

***CITY OF NEW ELLENTON***  
**NEW ELLENTON, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**  
**June 30, 2010**

**CITY OF NEW ELLENTON**  
**SOUTH CAROLINA**  
**June 30, 2010**

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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate presented component unit, 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, 2010, 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 financial statements based on my audit.

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 opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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. However, the Statement of Revenues and Expenditures – Budget and Actual-General Fund has been presented on page 27 of the financial statements. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. My opinion on the basic financial statements is not affected by this missing information.

In accordance with ***Government Auditing Standards***, I have also issued my report dated October 20, 2010 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of my audit.

Irmo, South Carolina  
October 20, 2010

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**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, 2010**

**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 the 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, 2010**

**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 on the same basis of revenue and expense recognition as the General Fund.

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**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. The 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

***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. The majority of the amounts transferred from one fund to another is classified as “Operating transfers”.

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**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, 2010**

**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, 2010, cash and investments consist of the following:

**Unrestricted:**

General Fund:

Cash in banks	\$ 334,609
Enterprise Funds	<u>119,081</u>
Total Unrestricted Funds	<u>\$ 453,690</u>

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**NOTE E – CASH AND INVESTMENTS -continued**

**Restricted:**

Enterprise Fund \$ 1,372,430

**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	\$ 250,000	\$ 92,166	
CPW	<u>250,000</u>	<u>920,519</u>	<u>\$ 313,435</u>
	<u>\$ 500,000</u>	<u>\$1,012,685</u>	<u>\$ 313,435</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, 2010**

**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.

**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 6.5 percent of their compensation. The City contributes 9.06 percent of the employee's compensation for retirement benefits and .15 percent of the employee's compensation for group life insurance benefits.

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**NOTE G - RETIREMENT PLAN (CONTINUED)**

Covered payroll for the years ending June 30, 2010, 2009, and 2008 are \$177,649, \$182,032, and \$139,740 respectively.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employer Contribution	\$ 16,415	\$ 16,820	\$ 12,660
Group Life	<u>319</u>	<u>331</u>	<u>209</u>
Total	<u>\$ 16,734</u>	<u>\$ 17,151</u>	<u>\$ 12,869</u>

**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 10.3% 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.

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 10.3 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.

Covered payroll for the years ending June 30, 2010, 2009, and 2008 are \$192,348, \$205,730, and \$205,960 respectively.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employer Contribution	\$ 20,485	\$ 21,910	\$ 21,214
Group Life	<u>405</u>	<u>420</u>	<u>412</u>
Total	<u>\$ 20,890</u>	<u>\$ 22,330</u>	<u>\$ 21,626</u>

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**NOTE H- NOTES AND OTHER OBLIGATIONS PAYABLE:**

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

Note payable to United Financial due in semiannual installments of \$46,587 with an interest rate of 2.62% collateralized by a 1999 KME Aerial Truck. \$ 682,311

Total Notes Payable \$ 682,311

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>	
2010	\$ 27,823	\$ 18,764	\$	46,587
2011	28,588	17,998		46,586
2012	29,375	17,212		46,587
2013	30,182	16,404		46,586
2014	31,012	15,574		46,586
2015-2020	168,334	64,601		232,935
2021-2025	192,789	40,146		232,935
2026-2030	<u>174,208</u>	<u>12,139</u>		<u>186,347</u>
	<u>\$ 682,311</u>	<u>\$ 202,838</u>	<u>\$</u>	<u>885,149</u>

  

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
United Financial		\$ 704,193	\$ 21,882	\$ 682,311
Hometrust Bank	<u>\$ 303,426</u>	_____	<u>303,426</u>	_____
Total	<u>\$ 303,426</u>	<u>\$ 704,193</u>	<u>\$ 325,308</u>	<u>\$ 682,311</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, 2010. 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.

**CITY OF NEW ELLENTON. SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010**

**NOTE I- BONDS PAYABLE – continued**

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.

