duties in Accounting Department

Criteria

Good internal controls require that certain functions be segregated among different employees. Incompatible duties exist when any one employee performs more than one of the following functions:

4. Maintaining custody of an asset.
5. Maintaining records of accounting for the asset.
6. Approving transactions related to the asset.

CITY OF NEW ELLENTON, SOUTH CAROLINA
SCHEDULE OF FINDINGS
June 30, 2005

INTERNAL CONTROL FINDINGS-continued

Condition

When incompatible duties exist, the opportunity is provided for errors or irregularities to occur and not be detected by management on a timely basis. During my audit, we found the following incompatible duties to exist:

1. The bookkeeper collects payments, issues adjustments to amounts billed, and maintains all records related to accounts receivable.
2. The bookkeeper has access to all blank checks, has responsibility for recording transactions in Quickbooks, and reconciles the bank accounts. Offsetting controls are in place in that the signatures of two commissioners are required on all checks, and I also understand that a commissioner reviews the bank statements and reviews the canceled checks before forwarding the statement to the bookkeeper.
3. Some of the inventory records related to supplies and materials are maintained by the superintendent, who is also responsible for the custody of this asset.

Due to a limited number of personnel employed by the Commission, an ideal segregation of duties is not possible.

Effect

Deficiencies in internal control subject the Commission of Public Works of New Ellenton to increased audit risks.

GOVERNMENTAL AUDIT REPORT

FINANCIAL STATEMENTS