The Sewer Department had the following bond payable at year-end:

South Carolina Resources Authority	\$ 614,102
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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 \$614,102. The City is required to submit 60% of their sewer revenue as a monthly payment.

The following is a summary of debt of transactions for the year ended June 30, 2010.

	<u>June 30, 2009</u>	<u>Additional Debt</u>	<u>Debt Retired</u>	<u>June 30, 2010</u>
USDA		\$ 464,000		\$ 464,000
USDA		355,599		355,599
USDA	\$ 1,056,196		\$ 12,495	1,043,701
BB&T	891,055		78,912	812,143
USDA	<u>396,711</u>		<u>5,184</u>	<u>391,527</u>
Total	<u>\$ 2,343,962</u>	<u>\$ 819,599</u>	<u>\$ 96,591</u>	<u>\$ 3,066,970</u>

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

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**NOTE I- BONDS PAYABLE - continued**

The annual requirements to amortize the City of New Ellenton's and the Commission's Revenue Bonds as of June 30, 2010, including interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 105,859	\$ 139,262	\$ 245,121
2012	111,641	137,046	248,687
2013	116,939	131,739	248,678
2014	122,487	126,181	248,669
2015	128,301	120,359	248,660
2016-2020	515,038	472,366	987,404
2021-2025	201,663	447,977	649,640
2026-2030	255,066	394,574	649,640
2031-2035	320,120	329,520	649,640
2036-2040	404,605	246,234	650,839
2041-2045	412,078	149,576	561,654
2046-2050	373,173	51,776	424,949
Total	<u>\$ 3,066,970</u>	<u>\$ 2,746,610</u>	<u>\$ 5,813,580</u>

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.

As of June 30, 2010, the Commission was in compliance with this bond indenture.

***CITY OF NEW ELLENTON, SOUTH CAROLINA***  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**NOTE I- BONDS PAYABLE - continued**

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.

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**NOTE J-FIXED ASSETS:**

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

**Commission of Public Works:**

	Balance <u>July 1, 2009</u>	Additions <u>(Deletions)</u>	Balance <u>June 30, 2010</u>
Water system	\$ 4,487,903	\$ 819,267	\$ 5,307,170
Building and improvements	144,693		144,693
Land	2,500		2,500
Machinery and equipment	184,103		184,103
Furniture and fixtures	19,819		19,819
Vehicles	<u>63,882</u>		<u>63,882</u>
	4,902,900	819,267	5,722,167
Accumulated Depreciation	<u>2,922,863</u>	<u>131,113</u>	<u>3,053,976</u>
	<u>\$ 1,980,037</u>	<u>\$ 688,154</u>	<u>\$ 2,668,191</u>

**Sewer Department:**

	Balance <u>July 1, 2009</u>	Additions <u>(Deletions)</u>	Balance <u>June 30, 2010</u>
Sewer system	\$ 4,030,933	\$ 90,000	\$ 4,120,933
Buildings	38,653		38,653
Equipment	<u>73,835</u>		<u>73,835</u>
	4,143,421	90,000	4,233,421
Accumulated Depreciation	<u>1,225,707</u>	<u>101,456</u>	<u>1,327,163</u>
	<u>\$ 2,917,714</u>	<u>\$ (11,456)</u>	<u>\$ 2,906,258</u>

Depreciation expense aggregated \$131,113 for the Commission of Public Works and \$101,456 for the Sewer Department for the year ended June 30, 2010.

**General Fixed Assets:**

	Balance <u>July 1, 2009</u>	Additions <u>(Deletions)</u>	Balance <u>June 30, 2010</u>
Automobiles/trucks	\$ 835,084	\$ 475,364	\$ 1,310,448
Construction in progress	257,108	(257,108)	
Buildings & improvements	961,062	262,358	1,223,420
Equipment	296,050	60,498	356,548
Capital leases	126,667		126,667
Land improvements	<u>46,647</u>	<u>25,300</u>	<u>71,947</u>
	2,522,618	566,412	3,089,030
Accumulated Depreciation	<u>937,752</u>	<u>149,487</u>	<u>1,087,239</u>
	<u>\$ 1,584,866</u>	<u>\$ 416,925</u>	<u>\$ 2,001,791</u>

**CITY OF NEW ELLENTON, SOUTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**NOTE J -FIXED ASSETS:**

Depreciation expense for the general fixed assets was \$149,487 for the year ended June 30, 2010. Also, depreciation expense was charged to each department as follows:

Fire Department	\$ 97,167
Police Department	31,392
Sanitation Department	1,495
Streets and Roads	4,485
General	<u>14,948</u>
Total Depreciation Expense	<u>\$ 149,487</u>

**NOTE K - FINES, ASSESSMENTS, SURCHARGES AND VICTIMS SERVICES**

	<u>Gross</u> <u>Collections</u>	<u>State</u> <u>Portion</u>	<u>City</u> <u>Portion</u>	<u>Victims</u> <u>Assistance</u>
Municipal Court	\$ 171,741	\$ 92,853	\$ 69,690	\$ 9,198
Balance Forward				44,543
Expenditures				<u>(7,507)</u>
Balance June 30, 2010				<u>\$ 46,234</u>

The amount carried forward from the previous year was reduced from \$73,028 to \$44,573. The cost of the audit is \$1,000. Actual cash balance in Victim's Rights bank account is \$22,596.

**NOTE L- GOING CONCERN:**

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.

***CITY OF NEW ELLENTON, SOUTH CAROLINA***  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2010**

**NOTE L- GOING CONCERN (CONTINUED)**

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. As of June 30, 2010, the City was in compliance with the provisions of this agreement.

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.

**NOTE L- COMMISSION OF PUBLIC WORKS - SHORT TERM LOAN**

On June 30, 2010 the Commission deposited \$819,287 into a bank account to payoff a construction loan from Branch Banking and Trust. The construction loan was not paid off until the following month. As a result of this temporary deposit, the cash in the Commission's bank accounts on June 30, 2010 exceeded the FDIC limit and the amount collateralized with securities held by the pledging financial institution's trust department in the Commission's name by \$354,215.

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Certified Public Accountants  
South Carolina Association of  
Certified Public Accountants

## **Independent Auditor's 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  
City of New Ellenton, South Carolina

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of New Ellenton, South Carolina, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued my report thereon dated October 20, 2010. 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.

### **Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the City of New Ellenton's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the City of New Ellenton, South Carolina, in a separate letter dated October 20, 2010.

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

October 20, 2010  
Irmo, South Carolina

**CITY OF NEW ELLENTON**  
**Schedule of Prior Year Findings and Responses**  
**June 30, 2009**

**INTERNAL CONTROL FINDINGS**

**09-01: 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.

**Current Status**

The City has established a detail fixed asset list and has met the required criteria.

**09-02: Segregation of Duties in Technical Center**

**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.

**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. Some computers are sold for \$150 and some for \$50. No formal approval exists for the sales price of each computer.
2. One individual is responsible for receiving the computer, refurbishing and selling the computer.
3. Inventory should be taken at least once per year by someone other than the custodian of the computers.

**Effect**

Deficiencies in internal control subject the City to increased audit risks.

**Recommendation**

One individual should be in charge of inventorying the computers. A second individual should be in charge of refurbishing the computers. A third person should be in charge of recording the accounting sales and costs for the Technical center.

**Current Status**

The City has closed the Technical Center.

**Internal Control Findings noted in the Commission of Public Works' June 30, 2010:**

**09-03: 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:

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

**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.

**Effect**

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

**Current Status**

The Commission requires two signatures and a Commissioner opens the bank statements on a monthly basis and reviews all transactions that go through the bank accounts before forwarding them to the accounting department. In addition, the accounts receivable is reviewed regularly for credit issued and outstanding balances. This is considered mitigating factors because of the heavy involvement of the Commissioners.



GOVERNMENTAL AUDIT REPORT

## FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

